Workday Announces Fiscal 2020 Second Quarter Financial Results

Second Quarter Total Revenues of \$887.8 Million, Up 32.2% Year Over Year Subscription Revenue of \$757.2 Million, Up 33.9% Year Over Year Subscription Revenue Backlog of \$7.03 Billion, Up 27.2% Year Over Year

PLEASANTON, Calif., Aug. 29, 2019 (GLOBE NEWSWIRE) -- Workday, Inc. (NASDAQ: WDAY), a leader in enterprise cloud applications for finance and human resources, today announced results for the fiscal 2020 second quarter ended July 31, 2019.

#### Fiscal 2020 Second Quarter Results

- Total revenues were \$887.8 million, an increase of 32.2% from the second quarter of fiscal 2019. Subscription revenue was \$757.2 million, an increase of 33.9% from the same period last year.
- Operating loss was \$122.5 million, or negative 13.8% of revenues, compared to an operating loss of \$89.0 million, or negative 13.2% of revenues, in the same period last year. Non-GAAP operating income for the second quarter was \$117.5 million, or 13.2% of revenues, compared to a non-GAAP operating income of \$68.1 million, or 10.1% of revenues, in the same period last year.
- Net loss per basic and diluted share was \$0.53, compared to a net loss per basic and diluted share of \$0.40 in the second quarter of fiscal 2019. Non-GAAP net income per diluted share was \$0.44 compared to a non-GAAP net income per diluted share of \$0.31 in the same period last year.<sup>2</sup>
- Operating cash flows were \$100.3 million compared to \$57.6 million in the same period last year.
- Cash, cash equivalents, and marketable securities were \$1.93 billion as of July 31, 2019. Unearned revenues were \$1.89 billion, a 27.1% increase from the same period last year.

#### Comments on the News

"It was a strong quarter, with continued global customer momentum across the Fortune 500 and Global 2,000, as more organizations look to Workday for the ability to plan, execute, and analyze in one system powered by machine learning. In addition, we celebrated one year with Adaptive Insights and continue to make great progress on our integration vision," said Aneel Bhusri, co-founder and CEO, Workday. "As we move into the second half of the year, we are continuing to invest in areas that leverage our strengths and open new opportunities."

"We delivered strong Q2 results with subscription revenue up 34%, along with solid operating margins and cash flow," said Robynne Sisco, co-president and chief financial officer, Workday. "Based on our second quarter results, we are raising our fiscal 2020 subscription revenue outlook and now expect subscription revenue of \$3.06 to \$3.07 billion. We expect our third quarter subscription revenue to be between \$783 and \$785 million. We continue to prioritize investing in long-term growth initiatives, while delivering solid operating margins and cash flow over time."

#### **Recent Highlights**

- Workday opened its new headquarters in Pleasanton, Calif. The new 410,000-square-foot, six-story building was designed to encourage collaboration and will accommodate 2,200 employees as well as Workday's new customer center.
- Workday <u>celebrated</u> the one-year anniversary of its acquisition of Adaptive Insights. In the last year, the two organizations have seen continued business planning
  momentum, including the addition of more than 800 new Adaptive Insights customers, machine learning advancements, the completion of the first phase of the
  Adaptive Insights integration with Workday as part of the Power of One, and record attendance at Adaptive Live, the company's annual customer conference.
- Workday <u>published</u> its commitments to ethical artificial intelligence (AI), which includes six principles that guide how it develops machine learning a subset of AI for the enterprise responsibly.
- Fast Company recognized Workday on its inaugural list of the 50 Best Workplaces For Innovators, which honors organizations that demonstrate a deep commitment to encouraging innovation at all levels.
- Workday became the first organization to adhere to the EU Cloud Code of Conduct (CoC) by SCOPE Europe, underscoring the company's continued commitment to global data protection.
- Workday appointed Carolyn Horne as president of the EMEA region and David Webster as president of the APJ region. In addition, Workday promoted Josh DeFigueiredo to chief security officer.
- Workday released its <u>2019 Global Impact Report</u>, which provides an inside look into the company's efforts to make a positive impact on the world from implementing sustainable practices, to creating a better place to work, and empowering positive social impact.

#### **Earnings Call Details**

Workday plans to host a conference call today to review its fiscal 2020 second quarter financial results and to discuss its financial outlook. The call is scheduled to begin at 1:30 p.m. PT/ 4:30 p.m. ET and can be accessed via webcast. The webcast will be available live, and a replay will be available following completion of the live broadcast for approximately 90 days.

