Workday, Inc.
Third-Quarter Fiscal 2025
Prepared Remarks
November 26, 2024

Introduction

Thank you, Operator.

Welcome to Workday's third quarter fiscal 2025 earnings conference call. On the call we have Carl Eschenbach, our CEO, Zane Rowe, our CFO, Doug Robinson, our Co-President, and David Somers, our Chief Product Officer. Following prepared remarks, we will take questions. Our press release was issued after close of market and is posted on our website, where this call is being simultaneously webcast.

Before we get started, we want to emphasize that some of our statements on this call, particularly our guidance, are based on the information we have as of today, and include forward-looking statements regarding our financial results, applications, customer demand, operations and other matters. These statements are subject to risks, uncertainties and assumptions that could cause actual results to differ materially. Please refer to the press release and the risk factors in documents we file with the Securities and Exchange Commission, including our fiscal 2024 Annual Report on Form 10-K and our most recent Quarterly Report on Form 10-Q for additional information on risks, uncertainties and assumptions that may cause actual results to differ materially from those set forth in such statements.

In addition, during today's call, we will discuss non-GAAP financial measures, which we believe are useful as supplemental measures of Workday's performance. These non-GAAP measures should be considered in addition to, and not as a substitute for or in isolation from GAAP results. You can find additional disclosures regarding these non-GAAP measures, including reconciliations with comparable GAAP results, in our earnings press release, in our investor presentation, and on the Investor Relations page of our website.

The webcast replay of this call will be available for the next 90 days on our company website under the Investor Relations link. Additionally, the transcript of this call and our quarterly investor presentation will be posted on our Investor Relations website following this call. Also, the Customers page of our website includes a list of selected customers and is updated monthly.

Our fourth quarter fiscal 2025 quiet period begins on January 15th, 2025. Unless otherwise stated, all financial comparisons in this call will be to our results for the comparable period of our fiscal 2024.

With that, I will hand the call over to Carl.

CEO Remarks

Thank you, Justin, and thank you all for joining us today.

I'm pleased to report another quarter of solid financial performance in Q3, with 16% subscription revenue growth and non-GAAP operating margins of 26%.

These results are a testament to the strong customer relationships we have across industries, the growing demand of our AI innovations, and the power of our ecosystem around the world.

More and more organizations are consolidating on the Workday platform for a few key reasons: They want to reduce total cost of ownership, simplify their operations, and harness the power of AI across our best-in-class HR and Finance solutions and provide employees with an amazing user experience. Workday gives them the ultimate advantage.

That was evident in the growth we had in full suite, and in our net new wins, and customer expansions across geographies, segments along with industries.

Several industries were strong in the quarter, and government and higher education were two of the standouts. Roughly 90% of the wins in these industries were full suite. In Q3 the Defense Intelligence Agency expanded its business with Workday, and Lake County Illinois, Maryland General Assembly, New Jersey Institute of Technology, and University System of Georgia all chose Workday to modernize their systems and meet the rising expectations of their constituents.

This quarter, Professional and Business Services became the third industry to exceed $1B in annual recurring revenue, alongside Financial Services and Retail and Hospitality. Advantage Solutions, Connells Limited and Flight Centre Travel Group all selected Workday.

And in healthcare, we had a huge full suite win with CommonSpirit Health, one of the largest nonprofit healthcare systems in the U.S., as well as Community Health System and Valley Children's Healthcare.

From a product perspective, our HCM solutions are really setting the pace when it comes to the future of work. In the quarter we had wins with Brookshire Grocery Company, IOI Group, ProMach, Royal Mail, and TeamHealth, just to name a few.

We're also continuing to invest in our Financials business, and that's driving demand for our full suite. More than 35% of our new core customers in Q3 were full suite. And in Q3, we were again named a Leader in the 2024 Gartner® Magic Quadrant™ for Cloud HCM Suites for 1,000+ Employee Enterprises[1], Cloud ERP for Service-Centric Enterprises[2], and Financial Planning Software[3].

