Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2017
(in thousands, except per share data)
(unaudited)

	GAAP	Share-Based Compensation Expenses	Other Operating Expenses [2]	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 58,165	$ (5,936)	$ (160)	$ —	$ 52,069
Costs of professional services	72,016	(8,135)	(312)	—	63,569
Product development	191,556	(49,279)	(6,381)	—	135,896
Sales and marketing	167,657	(23,786)	(858)	—	143,013
General and administrative	53,513	(18,581)	(853)	—	34,079
Operating income (loss)	(106,235)	105,717	8,564	—	8,046
Operating margin	*(24.3)%*	*24.2%*	*1.9%*	*—%*	*1.8%*
Other income (expense), net	(2,291)	—	—	6,876	4,585
Income (loss) before provision for (benefit from) income taxes	(108,526)	105,717	8,564	6,876	12,631
Provision for (benefit from) income taxes	(2,961)	—	—	—	(2,961)
Net income (loss)	$ (105,565)	$ 105,717	$ 8,564	$ 6,876	$ 15,592
Net income (loss) per share [1]	$ (0.52)	$ 0.52	$ 0.04	$ 0.03	$ 0.07

(1) GAAP net loss per share calculated based upon 201,530 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 210,846 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $3.5 million, and amortization of acquisition-related intangible assets of $5.1 million recorded as part of product development and sales and marketing expenses.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Three Months Ended January 31, 2016
(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	$ 43,009	$ (3,636)	$ (88)	$ —	$ 39,285
Costs of professional services	59,671	(5,504)	(137)	—	54,030
Product development	131,244	(30,372)	(2,226)	—	98,646
Sales and marketing	121,073	(14,709)	(328)	—	106,036
General and administrative	41,871	(15,052)	(596)	—	26,223
Operating income (loss)	(73,441)	69,273	3,375	—	(793)
Operating margin	*(22.7)%*	*21.5%*	*1.0%*	*—%*	*(0.2)%*
Other income (expense), net	(6,505)	—	—	6,510	5
Income (loss) before provision for (benefit from) income taxes	(79,946)	69,273	3,375	6,510	(788)
Provision for (benefit from) income taxes	1,182	—	—	—	1,182
Net income (loss)	$ (81,128)	$ 69,273	$ 3,375	$ 6,510	$ (1,970)
Net income (loss) per share [1]	$ (0.42)	$ 0.36	$ 0.02	$ 0.03	$ (0.01)

(1) Calculated based upon 192,485 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $2.0 million, and amortization of acquisition-related intangible assets of $1.4 million recorded as part of product development expenses.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2017
(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	$ 213,389	$ (20,773)	$ (730)	$ —	$ 191,886
Costs of professional services	270,156	(26,833)	(1,199)	—	242,124
Product development	680,531	(166,529)	(18,533)	—	495,469
Sales and marketing	583,874	(86,229)	(3,316)	—	494,329
General and administrative	198,122	(78,265)	(3,302)	—	116,555
Operating income (loss)	(376,665)	378,629	27,080	—	29,044
Operating margin	*(24.0)%*	*24.1%*	*1.8%*	*—%*	*1.9%*
Other income (expense), net	(32,427)	—	—	26,947	(5,480)
Income (loss) before provision for (benefit from) income taxes	(409,092)	378,629	27,080	26,947	23,564
Provision for (benefit from) income taxes	(814)	—	—	—	(814)
Net income (loss)	$ (408,278)	$ 378,629	$ 27,080	$ 26,947	$ 24,378
Net income (loss) per share [1]	$ (2.06)	$ 1.91	$ 0.14	$ 0.13	$ 0.12

(1) GAAP net loss per share calculated based upon 198,214 basic and diluted weighted-average shares of common stock. Non-GAAP net income per share calculated based upon 208,453 diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $14.3 million, and amortization of acquisition-related intangible assets of $12.7 million recorded as part of product development and sales and marketing expenses.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data
Year Ended January 31, 2016
(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	$ 149,869	$ (12,060)	$ (414)	$ —	$ 137,395
Costs of professional services	224,558	(19,526)	(768)	—	204,264
Product development	469,944	(109,362)	(7,201)	—	353,381
Sales and marketing	434,056	(51,617)	(1,482)	—	380,957
General and administrative	148,578	(57,405)	(2,095)	—	89,078
Operating income (loss)	(264,659)	249,970	11,960	—	(2,729)
Operating margin	*(22.8)%*	*21.6%*	*1.0%*	*—%*	*(0.2)%*
Other income (expense), net	(24,242)	—	—	25,518	1,276
Income (loss) before provision for (benefit from) income taxes	(288,901)	249,970	11,960	25,518	(1,453)
Provision for (benefit from) income taxes	1,017	—	—	—	1,017
Net income (loss)	$ (289,918)	$ 249,970	$ 11,960	$ 25,518	$ (2,470)
Net income (loss) per share [1]	$ (1.53)	$ 1.32	$ 0.06	$ 0.14	$ (0.01)

(1) Calculated based upon 190,016 basic and diluted weighted-average shares of common stock.