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

<sup>1</sup> Non-GAAP operating income excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, and amortization expense for acquisition-related intangible assets. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

<sup>2</sup> Non-GAAP net income per share excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization expense for acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects. See the section titled "About Non-GAAP Financial Measures" in the accompanying financial tables for further details.

#### **About Workday**

Workday is a leading provider of enterprise cloud applications for finance and human resources. Founded in 2005, Workday delivers financial management, human capital management, planning, 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 share-based compensation expense, which is excluded from our non-GAAP operating margin, requires additional inputs such as the number of shares granted and market prices that are not ascertainable.

#### Forward-Looking Statements

This press release contains forward-looking statements including, among other things, statements regarding Workday's ability to integrate acquired companies; strategic investments; fiscal year and third quarter subscription revenue outlook; and ability to prioritize investing in long-term growth initiatives while delivering solid operating margins and cash flow over time. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "seek," "plans," "project," "looking ahead," "look to," "move into," 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) risks related to our ability to successfully integrate Adaptive Insights' operations or failure to achieve the expected benefits of this or any other acquisition or transaction; (ii) our ability to implement our plans, objectives, and other expectations with respect to the Adaptive Insights business or that of any other acquired company; (iii) breaches in our security measures, unauthorized access to our customers' data or disruptions in our data center operations; (iv) our ability to manage our growth effectively; (v) competitive factors, including pricing pressures, industry consolidation, entry of new competitors and new applications, advancements in technology, and marketing initiatives by our competitors; (vi) the development of the market for enterprise cloud applications and services; (vii) acceptance of our applications and services by customers, including any underlying technology such as machine learning and artificial intelligence; (viii) adverse changes in general economic or market conditions; (ix) the regulatory, economic, and political risks associated with our international operations; (x) delays or reductions

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.

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## Workday, Inc. Condensed Consolidated Balance Sheets (in thousands) (unaudited)

July 31, 2019 January 31, 2019 Assets Current assets: Cash and cash equivalents \$ 619,514 \$ 638,554 Marketable securities 1,307,006 1,139,864 613.425 Trade and other receivables, net 704.680 Deferred costs 85.557 80.809 Prepaid expenses and other current assets 163,530 136,689 Total current assets 2,789,032 2,700,596 Property and equipment, net 919.523 796,907 Operating lease right-of-use assets 294,824 Deferred costs, noncurrent 182,580 183.518 277,953 Acquisition-related intangible assets, net 313,240 Goodwill 1.389.349 1.379.125 138,895 147,360 Other assets **Total assets** \$ 5,992,156 \$ 5,520,746 Liabilities and stockholders' equity Current liabilities: Accounts payable \$ 32,540 \$ 29,093 Accrued expenses and other current liabilities 123,542 114,494 Accrued compensation 192,064 207 924 1 796 423 1,837,618 Unearned revenue Operating lease liabilities 65.554 Current portion of convertible senior notes, net 1,233,189 232,514 Total current liabilities 3,434,264 2.430.691 Convertible senior notes, net 972,264 Unearned revenue, noncurrent 89,219 111,652 Operating lease liabilities, noncurrent 243,863 Other liabilities 14 525 47,697 Total liabilities 3,781,871 3,562,304 Stockholders' equity: Common stock 227 221 4,561,272 4,105,334 Additional paid-in capital Accumulated other comprehensive income (loss) 32,458 (809) (2,146,304 Accumulated deficit (2,383,672 Total stockholders' equity 2,210,285 1,958,442 \$ 5,520,746 Total liabilities and stockholders' equity \$ 5,992,156

#### (unaudited)

5	<b>2018</b> \$ 565.659		2019		2018	
5	\$ 565.659					
5	\$ 565.659					
			\$ 1,458,179		\$ 1,087,808	
	106,061		254,628		202,555	
	671,720		1,712,807		1,290,363	
	87,523		233,630		167,768	
	112,707		275,923		210,433	
	292,840		725,953		556,424	
	202,464		553,136		395,235	
	65,168		170,048		120,749	
9	760,702		1,958,690		1,450,609	
)	(88,982	)	(245,883	)	(160,246	)
)	1,613		7,035		(2,235	)
)	(87,369	)	(238,848	)	(162,481	)
)	(1,213	)	(1,861	)	(1,915	)
12 )	\$ (86,156	)	\$ (236,987	)	\$ (160,566	)
)	\$ (0.40	)	\$ (1.05	)	\$ (0.75	)
	215,932		224,857		214,517	
3	19 ) 7 ) 8 ) 12 )	106,061 671,720 87,523 112,707 292,840 202,464 65,168 9 760,702 7 ) (88,982 ) 1,613 8 ) (87,369 ) (1,213 12 ) \$ (86,156 ) \$ (0.40	671,720  87,523  112,707  292,840  202,464  65,168  9 760,702  7 ) (88,982 )  1,613  3 ) (87,369 )  (1,213 )  12 ) \$ (86,156 )  \$ \$ (0.40 )	106,061 254,628 671,720 1,712,807 87,523 233,630 112,707 275,923 292,840 725,953 202,464 553,136 65,168 170,048 19 760,702 1,958,690 7 (88,982 ) (245,883 ) 1,613 7,035 8 ) (87,369 ) (238,848 ) (1,213 ) (1,861 12 ) \$ (86,156 ) \$ (236,987 ) \$ (0.40 ) \$ (1.05	106,061	106,061

