

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2014
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	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)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.33)	\$ 0.26	\$ 0.01	\$ 0.03	\$ (0.03)

(1) Calculated based upon 184,310 basic and diluted weighted-average shares of common stock.

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

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended October 31, 2013
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 18,076	\$ (783)	\$ —	\$ —	\$ 17,293
Costs of professional services	30,515	(1,559)	(164)	—	28,792
Product development	49,349	(7,032)	(390)	—	41,927
Sales and marketing	54,051	(4,583)	(87)	—	49,381
General and administrative	16,280	(5,726)	(188)	—	10,366
Operating loss	(40,399)	19,683	829	—	(19,887)
Operating margin	(31.6)%	15.4 %	0.6 %	—	(15.6)%
Other expense, net	(6,893)	—	—	5,764	(1,129)
Loss before provision for income taxes	(47,292)	19,683	829	5,764	(21,016)
Provision for income taxes	242	—	—	—	242
Net loss	\$ (47,534)	\$ 19,683	\$ 829	\$ 5,764	\$ (21,258)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.27)	\$ 0.11	\$ —	\$ 0.04	\$ (0.12)

(1) Calculated based upon 174,385 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions.

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

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	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)
Net loss per share, basic and diluted ⁽¹⁾	\$ (1.03)	\$ 0.64	\$ 0.02	\$ 0.10	\$ (0.27)

(1) Calculated based upon 182,770 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes 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, 2013
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses ⁽²⁾	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	\$ 49,333	\$ (1,446)	\$ (8)	\$ —	\$ 47,879
Costs of professional services	76,711	(2,835)	(511)	—	73,365
Product development	126,799	(12,404)	(940)	—	113,455
Sales and marketing	136,565	(7,431)	(470)	—	128,664
General and administrative	42,970	(12,766)	(413)	—	29,791
Operating loss	(105,306)	36,882	2,342	—	(66,082)
Operating margin	(32.2)%	11.3 %	0.7 %	—	(20.2)%
Other expense, net	(10,628)	—	—	8,554	(2,074)
Loss before provision for income taxes	(115,934)	36,882	2,342	8,554	(68,156)
Provision for income taxes	593	—	—	—	593
Net loss	\$ (116,527)	\$ 36,882	\$ 2,342	\$ 8,554	\$ (68,749)
Net loss per share, basic and diluted ⁽¹⁾	\$ (0.68)	\$ 0.22	\$ 0.01	\$ 0.05	\$ (0.40)

(1) Calculated based upon 171,269 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include employer payroll taxes on employee stock transactions.

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,	
	2014	2013	2014	2013
GAAP cash flows from operating activities	\$ 41,042	\$ 7,076	\$ 53,728	\$ 11,470
Capital expenditures	(27,699)	(16,757)	(65,981)	(48,384)
Property and equipment acquired under capital lease	—	—	—	(115)
Free cash flows	\$ 13,343	\$ (9,681)	\$ (12,253)	\$ (37,029)

	Trailing Twelve Months Ended October 31,	
	2014	2013
GAAP cash flows from operating activities	\$ 88,521	\$ 17,410
Capital expenditures	(78,322)	(57,479)
Property and equipment acquired under capital lease	—	(945)
Purchase of other intangible assets	(15,000)	—
Free cash flows	\$ (4,801)	\$ (41,014)

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 10/31/13	Quarter ended 7/31/14	Quarter ended 10/31/14
GAAP results:			
Costs of subscription services	\$ 18,076	\$ 24,373	\$ 27,426
Sequential change %		13.6%	12.5%
Y/Y change %		49.3%	51.7%
Costs of professional services	30,515	41,267	44,363
Sequential change %		14.8%	7.5%
Y/Y change %		68.9%	45.4%
Total costs of revenue	48,591	65,640	71,789
Sequential change %		14.3%	9.4%
Y/Y change %		61.1%	47.7%
Subscription services gross margin	80.8%	83.0%	83.3%
Professional services gross margin	10.1%	4.3%	12.4%
Gross margin	62.0%	64.9%	66.6%
Product development	49,349	77,464	85,270
Sequential change %		18.9%	10.1%
Y/Y change %		88.2%	72.8%
Sales and marketing	54,051	78,523	80,681
Sequential change %		15.2%	2.7%
Y/Y change %		77.9%	49.3%
General and administrative	16,280	26,922	28,796
Sequential change %		27.8%	7.0%
Y/Y change %		95.6%	76.9%
Operating loss	(40,399)	(61,769)	(51,466)
Operating margin	-31.6%	-33.1%	-23.9%
Sequential change %		-0.5%	9.2%
Y/Y change %		-3.1%	7.7%
Other expense, net	(6,893)	(6,953)	(8,047)
Net loss	(47,534)	(69,215)	(59,912)
Net loss per share	\$ (0.27)	\$ (0.38)	\$ (0.33)
Weighted-average shares used to compute net loss per share	174,385	184,319	184,310

Workday, Inc.