And speaking of Planning, that business had a great Q3. We either expanded or formed new relationships with some fantastic organizations like Deloitte, the Fitness and Lifestyle Group, Motion Picture Association, and Tenet Healthcare. And we were thrilled to have AWS go live on Planning in Q3!

AI is top of mind for every CEO right now, and they're all looking for the right partner to guide them through this transformation.

That's where Workday comes in.

Our customers know that an investment in Workday is an investment in AI, and we're seeing a ton of excitement and demand for our AI solutions. In Q3 alone, more than 30% of our customer expansions involved one or more of our AI solutions, including Talent Optimization, Extend Pro and Recruiter Agent powered by HiredScore. Talent Optimization remains one of our fastest growing SKUs and it's driving tangible value—customers have experienced up to a 39% reduction in turnover.

Recruiter Agent, in particular, had a huge quarter, with wins at Johnson Controls, Cox Enterprises, and UofL Health. In fact, the team closed more new logos in Q3 than in its 12-year history, and our new ACV more than quadrupled compared to Q2. And what's awesome is that Recruiter Agent is boosting the average selling price of our core recruiting solution by almost 150%.

It's clear that customers are ready to invest in AI that's built for their specific needs and delivers real results. They want solutions that are easy to implement and provide value quickly, without needing a ton of IT support. This growing demand shows the huge opportunity we have to grow and monetize this part of our business.

So, let's talk about how we're going to capture this opportunity with our innovation.

With more than 70 million users under contract generating more than 800 billion transactions a year on our platform, our AI leverages the world's largest and cleanest HR and Finance dataset. In our industry, where decisions are high-stakes and complex, the quality and quantity of our data is a critical differentiator. And the combination of this data—with our ability to understand the context behind it—enables Workday to unlock value in a way no competitor can do.

At Rising, we unveiled Illuminate—the next generation of Workday AI. With Illuminate, we're unlocking a whole new level of productivity and human potential by accelerating manual tasks, assisting every employee, and ultimately transforming entire business processes.

As part of Illuminate we launched a set of new AI agents that uniquely transform some of the most complex business processes in HR and Finance—such as recruiting, expense management and succession planning.

Recruiter Agent is available now, Expenses Agent is expected to become available by the end of the year, and several more will soon follow.

We believe Optimize Agent, which is coming out next year, is going to be a true game-changer. It pinpoints bottlenecks, inefficiencies, and areas where processes aren't running as smoothly as they could be. The possibilities with this are endless, and I'm fired up about it.

Beyond the agents Workday is delivering, we're collaborating with our partners to support agent to agent communication for employee self-service needs. Salesforce is a great example here. So is our recent partnership with Microsoft on its M365 Copilot Employee Self-Service Agent.

We also updated Workday Assistant, with our GenAI copilot. Employees can use it to ask questions in natural language about anything from their pay and benefits to company policies—and get quick, personalized answers. More than 2,000 of our HCM customers are using the currently available Workday Assistant to improve efficiency, including one of our customers who has been able to cut down HR case volumes by almost 30%. We believe the new copilot will help drive even further increases in productivity, allowing employees and HR departments to focus on more strategic work.

CIOs get super excited when we talk about Workday Assistant. Other solutions out there require organizations to take sensitive data, like payroll info, and move it outside their core system. That's a big risk no one wants to take.

With Workday, everything stays secure within our trusted platform.

Continuing to accelerate our AI roadmap, we closed our acquisition of Evisort, a leading document intelligence platform. Consider this—Over 80% of business data is unstructured—making it difficult to search, analyze, or use effectively. This includes critical information locked away in contracts, invoices, and policy documents, just to name a few. With Evisort's powerful AI, our customers can now unlock critical insights from this untapped data, empowering them to make faster, more informed business decisions.

