

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2015
(in thousands)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 39,791	\$ (3,203)	\$ (64)	\$ —	\$ 36,524
Costs of professional services	61,963	(5,424)	(107)	—	56,432
Product development	124,020	(29,547)	(1,594)	—	92,879
Sales and marketing	111,658	(15,321)	(196)	—	96,141
General and administrative	38,008	(15,164)	(396)	—	22,448
Operating income (loss)	(70,174)	68,659	2,357	—	842
Operating margin	(23.0)%	22.5%	0.8%	—	0.3%
Other expense, net	(6,722)	—	—	6,422	(300)
Income (loss) before provision for income taxes	(76,896)	68,659	2,357	6,422	542
Provision for income taxes	915	—	—	—	915
Net loss	\$ (77,811)	\$ 68,659	\$ 2,357	\$ 6,422	\$ (373)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

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	GAAP	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 27,426	\$ (1,959)	\$ (13)	\$ —	\$ 25,454
Costs of professional services	44,363	(4,214)	(69)	—	40,080
Product development	85,270	(19,191)	(628)	—	65,451
Sales and marketing	80,681	(8,678)	(485)	—	71,518
General and administrative	28,796	(12,966)	(330)	—	15,500
Operating loss	(51,466)	47,008	1,525	—	(2,933)
Operating margin	(23.9)%	21.9%	0.6%	—	(1.4)%
Other expense, net	(8,047)	—	—	6,083	(1,964)
Loss before provision for income taxes	(59,513)	47,008	1,525	6,083	(4,897)
Provision for income taxes	399	—	—	—	399
Net loss	\$ (59,912)	\$ 47,008	\$ 1,525	\$ 6,083	\$ (5,296)

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	GAAP	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 106,860	\$ (8,424)	\$ (326)	\$ —	\$ 98,110
Costs of professional services	164,887	(14,022)	(631)	—	150,234
Product development	338,700	(78,990)	(4,975)	—	254,735
Sales and marketing	312,983	(36,908)	(1,154)	—	274,921
General and administrative	106,707	(42,353)	(1,499)	—	62,855
Operating loss	(191,218)	180,697	8,585	—	(1,936)
Operating margin	(22.8)%	21.6%	1.0%	—	(0.2)%
Other income (expense), net	(17,737)	—	—	19,008	1,271
Loss before benefit from income taxes	(208,955)	180,697	8,585	19,008	(665)
Benefit from income taxes	(165)	—	—	—	(165)
Net loss	\$ (208,790)	\$ 180,697	\$ 8,585	\$ 19,008	\$ (500)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
 Nine Months Ended October 31, 2014
 (in thousands)
 (unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses ⁽¹⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 73,258	\$ (4,622)	\$ (101)	\$ —	\$ 68,535
Costs of professional services	121,590	(9,931)	(204)	—	111,455
Product development	227,905	(46,796)	(2,098)	—	179,011
Sales and marketing	227,371	(22,807)	(996)	—	203,568
General and administrative	76,781	(32,508)	(688)	—	43,585
Operating loss	(165,318)	116,664	4,087	—	(44,567)
Operating margin	(29.4)%	20.8%	0.7%	—	(7.9)%
Other expense, net	(21,999)	—	—	18,005	(3,994)
Loss before provision for income taxes	(187,317)	116,664	4,087	18,005	(48,561)
Provision for income taxes	1,199	—	—	—	1,199
Net loss	\$ (188,516)	\$ 116,664	\$ 4,087	\$ 18,005	\$ (49,760)

⁽¹⁾ Other operating expenses include employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets.

Workday, Inc.
Reconciliation of GAAP Cash Flows from Operations to Free Cash Flows
(A Non-GAAP Financial Measure)
(in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2015	2014	2015	2014
Net cash provided by (used in) operating activities	\$ 55,146	\$ 41,042	\$ 164,716	\$ 53,728
Purchases of property and equipment	(40,280)	(27,699)	(96,252)	(65,981)
Free cash flows	<u>\$ 14,866</u>	<u>\$ 13,343</u>	<u>\$ 68,464</u>	<u>\$ (12,253)</u>
Trailing Twelve Months Ended October 31,				
	2015	2014		
Net cash provided by (used in) operating activities	\$ 212,991	\$ 88,521		
Purchases of property and equipment	(133,917)	(78,322)		
Purchases of other intangible assets	—	(15,000)		
Free cash flows	<u>\$ 79,074</u>	<u>\$ (4,801)</u>		

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except percentages and per share data)