Supplemental financial information including non-GAAP data

	Quarter ended 10/31/13	Quarter ended 7/31/14	Quarter ended 10/31/14
Adjustments:			
Costs of subscription services (1)	\$ (783)	\$ (1,650)	\$ (1,972)
Costs of professional services (1)	(1,723)	(3,565)	(4,283)
Total costs of revenue	(2,506)	(5,215)	(6,255)
Subscription services gross margin	0.8%	1.1%	1.2%
Professional services gross margin	5.1%	8.3%	8.5%
Gross margin	2.0%	2.8%	2.9%
Product development (1)(2)	(7,422)	(17,525)	(19,819)
Sales and marketing (1)	(4,670)	(7,615)	(9,163)
General and administrative (1)	(5,914)	(12,308)	(13,296)
Operating loss	20,512	42,663	48,533
Operating margin	16.0%	22.8%	22.5%
Other expense, net (3)	5,764	6,002	6,083
Net loss	26,276	48,665	54,616
Net loss per share	\$ 0.15	\$ 0.26	\$ 0.30
Weighted-average shares used to compute net loss per share	174,385	184,319	184,310

(1) Adjustments relate to share-based compensation and employer payroll taxes on employee stock transactions.

(2) Beginning in the quarter ended 4/30/2014, there is an adjustment to subtract 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

	Quarter ended 10/31/13	Quarter ended 7/31/14	Quarter ended 10/31/14
Non-GAAP results:			
Costs of subscription services	\$ 17,293	\$ 22,723	\$ 25,454
Sequential change %		11.6%	12.0%
Y/Y change %		42.7%	47.2%
Costs of professional services	28,792	37,702	40,080
Sequential change %		12.0%	6.3%
Y/Y change %		59.9%	39.2%
Total costs of revenue	46,085	60,425	65,534
Sequential change %		11.8%	8.5%
Y/Y change %		53.0%	42.2%
Subscription services gross margin	81.6%	84.2%	84.5%
Sequential change %		0.7%	0.3%
Sequential change (bps)		68 bps	34 bps
Y/Y change %		3.8%	2.9%
Y/Y change (bps)		382 bps	293 bps
Professional services gross margin	15.2%	12.6%	20.9%
Sequential change %		5.3%	8.3%
Sequential change (bps)		527 bps	831 bps
Y/Y change %		1.7%	5.7%
Y/Y change (bps)		172 bps	571 bps
Gross margin	64.0%	67.6%	69.5%
Sequential change %		1.5%	1.9%
Sequential change (bps)		147 bps	188 bps
Y/Y change %		4.4%	5.5%
Y/Y change(bps)		437 bps	557 bps
Product development	41,927	59,939	65,451
Sequential change %		11.8%	9.2%
Y/Y change %		60.3%	56.1%
Sales and marketing	49,381	70,908	71,518
Sequential change %		16.0%	0.9%
Y/Y change %		68.6%	44.8%
General and administrative	10,366	14,614	15,500
Sequential change %		8.5%	6.1%
Y/Y change %		42.1%	49.5%
Operating loss	(19,887)	(19,106)	(2,933)
Operating margin	-15.6%	-10.2%	-1.4%
Sequential change %		3.9%	8.9%
Sequential change (bps)		387 bps	887 bps
Y/Y change %		9.9%	14.2%
Y/Y change (bps)		991 bps	1,419 bps
Other expense, net	(1,129)	(951)	(1,964)
Net loss	(21,258)	(20,550)	(5,296)
Net loss per share	\$ (0.12)	\$ (0.11)	\$ (0.03)
Weighted-average shares used to compute net loss per share	174,385	184,319	184,310

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 loss, non-GAAP net loss per share 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 measures non-GAAP operating loss and non-GAAP net loss per share differ from GAAP in that they exclude share-based compensation, employer payroll taxes on employee stock transactions, amortization of acquisition-related intangible assets and non-cash interest expense related to our convertible senior notes, as applicable. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures, assets acquired under a capital lease 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, and 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 most directly comparable GAAP measures is useful to investors and others in assessing Workday's operating performance due to the following factors:

- *Share-based compensation.* 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 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 share 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 the Employee Stock Purchase Plan, which is an element 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 included employer payroll taxes on employee stock transactions for the three and nine months ended October 31, 2014 and 2013 and amortization of acquisition-related intangible assets for the three and nine months ended October 31, 2014. The amount of employer payroll taxes on share-based compensation 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 loss and net loss per share 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.