(1) Costs and expenses include share-based compensation expenses as follows:

Costs of subscription services	\$ 12,001	\$ 8,521	\$ 22,416	\$ 16,398
Costs of professional services	18,991	12,518	35,141	23,310
Product development	105,758	75,354	196,995	143,865
Sales and marketing	42,690	29,367	81,544	54,979
General and administrative	29,781	21,303	58,360	41,170

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

Cash flows from operating activities	
Net loss \$ (120,712 ) \$ (86,156 ) \$ (236,987 ) \$ (160,566	)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation and amortization 67,754 42,226 128,919 80,890	
Share-based compensation expenses         208,912         147,063         394,147         279,722	
Amortization of deferred costs 22,002 17,061 42,882 33,421	
Amortization of debt discount and issuance costs 14,301 17,490 25,888 35,629	
Other 11,401 (4,894 ) 20,377 (14,183	)
Changes in operating assets and liabilities, net of business combinations:	
Trade and other receivables, net (73,437 ) (104,758 ) 83,942 63,944	
Deferred costs (28,207 ) (23,943 ) (46,692 ) (36,549	)
Prepaid expenses and other assets (1,679 ) (5,446 ) (6,786 ) 3,042	
Accounts payable 1,047 5,987 2,550 13,941	
Accrued expenses and other liabilities (56,524 ) (15,182 ) (35,121 ) (3,555	)
Unearned revenue 55,461 68,168 (63,637 ) (53,887	)
Net cash provided by (used in) operating activities 100,319 57,616 309,482 241,849	
Cash flows from investing activities	
Purchases of marketable securities (582,848 ) (526,216 ) (1,053,902 ) (1,434,342	)
Maturities of marketable securities 385,710 655,205 845,807 1,341,881	
Sales of marketable securities 4,551 914,938 55,499 942,297	
Owned real estate projects (34,149 ) (49,537 ) (73,783 ) (88,770	)
Capital expenditures, excluding owned real estate projects (75,576 ) (53,346 ) (141,111 ) (102,208	)
Business combinations, net of cash acquired (12,885 ) (26,737 ) (12,885 ) (26,737	)
Purchase of other intangible assets — (1,000 ) — (1,000	)
Purchases of non-marketable equity and other investments (5,516 ) (1,000 ) (7,716 ) (3,400	)
Other (32 ) — (9 ) —	
Net cash provided by (used in) investing activities (320,745 ) 912,307 (388,100 ) 627,721	
Cash flows from financing activities	

Payments on convertible senior notes	(27	)	(350,005	)	(27	)	(350,005	)
Proceeds from issuance of common stock from employee equity plans	58,085		38,686		61,540		41,297	
Other	(107	)	(59	)	(200	)	(116	)
Net cash provided by (used in) financing activities	57,951		(311,378	)	61,313		(308,824	)
Effect of exchange rate changes	75		(162	)	(252	)	(582	)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(162,400	)	658,383		(17,557	)	560,164	
Cash, cash equivalents, and restricted cash at the beginning of period	787,046		1,037,435		642,203		1,135,654	
Cash, cash equivalents, and restricted cash at the end of period	\$ 624,646		\$ 1,695,818		\$ 624,646		\$ 1,695,818	

## Workday, Inc. Reconciliation of GAAP to Non-GAAP Data Three Months Ended July 31, 2019

(in thousands, except percentages and per share data)

(unaudited)

