Workday Announces Fiscal 2018 Third Quarter Financial Results

Subscription Revenues of \$463.6 Million, Up 37% Year Over Year; Total Revenues of \$555.4 Million, Up 34% Year Over Year

PLEASANTON, CA--(Marketwired - Nov 29, 2017) - Workday, Inc. (NASDAQ: WDAY), a leader in enterprise cloud applications for finance and human resources, today announced results for the fiscal third quarter ended October 31, 2017.

- Total revenues were \$555.4 million, an increase of 34.3% from the third quarter of fiscal 2017. Subscription revenues were \$463.6 million, an increase of 37.2% from the same period last year.
- Operating loss was \$80.1 million, or negative 14.4% of revenues, compared to an operating loss of \$105.9 million, or negative 25.6% of revenues, in the same period last year. Non-GAAP operating profit for the third quarter was \$50.1 million, or 9.0% of revenues, compared to a non-GAAP operating profit of \$8.0 million, or 1.9% of revenues, in the same period last year.¹
- Net loss per basic and diluted share was \$0.41, compared to a net loss per basic and diluted share of \$0.55 in the third quarter of fiscal 2017. Non-GAAP net income per diluted share was \$0.24, compared to a non-GAAP net income per diluted share of \$0.05 in the same period last year.
- Operating cash flows for the third quarter were \$144.0 million and free cash flows were \$107.7 million. For the trailing twelve months, operating cash flows were \$448.9 million and free cash flows were \$311.2 million.²
- Cash, cash equivalents and marketable securities were \$3.2 billion as of October 31, 2017. Unearned revenues were over \$1.2 billion, a 21.5% increase from the same period last year.

Comments on the News

"Workday had a great third quarter, driving demand across all product areas and geographies, expanding our value proposition with the delivery of new products, and once again demonstrating our commitment to keeping customer satisfaction among the highest in the industry," said Aneel Bhusri, co-founder and CEO, Workday. "The outlook for the remainder of fiscal 2018 and beyond is bright as we continue to add new customers for HCM and Financial Management, and unlock new growth drivers such as Workday Prism Analytics and the Workday Cloud Platform."

"We delivered another strong quarter with subscription revenue up 37%, driven by strong net new customer growth, continued add on sales with existing customers, and high renewal rates," said Robynne Sisco, chief financial officer, Workday. "As we head into our seasonally strongest quarter, we are raising our fiscal 2018 outlook and are now expecting subscription revenue of \$1.780 to \$1.782 billion, or growth of 38%. We continue to invest for long-term growth, while delivering consistently solid operating and cash flow margins."

Recent Highlights

- Workday held its 11th annual customer conference, Workday Rising, bringing together more than 8,500 members of the Workday community for education and collaboration in Chicago.
- Workday once again achieved its goal to maintain a customer satisfaction rating over 95%, announcing that the company earned a 98% customer satisfaction rating for this year.
- Workday announced the availability of Workday Prism Analytics, which enables customers to bring together any data -- including Workday data and data from any outside source -- with leading edge analytics tools to make better business decisions.
- Workday also announced the availability of Workday Benchmarking, the first offering delivered on Workday Data-as-a-Service. Workday Benchmarking provides key
 metrics to customers seeking a better understanding of their company's relative performance in comparison to peers to help achieve optimal performance in their
 respective markets.
- Workday was positioned by Gartner, Inc. in the Leaders quadrant of "Magic Quadrant for Cloud Human Capital Management Suites for Midmarket and Large Enterprises." Workday was acknowledged as a leader for the second year in a row and achieved the highest overall position for its ability to execute.³
- Workday was also positioned as a leader in "The Forrester WaveTM: SaaS Human Resource Management Systems, Q3 2017," a new report published by Forrester Research, Inc. Workday received the highest score in the strategy category and earned the highest possible scores in 16 criteria, including business vision, usability, and mobile.

Workday plans to host a conference call today to review its third quarter financial results and to discuss its financial outlook. The call is scheduled to begin at 2:00 p.m. PT/5:00 p.m. ET and can be accessed via webcast or through Workday's Investor Relations website. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 90 days.

