

WDAY Earnings Call Transcript

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Quarter: 3

Operator: Hello, welcome to Workday's Fiscal 2025 Third Quarter Earnings Call. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the call. During Q&A, please limit your questions to one. I will now hand it over to Justin Furby, Vice President of Investor Relations. Mr. Furby, you may begin.

Justin Furby : 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 of 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'll hand the call over to Carl.

Carl Eschenbach : 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 innovation, 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 Q3 by the growth we had in full suite and in our net new wins, customer expansions across geographies in 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. In 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 \$1 billion in annual recurring revenue, alongside financial services and retail and hospitality. Advantage Solutions, Connells Limited, and Flight Center Travel Group all selected Workday. And in healthcare, we had a huge full suite win with CommonSpirit Health, one of the largest non-profit healthcare systems in the US, 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-plus Employee Enterprises, Cloud ERP for Service-Centric Enterprises, and Financial Planning Software. 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 are 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 are 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 AI solutions, including Talent Optimization, Extend Pro and Recruiter Agent powered by HiredScore. Talent Optimization remains one of our fastest growing SKUs and it is 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, quickly provide value, 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 information, and move 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 applications on our Workday 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 six 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 US 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 in an advisor role 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 joining us in the US, Happy Thanksgiving! With that, I'll hand it over to Zane.

Zane Rowe : 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%. US 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 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% in Q4. GAAP operating margin for both 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.;

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] And our first question comes from Kirk Materne, Evercore ISI. Please proceed with your question.

Kirk Materne: Yes. Thanks very much. Zane, I was wondering, can you just talk a little bit more about the deliverable issue in the Q4? And how much of that is also weighing on, I realize it's a preliminary guide for fiscal 2026, but how much of that plays into that guide relative to sort of the mid-teens guide you guys have talked about for fiscal 2027? Can you just provide a little bit more color on that as -- and maybe when that came about just because I think people are obviously concerned it's more directional in nature than perhaps one time in nature? Thanks.

Zane Rowe: Yes, sure Kirk. Happy to start on that and then I'm sure Carl add some comments afterwards. There were a number of key strategic deals in the third quarter, that as I mentioned had some product deliverables or otherwise we saw revenue recognition a little bit later on. We expect it to

ramp up through the course of next year. If you think about our outlook for the fourth quarter, it would put us roughly in the midpoint of our original guidance for the year. So I'd say approximately \$8 million to \$10 million of impact in the fourth quarter, if you think about sort of the actual deal, were we to recognize revenue as we have historically. And then on a sort of second half of FY26 basis, if you look at that on a year-over-year basis, it would contribute to I'd say approximately half a point on that growth. As I mentioned, obviously in Q1, we lap the leap year and that's about a point of growth heading into Q1. And we still believe there'll be a nice build through the course of FY26. But we definitely see the impact of the revenue recognition impacting this part of the business. I'll point out these are key strategic deals and there's obviously a fair amount of product that aligns with those and that's the point at which we can recognize that revenue. But we're very excited about the momentum in this area and expect these and others to continue to grow beyond FY26. Carl, let you add to that.

Carl Eschenbach: Yes, I think what's really important Kirk is to recognize the strategic importance of a deal like DIA or Defense Intelligence Agency. We have to go out and build a platform for the federal government with different levels of security and we're doing so and we can't recognize revenue on those opportunities until we can deliver it to the government. But these are critical wins for us and it's actually driving demand for us in the federal government as people recognize Workday is really pushing hard into that market. The other one is wellness, Workday Wellness. It's another critical platform for us to engage with our wellness partners and for them to integrate into the Workday platform, and we're building that out as well. So, while we signed a number of key partners like Guardian, The Hartford, Mutual of Omaha and Unum, they're ready to build on that platform. It's just not able to be delivered yet, which taints our revenue recognition for the next year.

Kirk Materne: If I can ask a quick follow-up just on Rob's appointment, Carl. I assume that Rob's on-board. You you've made a lot of changes since you came on board. I assume you and Rob are thinking in the same way, so that as we start next year, there's not necessarily any kind of sort of restart or reshuffling of the decks in terms of your partner strategy, et cetera.

Carl Eschenbach: Yes, thanks for the question. No, I've known Rob for probably 25 or 30 years. I'm sorry I'm showing our age, but we've been around the industry for a long time. We grew up in the industry and I have a tremendous amount of respect for him. I think his background, his experience fits us nicely, especially when you think about what we're doing in international. Rob's lived in Japan, he's lived all over Europe, he started SAP business in China like he's just a tremendous asset for us to pick up and we're going to be very sad that we'll be passing the baton as Doug steps aside. But we also have almost six months of overlap between Doug and Rob. So I don't expect any impact at all to how we're running the business or how we're thinking about the future of our go-to-market strategy. In fact, if you think about Rob, because he spent so many years at SAP, there's not a single partner that Workday has today that Rob doesn't already have relationships with. So it's a great hire for us. We're super excited and energized he's joining the team, and I think he'll bring a great outlook for the future to us.

Kirk Materne: Thanks, Carl. Happy Thanksgiving, guys.

Carl Eschenbach: Thanks, Kirk.

Operator: Thank you. Our next question comes from Mark Murphy, JPMorgan.