	GAAP		Share-Base Compensati Expenses	-	Other Operating Expenses (2	2)	Amortization of Debt Discount and Issuance Costs		Income Tax Effects <sup>(3)</sup>	1	Non-GAAP	
Costs and expenses:												
Costs of subscription services	\$ 121,161		\$ (12,001	)	\$ (11,739	)	\$ —		\$ —		\$ 97,421	
Costs of professional services	145,173		(18,991	)	(1,233	)	_		_		124,949	
Product development	378,122		(105,758	)	(5,380	)	_		_		266,984	
Sales and marketing	280,200		(42,690	)	(10,449	)	_		_		227,061	
General and administrative	85,593		(29,781	)	(2,021	)	_		_		53,791	
Operating income (loss)	(122,497	)	209,221		30,822		_		_		117,546	
Operating margin	(13.8	)%	23.6	%	3.4	%	_	%	_	%	13.2	%
Other income (expense), net	(106	)	_				14,301		_		14,195	
Income (loss) before provision for (benefit from) income taxes	(122,603	)	209,221		30,822		14,301		_		131,741	
Provision for (benefit from) income taxes	(1,891	)	_				_		24,287		22,396	
Net income (loss)	\$ (120,712	)	\$ 209,221		\$ 30,822		\$ 14,301		\$ (24,287	)	\$ 109,345	
Net income (loss) per share (1)	\$ (0.53	)	\$ 0.92		\$ 0.14		\$ 0.06		\$ (0.15	)	\$ 0.44	

- (1) GAAP net loss per share is calculated based upon 226,392 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 247,748 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$19.5 million and total employer payroll tax-related items on employee stock transactions of \$11.3 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the interim reporting periods. For fiscal 2020, the projected non-GAAP tax rate is 17%.

### Workday, Inc. Reconciliation of GAAP to Non-GAAP Data Three Months Ended July 31, 2018

Three Months Ended July 31, 2018 (in thousands, except percentages and per share data) (unaudited)

	GAAP		Share-Base Compensati Expenses		Other Operating Expenses <sup>(2</sup>	2)	Amortization of Debt Discount and Issuance Costs		Income Tax Effects <sup>(3)</sup>		Non-GAAP	
Costs and expenses:												
Costs of subscription services	\$ 87,523		\$ (8,521	)	\$ (3,787	)	\$ —		\$ —		\$ 75,215	
Costs of professional services	112,707		(12,518	)	(519	)	_		_		99,670	
Product development	292,840		(75,354	)	(3,960	)	_		_		213,526	
Sales and marketing	202,464		(29,367	)	(1,039	)	_		_		172,058	
General and administrative	65,168		(21,303	)	(731	)	_		_		43,134	
Operating income (loss)	(88,982	)	147,063		10,036		_		_		68,117	
Operating margin	(13.2	)%	21.9	%	1.4	%	_	%	_	%	10.1	%
Other income (expense), net	1,613		_		_		17,490		_		19,103	
Income (loss) before provision for (benefit from) income taxes	(87,369	)	147,063		10,036		17,490		_		87,220	
Provision for (benefit from) income taxes	(1,213	)	_		_		_		16,004		14,791	
Net income (loss)	\$ (86,156	)	\$ 147,063		\$ 10,036		\$ 17,490		\$ (16,004	)	\$ 72,429	
Net income (loss) per share (1)	\$ (0.40	)	\$ 0.68		\$ 0.05		\$ 0.08		\$ (0.10	)	\$ 0.31	

- (1) GAAP net loss per share is calculated based upon 215,932 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 237,404 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$5.3 million and total employer payroll tax-related items on employee stock transactions of \$4.7 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the interim reporting periods. For fiscal 2019, the projected non-GAAP tax rate was 17%.

### Workday, Inc. Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2019 (in thousands, except percentages and per share data) (unaudited)

	GAAP		Share-Base Compensati Expenses		Other Operating Expenses (2	2)	Amortization of Debt Discount and Issuance Costs		Income Tax Effects <sup>(3)</sup>		Non-GAAP	
Costs and expenses:												
Costs of subscription services	\$ 233,630		\$ (22,416	)	\$ (24,399	)	\$ —		\$ —		\$ 186,815	
Costs of professional services	275,923		(35,141	)	(4,692	)	_		_		236,090	
Product development	725,953		(196,995	)	(19,011	)	_		_		509,947	
Sales and marketing	553,136		(81,544	)	(23,283	)	_		_		448,309	
General and administrative	170,048		(58,360	)	(5,319	)	_		_		106,369	
Operating income (loss)	(245,883	)	394,456		76,704		_		_		225,277	
Operating margin	(14.4	)%	23.0	%	4.6	%	_	%	_	%	13.2	%
Other income (expense), net	7,035		_		_		25,888		_		32,923	
Income (loss) before provision for (benefit from) income taxes	(238,848	)	394,456		76,704		25,888		_		258,200	
Provision for (benefit from) income taxes	(1,861	)	_		_		_		45,755		43,894	
Net income (loss)	\$ (236,987	)	\$ 394,456		\$ 76,704		\$ 25,888		\$ (45,755	)	\$ 214,306	
Net income (loss) per share (1)	\$ (1.05	)	\$ 1.75		\$ 0.34		\$ 0.12		\$ (0.29	)	\$ 0.87	