Workday intends to use the Workday Blog as a means of disclosing material non-public information and for complying with its disclosure obligations under Regulation FD.

- ¹ Non-GAAP operating profit (loss) and non-GAAP net income (loss) per share exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, and debt discount and issuance costs associated with convertible notes. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.
- ² Free cash flows are defined as operating cash flows minus capital expenditures (excluding owned real estate projects). See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.
- Magic Quadrant for Cloud Human Capital Management Suites for Midmarket and Large Enterprises, 15 August 2017.

Disclaimer - Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

About Workday

Workday is a leading provider of enterprise cloud applications for<u>finance</u> and <u>human resources</u>. Founded in 2005, Workday delivers financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. Organizations ranging from medium-sized businesses to Fortune 50 enterprises have selected Workday.

Use of Non-GAAP Financial Measures

Reconciliations of non-GAAP financial measures to Workday's financial results as determined in accordance with GAAP are included at the end of this press release following the accompanying financial data. For a description of these non-GAAP financial measures, including the reasons management uses each measure, please see the section of

the tables titled "About Non-GAAP Financial Measures." A reconciliation of our forward outlook for non-GAAP operating margin with our forward-looking GAAP operating margin is not available without unreasonable efforts as the quantification of stock-based compensation expense, which is excluded from our non-GAAP operating margin, requires additional inputs such as number of shares granted and market price that are not ascertainable.

Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding Workday's fourth quarter and fiscal year subscription revenue projections, investments, operating margins and cash flow growth. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plans," and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: (i) breaches in our security measures, unauthorized access to our customers' data or disruptions in our data center operations; (ii) our ability to manage our growth effectively; (iii) competitive factors, including pricing pressures, industry consolidation, entry of new competitors and new applications and marketing initiatives by our competitors; (iv) the development of the market for enterprise cloud services; (v) acceptance of our applications and services by customers; (vi) adverse changes in general economic or market conditions; (vii) delays or reductions in information technology spending; and (viii) changes in sales, which may not be immediately reflected in our results due to our subscription model. Further information on risks that could affect Workday's results is included in our filings with the Securities and Exchange Commission (SEC), including our Form 10-Q for the quarter ended July 31, 2017 and our future reports that we may file with the SEC from time to time, which could cause actual results to vary from expectations. Workday assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

Any unreleased services, features, or functions referenced in this document, our website or other press releases or public statements that are not currently available are subject to change at Workday's discretion and may not be delivered as planned or at all. Customers who purchase Workday services should make their purchase decisions based upon services, features, and functions that are currently available.

© 2017. Workday, Inc. All rights reserved. Workday and the Workday logo are registered trademarks of Workday, Inc. All other brand and product names are trademarks or registered trademarks of their respective holders.

Workday, Inc.

Condensed Consolidated Balance Sheets

(in thousands) (unaudited)

	October 31, 2017	January 31, 2017 *As Adjusted	
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,336,984	\$ 539,923	
Marketable securities	1,874,139	1,456,822	
Trade and other receivables, net	349,309	409,780	
Deferred costs	56,304	51,330	
Prepaid expenses and other current assets	77,036	66,590	
Total current assets	3,693,772	2,524,445	
Property and equipment, net	487,234	365,877	
Deferred costs, noncurrent	120,173	117,249	
Acquisition-related intangible assets, net	34,305	48,787	
Goodwill	158,418	158,354	
Other assets	70,814	53,570	
Total assets	\$ 4,564,716	\$ 3,268,282	
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	\$ 35,837	\$ 26,824	
Accrued expenses and other current liabilities	108,074	61,582	
Accrued compensation	139,668	110,625	
Unearned revenue	1,129,031	1,086,212	
Current portion of convertible senior notes, net	336,936		
Total current liabilities	1,749,546	1,285,243	
Convertible senior notes, net	1,136,494	534,423	
Unearned revenue, noncurrent	100,135	135,331	
Other liabilities	38,267	36,677	
Total liabilities	3,024,442	1,991,674	
Stockholders' equity:			
Common stock	210	202	
Additional paid-in capital	3,195,130	2,681,200	
Accumulated other comprehensive income (loss)	(16,310) 2,071	
Accumulated deficit	(1,638,756) (1,406,865)
Total stockholders' equity	1,540,274	1,276,608	
Total liabilities and stockholders' equity	\$ 4,564,716	\$ 3,268,282	

^{*} Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which we adopted on February 1, 2017.