	Quarter ended 10/31/14	Quarter ended 7/31/2015	Quarter ended 10/31/15
GAAP results:			
Costs of subscription services	\$ 27,426	\$ 35,287	\$ 39,791
Sequential change %	12.5%	11.0%	12.8%
Y/Y change %	51.7%	44.8%	45.1%
Costs of professional services	44,363	56,792	61,963
Sequential change %	7.5%	23.1%	9.1%
Y/Y change %	45.4%	37.6%	39.7%
Total costs of revenue	71,789	92,079	101,754
Sequential change %	9.4%	18.2%	10.5%
Y/Y change %	47.7%	40.3%	41.7%
Subscription services gross margin	83.3%	84.2%	83.6%
Professional services gross margin	12.4%	3.7%	1.0%
Gross margin	66.6%	67.4%	66.7%
Product development	85,270	115,345	124,020
Sequential change %	10.1%	16.1%	7.5%
Y/Y change %	72.8%	48.9%	45.4%
Sales and marketing	80,681	106,430	111,658
Sequential change %	2.7%	12.2%	4.9%
Y/Y change %	49.3%	35.5%	38.4%
General and administrative	28,796	36,482	38,008
Sequential change %	7.0%	13.2%	4.2%
Y/Y change %	76.9%	35.5%	32.0%
Operating loss	(51,466)	(67,640)	(70,174)
Operating margin	-23.9%	-23.9%	-23.0%
Sequential change %	9.2%	-2.6%	0.9%
Y/Y change %	7.7%	9.1%	0.9%
Other expense, net	(8,047)	(3,779)	(6,722)
Net loss	(59,912)	(69,421)	(77,811)
Net loss per share	\$ (0.33)	\$ (0.37)	\$ (0.41)
Weighted-average shares used to compute net loss per share	184,310	189,360	190,727

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except percentages)

	Quarter ended 10/31/14	Quarter ended 7/31/15	Quarter ended 10/31/15
Adjustments:			
Costs of subscription services ⁽¹⁾	\$ (1,972)	\$ (3,249)	\$ (3,267)
Costs of professional services ⁽¹⁾	(4,283)	(5,314)	(5,531)
Total costs of revenue	(6,255)	(8,563)	(8,798)
Subscription services gross margin	1.2%	1.5%	1.3%
Professional services gross margin	8.5%	9.0%	8.8%
Gross margin	2.9%	3.1%	2.9%
Product development ⁽¹⁾⁽²⁾	(19,819)	(29,700)	(31,141)
Sales and marketing ⁽¹⁾	(9,163)	(13,549)	(15,517)
General and administrative ⁽¹⁾	(13,296)	(15,109)	(15,560)
Operating income (loss)	48,533	66,921	71,016
Operating margin	22.5%	23.6%	23.3%
Other expense, net ⁽³⁾	6,083	6,336	6,422
Net loss	54,616	73,257	77,438

⁽¹⁾ Adjustments related to share-based compensation and employer payroll tax-related items on employee stock transactions.

⁽²⁾ Adjustments related to amortization of acquisition-related intangible assets.

⁽³⁾ Adjustments related to the amortization of debt discount and issuance costs related to the 2018 Notes and 2020 Notes.

Workday, Inc.**Supplemental financial information including non-GAAP data**

(in thousands, except percentages and per share data)

	Quarter ended 10/31/14	Quarter ended 7/31/2015	Quarter ended 10/31/15
Non-GAAP results:			
Costs of subscription services	\$ 25,454	\$ 32,038	\$ 36,524
Sequential change %	12.0%	8.4%	14.0%
Y/Y change %	47.2%	41.0%	43.5%
Costs of professional services	40,080	51,478	56,432
Sequential change %	6.3%	21.6%	9.6%
Y/Y change %	39.2%	36.5%	40.8%
Total costs of revenue	65,534	83,516	92,956
Sequential change %	8.5%	16.2%	11.3%
Y/Y change %	42.2%	38.2%	41.8%
Subscription services gross margin	84.5%	85.7%	85.0%
Sequential change %	0.3%	0.4%	-0.7%
Sequential change (bps)	34 bps	38 bps	(73) bps
Y/Y change %	2.9%	1.5%	0.4%
Y/Y change (bps)	293 bps	150 bps	43 bps
Professional services gross margin	20.9%	12.7%	9.8%
Sequential change %	8.3%	-2.6%	-2.9%
Sequential change (bps)	831 bps	(261) bps	(288) bps
Y/Y change %	5.7%	0.1%	-11.1%
Y/Y change (bps)	571 bps	10 bps	(1,109) bps
Gross margin	69.5%	70.5%	69.5%
Sequential change %	1.9%	-0.9%	-0.9%
Sequential change (bps)	188 bps	(90) bps	(91) bps
Y/Y change %	5.5%	2.8%	0.0%
Y/Y change (bps)	557 bps	281 bps	2 bps
Product development	65,451	85,645	92,879
Sequential change %	9.2%	12.4%	8.4%
Y/Y change %	56.1%	42.9%	41.9%
Sales and marketing	71,518	92,881	96,141
Sequential change %	0.9%	8.1%	3.5%
Y/Y change %	44.8%	31.0%	34.4%
General and administrative	15,500	21,373	22,448
Sequential change %	6.1%	12.3%	5.0%
Y/Y change %	49.5%	46.3%	44.8%
Operating income (loss)	(2,933)	(719)	842
Operating margin	-1.4%	-0.3%	0.3%
Sequential change %	8.9%	0.6%	0.5%
Sequential change (bps)	887 bps	57 bps	53 bps
Y/Y change %	14.2%	10.0%	1.6%
Y/Y change (bps)	1,419 bps	997 bps	164 bps
Other income (expense), net	(1,964)	2,557	(300)
Net income (loss)	(5,296)	3,836	(373)
Net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.00)