The strength of the Workday platform continues to draw interest from customers and partners alike. We've now got over 1,000 customers building their own custom apps on our platform using Extend, making it one of our fastest-growing products ever. In fact, new ACV for Extend more than doubled within the quarter compared to last year.

Extend Pro, which allows you to build AI-first apps with our AI Gateway and Developer co-pilot, is having an even greater impact, with its average selling price double that of Extend Essentials.

Our partner ecosystem has grown nearly 5x in just 18 months and is more diverse than ever. Our partners are becoming increasingly critical to our growth, sourcing over 10% of our net new ACV in Q3, and a similar percentage of our new pipeline.

We've seen rapid adoption of our "Built on Workday" program, which we launched less than 6 months ago. We've already got over 40 partners on board, and partners like Kainos are generating revenue from it.

At Rising, we announced Workday Wellness, which gives companies real-time insights into how their employees are using their benefits. This helps them design more tailored benefits programs right within Workday HCM to improve the overall employee experience. We're excited to have Guardian, The Hartford, Mutual of Omaha, and Unum already signed on as strategic partners.

International growth continues to be one of Workday's most compelling opportunities. This past quarter, I spent time with customers and our amazing Workmates in the UK, Ireland, Germany, France, and Japan. The energy and excitement is incredible.

In Q3, we formed a new strategic partnership with NTT Data, one of the most influential system integrators in Japan.

And in APAC, we formed new relationships with Estia, a major Australian aged care provider, and Flight Centre, a leading Australian travel and leisure brand. We also expanded our footprint with United Overseas Bank, one of the largest banks in Singapore.

Over in EMEA, we faced the same deal scrutiny we've called out the last few quarters, but we had our largest-ever public sector win with the Department for Science, Innovation and Technology in the UK. That's generating a lot of interest from other UK public agencies. We also had major wins with big enterprises like Decathlon in France and Goldbeck in Germany.

And we're gearing up for Rising EMEA in Amsterdam in just a few weeks!

The relationships we're building around the world point to the significant long-term potential of our international business. While only 25% of our revenue comes from outside the U.S. today, we're laying the groundwork for something much bigger.

Before I wrap up, I wanted to give you a quick update on the team. We recently announced that Doug Robinson, who has been an incredible leader over the past 14 years, will be retiring at the end of the fiscal year. I can't thank Doug enough for the tremendous impact he's had on Workday. We're excited to have him continue on as an advisor to the company.

With Doug's retirement, I'm thrilled to welcome Rob Enslin to Workday as our new President, Chief Commercial Officer. Workday continues to be a magnet for great talent and Rob is another great example. He's a world-class executive with 30 years of experience in the enterprise space. He brings fantastic customer and partner relationships and a proven track record of success. He's the perfect person to lead our go-to-market efforts as we move into our next phase of growth.

As you can see, it was a busy quarter!

We have a clear target between now and FY27 of driving mid-teens subscription revenue growth while expanding non-GAAP operating margins to 30%. We plan to achieve this by continuing to innovate and take share in our core markets, while also streamlining operations across the company.

But what really excites me is the opportunity we have ahead of us as we lead our customers through the AI revolution and help them transform their organizations for the future of work.

I'm incredibly grateful to my Workmates for their contributions this quarter. With our amazing culture, continuous innovation, and the trust of our customers, Workday is in a fantastic position to drive sustainable, profitable growth at scale.

Thanks again, and to those of you in the U.S., Happy Thanksgiving!

With that, I'll hand it over to Zane.

CFO Remarks

Thanks, Carl. And thank you to everyone for joining today's call. In Q3, we continued to make progress across a number of our key growth areas, as we lay the foundation for durable, profitable growth at scale.

Subscription revenue in the third quarter was $1.959 billion, up 16%. Professional services revenue was $201 million, resulting in total revenue of $2.160 billion, growth of 16%.

U.S. revenue in Q3 totaled $1.62 billion, and international revenue totaled $537 million, both growing 16%.