Workday, Inc.

Condensed Consolidated Statements of Operations

(in thousands, except per share data) (unaudited)

	2017		2016 *As Adjusted		2017		2016 *As Adjusted	
Revenues:								
Subscription services	\$ 463,568		\$ 337,910		\$ 1,297,831		\$ 924,148	
Professional services	91,821		75,612		262,739		210,708	
Total revenues	555,389		413,522		1,560,570		1,134,856	
Costs and expenses ⁽¹⁾ :								
Costs of subscription services	71,898		54,645		197,627		155,224	
Costs of professional services	91,657		72,240		260,834		198,140	
Product development	239,588		185,311		657,130		488,975	
Sales and marketing	176,121		149,537		503,782		412,055	
General and administrative	56,184		57,721		163,085		144,609	
Total costs and expenses	635,448		519,454		1,782,458		1,399,003	
Operating loss	(80,059)	(105,932)	(221,888)	(264,147	
Other income (expense), net	(3,742)	(3,105)	(4,467)	(30,136	
Loss before provision for (benefit from) income taxes	(83,801)	(109,037)	(226,355)	(294,283	
Provision for (benefit from) income taxes	1,745		1,077		5,767		2,147	
Net loss	\$ (85,546)	\$ (110,114)	\$ (232,122)	\$ (296,430	
Net loss per share, basic and diluted	\$ (0.41)	\$ (0.55)	\$ (1.12)	\$ (1.50	
Weighted-average shares used to compute net loss per share basic and diluted	209,188		199,479		206,715		197,093	
(1) Costs and expenses include share-based compensation expens	ses as follows:							
Costs of subscription services	\$ 6,899		\$ 5,472		\$ 19,170		\$ 14,837	
Costs of professional services	9,956		7,436		27,278		18,698	
Product development	59,116		45,968		167,068		117,250	
Sales and marketing	25,517		22,597		74,618		62,443	
General and administrative	20,991		24,982		63,656		59,684	

^{*}Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which we adopted on February 1, 2017.

Workday, Inc. Condensed Consolidated Statements of Cash Flows (in thousands)

(unaudited)

	Three Months E	nded Oc	tober 31,		Nine Months End	ber 31,		
	2017		2016 *As Adjusted		2017		2016 *As Adjusted	
Cash flows from operating activities								
Net loss	\$ (85,546)	\$ (110,114)	\$ (232,122)	\$ (296,430)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:								
Depreciation and amortization	34,982		30,453		102,380		83,239	
Share-based compensation expenses	122,479		100,098		351,790		266,555	
Amortization of deferred costs	14,519		11,561		42,165		32,917	
Amortization of debt discount and issuance costs	12,257		6,782		25,992		20,071	
Gain on sale of cost method investment	(194)			(720)	(65)
Impairment of cost method investment	100				100		15,000	
Other	(1,294)	78		3,317		1,678	
Changes in operating assets and liabilities, net of business combinations:								
Trade and other receivables, net	19,070		(20,693)	59,463		25,289	
Deferred costs	(19,245)	(13,040)	(50,063)	(41,807)
Prepaid expenses and other assets	(11,355)	(3,686)	(23,373)	(11,368)
Accounts payable	(7,383)	2,260		2,830		2,080	
Accrued expenses and other liabilities	59,171		30,591		49,788		29,619	
Unearned revenue	6,470		37,266		7,632		114,117	
Net cash provided by (used in) operating activities	144,031		71,556		339,179		240,895	
Cash flows from investing activities								
Purchases of marketable securities	(930,783)	(380,620)	(1,829,231)	(1,571,756)
Maturities of marketable securities	372,389		449,592		1,185,730		1,614,495	
Sales of available-for-sale securities	32,886		63,340		222,823		92,192	
Business combinations, net of cash acquired			(144,209)			(147,879)
Owned real estate projects	(27,616)	(59,705)	(80,151)	(85,479)
Capital expenditures, excluding owned real estate projects	(36,356)	(27,518)	(105,477)	(88,535)
Purchases of cost method investments	(5,272)			(10,722)	(300)
Sale and maturities of cost method investments	294				1,026		315	
Other	(1,000)			(1,000)	(296)
Net cash provided by (used in) investing activities	(595,458)	(99,120)	(617,002)	(187,243)