About Non-GAAP Financial Measures

To provide investors and others with additional information regarding Workday's results, we have disclosed the following non-GAAP financial measures: non-GAAP operating income (loss) and free cash flows. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable GAAP financial measure. The non-GAAP financial measure non-GAAP operating income (loss) differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. Free cash flows differ from GAAP cash flows from operating activities in that it treats purchases of property and equipment, property and equipment acquired under capital leases and purchased other (non-acquisition related) intangible assets as a reduction to cash flows.

Workday's management uses these non-GAAP financial measures to understand and compare operating results across accounting periods, for internal budgeting and forecasting purposes, for short- and long-term operating plans, and to evaluate Workday's financial performance and the ability of operations to generate cash. Management believes these non-GAAP financial measures reflect Workday's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in Workday's business, as they exclude expenses that are not reflective of ongoing operating results. Management also believes that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Workday's operating results and future prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies. Additionally, management believes information regarding free cash flows provides investors and others with an important perspective on the cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

Management believes excluding the following items from the GAAP Condensed Consolidated Statement of Operations is useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation expenses.* Although share-based compensation is an important aspect of the compensation of our employees and executives, management believes it is useful to exclude share-based compensation expenses in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. For restricted stock unit awards, the amount of share-based compensation expenses is not reflective of the value ultimately received by the grant recipients. Moreover, determining the fair value of certain of the share-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related share-based awards. Unlike cash compensation, the value of stock options and shares offered under our Employee Stock Purchase Plan, which are elements of our ongoing share-based compensation expenses, is determined using a complex formula that incorporates factors, such as market volatility and forfeiture rates, that are beyond our control.
- *Other Operating Expenses.* Other operating expenses includes employer payroll tax-related items on employee stock transactions and amortization of acquisition-related intangible assets. The amount of employer payroll tax-related items on employee stock transactions is dependent on our stock price and other factors that are beyond our control and do not correlate to the operation of the business. For business combinations, we generally allocate a portion of the purchase price to intangible assets. The amount of the allocation is based on estimates and assumptions made by management and is subject to amortization. The amount of purchase price allocated to intangible assets and the term of its related amortization can vary significantly and are unique to each acquisition and thus we do not believe it is reflective of the ongoing operations.
- *Amortization of debt discount and issuance costs.* Under GAAP, we are required to separately account for liability (debt) and equity (conversion option) components of the convertible senior notes that were issued in private placements in June 2013. Accordingly, for GAAP purposes we are required to recognize the effective interest expense on our convertible senior notes and amortize the issuance costs over the term of the notes. The difference between the effective interest expense and the contractual interest expense, and the amortization expense of issuance costs are excluded from management's assessment of our operating performance because management believes that these non-cash expenses are not indicative of ongoing operating performance. Management believes that the exclusion of the non-cash interest expense provides investors an enhanced view of the company's operational performance.

Additionally, we believe that the non-GAAP financial measure, free cash flows, is meaningful to investors because we review cash flows generated from or used in operations after deducting capital expenditures, whether purchased or leased, and purchased other intangible assets, due to the fact that these expenditures are considered to be an ongoing operational component of our business. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures.

The use of non-GAAP operating income (loss) has certain limitations as they do not reflect all items of income and expense that affect Workday's operations. Workday compensates for these limitations by reconciling the non-GAAP financial measures to the most comparable GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP. Further, these non-GAAP measures may differ from the non-GAAP information used by other companies, including peer companies, and therefore comparability may be limited.

Management encourages investors and others to review Workday's financial information in its entirety and not rely on a single financial measure.