12-month subscription revenue backlog, or cRPO, was $6.98 billion at the end of Q3, increasing 15%.

Total subscription revenue backlog at the end of the quarter was $22.19 billion, up 20%.

Gross revenue retention rates remained strong at 98%.

Our non-GAAP operating income for the third quarter was $569 million, resulting in a non-GAAP operating margin of 26.3%.

Q3 operating cash flow was $406 million, in line with our expectations though down year-over-year, impacted by the stronger-than-expected collections activity we called out in Q2.

During the quarter, we repurchased $157 million dollars of our shares at an average price of $242.42 per share. We had $902 million in remaining authorization under our buyback program as of quarter end.

We ended Q3 with $7.2 billion in cash and marketable securities.

As of October 31st, headcount stood at nearly 20,500 workmates around the globe, as we continue to hire talent across targeted growth areas.

A few of our strategic wins in Q3 have future product deliverables in FY26. This slightly impacts our near-term results, as these wins won't fully benefit subscription revenue until next year.

We expect Q4 FY25 subscription revenue to be $2.025 billion, growth of 15%, and full-year subscription revenue of $7.703 billion, an increase of 17%. We expect Q4 cRPO growth to be between 13.5% and 14.5%.

We expect Q4 professional services revenue of approximately $155 million, resulting in full year professional services revenue of $712 million.

We continue to balance targeted investments in key growth areas with increased focus on companywide efficiencies. As a result, we are raising our FY25 non-GAAP operating margin guidance to 25.5%, and we anticipate a non-GAAP operating margin of approximately 25.0% in Q4.

GAAP operating margin for both the fourth quarter and full year is expected to be approximately 20 percentage points lower than the non-GAAP rate.

The estimated FY25 non-GAAP tax rate remains at 19%.

We are maintaining our FY25 operating cash flow expectations of $2.350 billion, and we now expect capital expenditures of approximately $300 million.

We are making good progress across our key growth initiatives, in particular with our partner ecosystem and developing AI opportunities, supporting our medium-term target of mid-teens growth. As an early view, we anticipate FY26 subscription revenue of approximately $8.8 billion, or about 14% growth.

We expect our first quarter subscription revenue growth to be slightly lower than our overall growth rate for FY26. This is largely due to the impact of the leap year, which creates just over a one point headwind to Q1 subscription revenue growth. We expect a slightly higher growth rate in the second half, driven in part by emerging AI opportunities and deliverables tied to strategic wins from the third quarter which I referenced earlier.

We are investing for growth, while at the same time focused on driving efficiencies across the business. This includes the continued expansion of our global workforce, integrating AI across the company, and improving processes and systems. We expect FY26 non-GAAP operating margin of approximately 27.5%, as we demonstrate progress towards long-term margin expansion. In addition, we are actively managing share-based compensation expense, and expect it to continue trending lower as a percentage of revenue.

As we enter Q4, we are focused on executing for both the short and long-term, as we build the foundation for durable topline growth and margin accretion.

With that, I'll turn it back over to the operator to begin Q&A.

[END OF PREPARED REMARKS]

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[1]Gartner Magic Quadrant for Cloud HCM Suites for 1,000+ Employee Enterprises, Ranadip Chandra, Sam Grinter, Ron Hanscome, Chris Pang, Anand Chouksey, Josie Xing, Harsh Kundulli, David Bobo, Laura Gardiner, Hiten Sheth, Emi Chiba, Travis Wickesberg, and Michelle Shapiro, 23 October 2024.

[2]Gartner Magic Quadrant for Cloud ERP for Service-Centric Enterprises, Robert Anderson, Denis Torii, Sam Grinter, Naveen Mahendra, Tomas Kienast, Johan Jartelius, 4 November 2024.

[3] Gartner Magic Quadrant for Financial Planning Software, Regina Crowder, Vaughan Archer, Matthew Mowrey, Michelle Carlsen, 18 November 2024.

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