Cook	flows	from	financing	aativitiaa
Casn	TIOWS	trom	tinancing	activities

1,132,101				1,132,101		
80,805				80,805		
(175,530)			(175,530)	
1,974		4,491		36,501		33,267
(36)	435		(112)	1,006
1,039,314		4,926		1,073,765		34,273
(322)	(137)	261		357
587,565		(22,775)	796,203		88,282
750,532		411,144		541,894		300,087
\$ 1,338,097	,	\$ 388,369		\$ 1,338,097		\$ 388,369
	80,805 (175,530 1,974 (36 1,039,314 (322 587,565 750,532	80,805 (175,530) 1,974 (36) 1,039,314 (322) 587,565 750,532	80,805 (175,530) 1,974 4,491 (36) 435 1,039,314 4,926 (322) (137 587,565 (22,775 750,532 411,144	80,805 (175,530) 1,974	80,805 80,805 (175,530) (175,530 1,974 4,491 36,501 (36) 435 (112 1,039,314 4,926 1,073,765 (322) (137) 261 587,565 (22,775) 796,203 750,532 411,144 541,894	80,805 80,805 (175,530) (175,530) 1,974 4,491 36,501 (36) 435 (112) 1,039,314 4,926 1,073,765 (322) (137) 261 587,565 (22,775) 796,203 750,532 411,144 541,894

	Three Months Ended October 31,		Nine Months En	ded October 31,
	2017	2016	2017	2016
Supplemental cash flow data				
Cash paid for interest, net of amounts capitalized	\$ 18	\$ 48	\$ 64	\$ 2,704
Cash paid for income taxes	651	655	3,259	4,802
Non-cash investing and financing activities:				
Vesting of early exercise stock options	\$ 106	\$ 445	\$ 670	\$ 1,365
Property and equipment, accrued but not paid	47,055	25,917	47,055	25,917
Non-cash additions to property and equipment	649	67	1,276	982

	October 31, 2017	October 31, 2016 *As Adjusted
Reconciliation of cash, cash equivalents and restricted cash as shown in the statement of cash		
flows		
Cash and cash equivalents	\$ 1,336,984	\$ 386,557
Restricted cash included in Other assets	1,113	1,712
Restricted cash included in Property and equipment, net		100
Total cash, cash equivalents and restricted cash	\$ 1,338,097	\$ 388,369

^{*}Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230), both of which we adopted on February 1, 2017.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2017 (in thousands, except per share data) (unaudited)

	GAAP		Share-Based Compensation Expenses		Other Operating Expenses ⁽³⁾	I	Amortization of Debt Discount and Issuance Costs	ı	Non-GAAP	
Costs and expenses:										
Costs of subscription services	\$ 71,898		\$ (6,899)	\$ (2,468) :	S	,	\$ 62,531	
Costs of professional services	91,657		(9,956)	(200)			81,501	
Product development	239,588		(59,116)	(3,780)			176,692	
Sales and marketing	176,121		(25,517)	(598)			150,006	
General and administrative	56,184		(20,991)	(683)			34,510	
Operating income (loss)	(80,059)	122,479		7,729				50,149	
Operating margin	(14.4)%	22.1	%	5 1.3	%		%	9.0	%
Other income (expense), net	(3,742)					12,257		8,515	
Income (loss) before provision for (benefit from) income taxes	(83,801)	122,479		7,729		12,257		58,664	
Provision for (benefit from) income taxes (1)	1,745								1,745	
Net income (loss)	\$ (85,546)	\$ 122,479		\$ 7,729	,	12,257	;	\$ 56,919	
Net income (loss) per share (2)	\$ (0.41)	\$ 0.59		\$ 0.04		0.02	,	\$ 0.24	

- The Company's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.
- GAAP net loss per share calculated based upon 209,188 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 235,341 diluted weighted-average shares of common stock.
- Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$2.9 million, and amortization of acquisition-related intangible assets of \$4.8 million.