(2) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $8.8 million, and amortization of acquisition-related intangible assets of $3.2 million recorded as part of product development expenses.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data adjusted for 606
Year Ended January 31, 2017
(in thousands)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses (1)	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 213,389	$ (20,773)	$ (730)	$ —	$ 191,886
Costs of professional services	270,156	(26,833)	(1,199)	—	242,124
Product development	680,531	(166,529)	(18,533)	—	495,469
Sales and marketing	565,328	(86,229)	(3,316)	—	475,783
General and administrative	198,122	(78,265)	(3,302)	—	116,555
Operating income (loss)	(353,086)	378,629	27,080	—	53,623
Operating margin	*(22.4)%*	*24.0%*	*1.7%*	*—%*	*3.3%*
Improvement in operating margin related to 606					*1.4%*

(1) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $14.3 million, and amortization of acquisition-related intangible assets of $12.7 million recorded as part of product development and sales and marketing expenses.

Workday, Inc.
Reconciliation of GAAP to Non-GAAP Data adjusted for 606
Year Ended January 31, 2016
(in thousands)
(unaudited)

	GAAP	Share-Based Compensation	Other Operating Expenses (1)	Amortization of Debt Discount and Issuance Costs	Non-GAAP
Costs and expenses:					
Costs of subscription services	$ 149,869	$ (12,060)	$ (414)	$ —	$ 137,395
Costs of professional services	224,558	(19,526)	(768)	—	204,264
Product development	469,944	(109,362)	(7,201)	—	353,381
Sales and marketing	413,530	(51,617)	(1,482)	—	360,431
General and administrative	148,578	(57,405)	(2,095)	—	89,078
Operating income (loss)	(249,789)	249,970	11,960	—	12,141
Operating margin	*(21.6)%*	*21.6%*	*1.0%*	*—%*	*1.0%*
Improvement in operating margin related to 606					*1.2%*

(1) Other operating expenses include total employer payroll tax-related items on employee stock transactions of $8.8 million, and amortization of acquisition-related intangible assets of $3.2 million recorded as part of product development expenses.

Workday, Inc.
Impact of Contract Acquisition Cost Capitalization on
Non-GAAP Financial Measures due to adoption of 606
(in thousands)
(unaudited)

	Year Ended January 31,	
	2017	**2016**
Non-GAAP operating margin prior to adoption of 606:		
Total revenue	$ 1,569,407	$ 1,162,346
Total non-GAAP costs and expenses	1,540,363	1,165,075
Non-GAAP operating income (loss)	29,044	(2,729)
Non-GAAP operating margin	*1.9%*	*(0.2)%*
Non-GAAP operating margin adjusted for contract acquisition cost capitalization under 606:		
Total revenue	$ 1,569,407	$ 1,162,346
Total non-GAAP costs and expenses, adjusted for 606	1,521,817	1,144,549
Non-GAAP operating income (loss), adjusted for 606 costs and expenses	47,590	17,797
Non-GAAP operating margin, adjusted for 606 costs and expenses	*3.1%*	*1.6 %*
Impact to non-GAAP operating margin due to contract acquisition cost capitalization under 606	*1.2%*	*1.8 %*

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

	Three Months Ended January 31,	
	2017	**2016**
Net cash provided by (used in) operating activities	$ 109,472	$ 98,491
Capital expenditures, excluding owned real estate projects	(32,278)	(41,985)
Free cash flows	$ 77,194	$ 56,506

	Year Ended January 31,		
	2017	**2016**	**% change**
Net cash provided by (used in) operating activities	$ 348,655	$ 258,637	
Capital expenditures, excluding owned real estate projects	(120,813)	(133,667)	
Free cash flows	$ 227,842	$ 124,970	82%
Free cash flows as % of total revenue	15%		

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 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. 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, and construction costs of our new development center and of other owned buildings. We exclude these owned real estate projects as they are infrequent, non-recurring in nature and distinctly separate from our ongoing business operations. 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.