- (1) GAAP net loss per share is calculated based upon 224,857 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 246,610 diluted weighted-average shares of common stock.
- Other operating expenses include amortization of acquisition-related intangible assets of \$38.9 million and total employer payroll tax-related items on employee stock transactions of \$37.8 million.
- We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the interim reporting periods. For fiscal 2020, the projected non-GAAP tax rate is 17%.

### Workday, Inc. Reconciliation of GAAP to Non-GAAP Data

Six Months Ended July 31, 2018 (in thousands, except percentages and per share data) (unaudited)

	GAAP		Share-Base Compensat Expenses	-	Other Operating Expenses (	2)	Amortization of Debt Discount and Issuance Costs		Income Tax Effects <sup>(3)</sup>	(	Non-GAAP	
Costs and expenses:												
Costs of subscription services	\$ 167,768		\$ (16,398	)	\$ (8,239	)	\$ —		\$ —		\$ 143,131	
Costs of professional services	210,433		(23,310	)	(2,220	)	_		_		184,903	
Product development	556,424		(143,865	)	(12,757	)	_		_		399,802	
Sales and marketing	395,235		(54,979	)	(3,619	)	_		_		336,637	
General and administrative	120,749		(41,170	)	(2,598	)	_		_		76,981	
Operating income (loss)	(160,246	)	279,722		29,433		_		_		148,909	
Operating margin	(12.4	)%	21.7	%	2.2	%	_	%	_	%	11.5	%
Other income (expense), net	(2,235	)	_		_		35,629		_		33,394	
Income (loss) before provision for (benefit from) income taxes	(162,481	)	279,722		29,433		35,629		_		182,303	
Provision for (benefit from) income taxes	(1,915	)	_		_		_		32,870		30,955	
Net income (loss)	\$ (160,566	)	\$ 279,722		\$ 29,433		\$ 35,629		\$ (32,870	)	\$ 151,348	
Net income (loss) per share (1)	\$ (0.75	)	\$ 1.30		\$ 0.14		\$ 0.17		\$ (0.22	)	\$ 0.64	

- (1) GAAP net loss per share is calculated based upon 214,517 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share is calculated based upon 236,706 diluted weighted-average shares of common stock.
- (2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of \$19.0 million and amortization of acquisition-related intangible assets of \$10.4 million.

#### **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 non-GAAP net income (loss) per share. Workday has provided a reconciliation of each non-GAAP financial measure used in this earnings release to the most directly comparable 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. Non-GAAP net income (loss) per share differs from GAAP in that it excludes share-based compensation expenses, employer payroll tax-related items on employee stock transactions, amortization of acquisition-related intangible assets, non-cash interest expense related to our convertible senior notes, and income tax effects.

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. 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 prospects in the same manner as management and in comparing financial results across accounting periods and to those of peer companies.

Management believes excluding the following items from the GAAP Condensed Consolidated Statements 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 to better understand the long-term performance of our core business and to facilitate comparison of
  our results to those of peer companies. Share-based compensation expenses are determined using a number of factors, including our stock price, volatility, and
  forfeiture rates that are beyond our control and generally unrelated to operational decisions and performance in any particular period. Further, share-based
  compensation expenses are not reflective of the value ultimately received by the grant recipients.
- 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 Workday's operational performance.
- Income tax effects. We utilize a fixed long-term projected tax rate in our computation of the non-GAAP income tax provision to provide better consistency across the interim reporting periods. In projecting this long-term non-GAAP tax rate, we utilize a three-year financial projection that excludes the direct impact of share-based compensation and related employer payroll taxes, amortization of acquisition-related intangible assets, and amortization of debt discount and issuance costs. The projected rate considers other factors such as our current operating structure, existing tax positions in various jurisdictions, and key legislation in major jurisdictions where we operate. For fiscal 2020 and 2019, we determined the projected non-GAAP tax rate to be 17%. We will periodically re-evaluate this tax rate, as necessary, for significant events, based on our ongoing analysis of the 2017 U.S. Tax Cuts and Jobs Act, relevant tax law changes, material changes in the forecasted geographic earnings mix, and any significant acquisitions.

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

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https://en-sg.newsroom.workday.com/2019-08-29-Workday-Announces-Fiscal-2020-Second-Quarter-Financial-Results