Reconciliation of GAAP to Non-GAAP Data

Three Months Ended October 31, 2016 (in thousands, except per share data) (unaudited)

	GAAP *As Adjusted		Share-Based Compensation Expenses		Other Operating Expenses ⁽³⁾		Amortization of Debt Discount and Issuance Costs		Non-GAAP *As Adjusted	
Costs and expenses:										
Costs of subscription services	\$ 54,645		\$ (5,472)	\$ (118)	\$		\$ 49,055	
Costs of professional services	72,240		(7,436)	(171)			64,633	
Product development	185,311		(45,968)	(5,792)			133,551	
Sales and marketing	149,537		(22,597)	(661)			126,279	
General and administrative	57,721		(24,982)	(713)			32,026	
Operating income (loss)	(105,932)	106,455		7,455				7,978	
Operating margin	(25.6)%	25.7	%	1.8	%		%	1.9	%
Other income (expense), net	(3,105)					6,782		3,677	
Income (loss) before provision for (benefit from) income taxes	(109,037)	106,455		7,455		6,782		11,655	
Provision for (benefit from) income taxes ⁽¹⁾	1,077								1,077	
Net income (loss)	\$ (110,114)	\$ 106,455		\$ 7,455		\$ 6,782		\$ 10,578	
Net income (loss) per share (2)	\$ (0.55)	\$ 0.53		\$ 0.04		\$ 0.03		\$ 0.05	

The Company's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2017 (in thousands, except per share data) (unaudited)

	GAAP		Share-Based Compensation Expenses		Other Operating Expenses ⁽³⁾		Amortization of Debt Discount and Issuance Costs	ı	Non-GAAP	
Costs and expenses:										
Costs of subscription services	\$ 197,627		\$ (19,170)	\$ (3,222)	\$	9	175,235	
Costs of professional services	260,834		(27,278)	(1,485)			232,071	
Product development	657,130		(167,068)	(19,344)			470,718	
Sales and marketing	503,782		(74,618)	(3,398)			425,766	
General and administrative	163,085		(63,656)	(2,755)			96,674	
Operating income (loss)	(221,888)	351,790		30,204				160,106	
Operating margin	(14.2)%	22.5	%	2.0	%		%	10.3	%
Other income (expense), net	(4,467)					25,992		21,525	
Income (loss) before provision for (benefit from) income taxes	(226,355)	351,790		30,204		25,992		181,631	
Provision for (benefit from) income taxes ⁽¹⁾	5,767								5,767	
Net income (loss)	\$ (232,122)	\$ 351,790		\$ 30,204		\$ 25,992	9	175,864	
Net income (loss) per share (2)	\$ (1.12)	\$ 1.70		\$ 0.15		\$ 0.03	(0.76	

The Company's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.

Workday, Inc.

Reconciliation of GAAP to Non-GAAP Data

Nine Months Ended October 31, 2016 (in thousands, except per share data) (unaudited)

⁽²⁾ GAAP net loss per share calculated based upon 199,479 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 209,924 diluted weighted-average shares of common stock.

Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$2.6 million, and amortization of acquisition-related intangible assets of \$4.9 million recorded as part of product development expenses.

^{*}Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which we adopted on February 1, 2017.

⁽²⁾ GAAP net loss per share calculated based upon 206,715 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 232,918 diluted weighted-average shares of common stock.

Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$15.7 million, and amortization of acquisition-related intangible assets of \$14.5 million.

	GAAP *As Adjusted		Share-Based Compensation Expenses		Other Operating Expenses ⁽³⁾		Amortization of Debt Discount and Issuance Costs	-	Non-GAAP As Adjusted	i
Costs and expenses:										
Costs of subscription services	\$ 155,224		\$ (14,837)	\$ (570)	\$	9	139,817	
Costs of professional services	198,140		(18,698)	(887)			178,555	
Product development	488,975		(117,250)	(12,152)			359,573	
Sales and marketing	412,055		(62,443)	(2,458)			347,154	
General and administrative	144,609		(59,684)	(2,449)			82,476	
Operating income (loss)	(264,147)	272,912		18,516				27,281	
Operating margin	(23.3)%	24.0	%	1.7	%		%	2.4	%
Other income (expense), net	(30,136)					20,071		(10,065)
Income (loss) before provision for (benefit from) income taxes	(294,283)	272,912		18,516		20,071		17,216	
Provision for (benefit from) income taxes (1)	2,147								2,147	
Net income (loss)	\$ (296,430)	\$ 272,912		\$ 18,516		\$ 20,071	9	15,069	
Net income (loss) per share (2)	\$ (1.50)	\$ 1.38		\$ 0.09		\$ 0.10	9	0.07	

- The Company's GAAP tax provision is primarily related to state taxes and income tax in profitable foreign jurisdictions. We maintain a full valuation allowance against our deferred tax assets in the US. Accordingly, there is no tax impact associated with the non-GAAP adjustments.
- (2) GAAP net loss per share calculated based upon 197,093 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 207,685 diluted weighted-average shares of common stock.
- Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$10.9 million, and amortization of acquisition-related intangible assets of \$7.6 million recorded as part of product development expenses.

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,				
	2017	2016 *As Adjusted	2017	2016 *As Adjusted			
Net cash provided by (used in) operating activities	\$ 144,031	\$ 71,556	\$ 339,179	\$ 240,895			
Capital expenditures, excluding owned real estate projects	(36,356) (27,518) (105,477) (88,535)			
Free cash flows	\$ 107,675	\$ 44,038	\$ 233,702	\$ 152,360			
	Trailing Twelve October 31,	e Months Ended					
	2017	2016 *As Adjusted					
Net cash provided by (used in) operating activities	\$ 448,910	\$ 339,386					
Capital expenditures, excluding owned real estate projects	(137,755) (130,520)				
Free cash flows	\$ 311,155	\$ 208,866					

^{*}Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), and ASU No. 2016-18, Statement of Cash Flows, Restricted Cash (Topic 230), both of which we adopted on February 1, 2017.

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), non-GAAP net income (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 of non-GAAP operating income (loss) and non-GAAP net income (loss) per share differ from GAAP in that they exclude share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets, and non-cash interest expense related to our convertible senior notes. Free cash flows differ from GAAP cash flows from operating activities in that it treats capital expenditures (excluding owned real estate projects) 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 flows generated by normal recurring activities to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

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

^{*}Prior-period information has been restated for the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which we adopted on February 1, 2017.

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 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 and September 2017. 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 certain capital expenditures that are considered to be an ongoing operational component of our business. Capital expenditures deducted from cash flows from operations do not include purchases of land and buildings or construction costs of our new development center and of other owned buildings. We exclude these owned real estate projects as they are infrequent in nature. For the current fiscal year, these costs primarily represent the construction of our new development center, which is anticipated to be completed in fiscal 2020. This provides an enhanced view of cash available to make strategic acquisitions and investments, to fund ongoing operations and to fund other capital expenditures, after our owned real estate projects.

The use of non-GAAP operating income (loss) and non-GAAP net income (loss) per share measures 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.

Contact Information:

Investor Relations Contact:

Michael Magaro +1 (925) 379-6000 michael.magaro@workday.com

Media Contact:

Jeff Shadid +1 (405) 834-7777 jeff.shadid@workday.com

https://en-sg.newsroom.workday.com/2017-11-29-Workday-Announces-Fiscal-2018-Third-Quarter-Financial-Results