Mark Murphy: Thank you very much. Carl, there was a comment at the Analyst Day that the US Federal business is reaching an inflection point and, I understand you closed a defense agency in Q3, but I'm curious how those agencies might be interpreting, if you've heard anything, the stated plans of this Department of Government efficiency to try to strip \$2 trillion in spending out? We're getting a lot of questions on that. And whether you think that -- that might be impacting any of their budgeting spending behavior going into next year? And I have a quick follow-up.

Carl Eschenbach: Sure, Mark. So I'll start. As I said in my prepared remarks, we're really focusing on the federal government going forward. We think there's a huge opportunity there with probably more than 80% of HCM and ERP still on premises that hasn't moved to the cloud. And we think we're catching it at an inflection point right now, which is why we're investing so heavily in building out a secure platform. At the same time, post-election and with Doge coming out, people are absolutely looking to drive more economies of scale and more efficiency. And I can tell you supporting these on premises antiquated systems is not a way to do that. So we think this will only be a tailwind for us as we

think about the federal government business going forward.

Mark Murphy: Okay. That's great to hear. And then Zane, as a quick follow-up, I'm also wondering, subsequent to the interest rate cuts and moving past the US Election, is there any possibility you might have detected stabilization or any uptick in any employment indicators in your customer base? I know I think generally it's been kind of sluggish and moving sideways, but I wasn't sure if you might have seen any recent renewals where any of that feels different than it did a couple of quarters ago or even any payroll runs without any of that data might look different?

Zane Rowe: Yes, sure Mark. As we mentioned early in the year, it was more a moderation of expectations and what we saw early in the year. I'm pleased to say we haven't seen any further downtick. In fact, it has moderated. We haven't necessarily seen significant improvement either. So I think it's within our expectations as we plan ahead, but always welcome the enthusiasm around where interest rates may go and obviously the conviction around growth in business is always good for our business. So we take that, although I would caution right now we still believe that especially in certain areas around the globe and we're a global business that we are still impacted in increased deal scrutiny. All that being said, we're very pleased with the momentum we've seen through the quarter and look forward to continuing that into next year. But no significant change in impact or outlook from what we've experienced through the course of the year.

Mark Murphy: Okay. Well understood. Thank you very much.

Carl Eschenbach: Thanks, Mark.

Operator: Thank you. Our next question comes from Kash Rangan, Goldman Sachs.

Kash Rangan: Carl, with, Rob joining you guys, you're going to be outnumbered with Rob and Zane, and you're going to have to learn cricket. So if you need a primer, please let me know.

Zane Rowe: Yeah. That's right, Kash.

Carl Eschenbach: I may take you up on that, Kash, but I know a little bit about cricket, and I really enjoy it. Only when they're the shorter matches though.

Kash Rangan: [T20] (ph). That's it. Great. So moving on to business, it's good to see the company reiterate, the 15% growth rate, compounding in fiscal '26 and '27. I'm curious, what do you make -- as the numbers get bigger, it -- I guess, the margin becomes a little bit harder to maintain the same growth rate. So are we building in any inflection point with AI monetization or core getting better perhaps in '26 and '27? Give us a recap of why you still feel confident with these numbers, over the next couple of years. Thank you so much. And that's it for me.

Carl Eschenbach: Yes. Thanks so much, Kash, for the question. And let me give you a couple of salient points that I think reflect the conviction and confidence we have in our mid-teen guide over the next couple of years, while being able to expand operating margins. So number one, we had a really solid Q3 after delivering a solid Q2. We had our Rising Conference, which you attended back in September, at which we launched the Workday Illuminate, which is our next generation AI platform. And I can tell you the excitement we felt at the conference continued throughout the quarter. We tried to highlight that with a number of points around our AI momentum, including our Recruiter product, which we had more logos in the quarter in Q3 than we did in the 12 years prior that they were running the business. We also saw an uptick in selling back to the base our AI solutions. More than 30% of our sales back to our customer base included one of our AI solutions, which is our Recruiter Agent, Talent Optimization, along with our Extend Pro platform. So we are absolutely seeing momentum in the business when it comes to AI. If you combine that then Kash with all the things we've been working on over the last few years, like our focus on building out our partner ecosystem, our focus on building out our opportunity in the US Federal Government, our continued focus on industries, our focus on pushing a platform along with full suite sales, which in this quarter I think I had in my prepared remarks, more than 35% of our net new lands included full suite solutions. And then you just continue what we're doing is we move down market into the medium enterprise. We feel very confident in our ability to maintain that mid-teens growth over the next couple of years. And as you think about the guide we gave you for FY26, let's remember we got a big quarter here in Q4 we got to nail. We're focused on nailing this quarter. We have a really strong pipeline, as it relates to Q4. And I'm confident we'll be able to deliver against our current guide for the quarter and then we'll update you further on our FY26 number, during our Q4 earnings call.

Zane Rowe: Kash, I would just add, obviously we have a lot of momentum and conviction on the work that's been done including the strategic deals that we've already closed where we expect to see that revenue into next year. And point out obviously we have line-of-sight into approximately \$8.8 billion and as Carl said more to come and we'll update you again next quarter on more details there.

Kash Rangan: Thank you, Zane and Carl. Happy Thanksgiving.

Carl Eschenbach: Thanks, Kash.

Operator: And our next question comes from Michael Turrin, Wells Fargo.

Carl Eschenbach: Hello, Michael, you there?

Michael Turrin: Sorry, I was on mute, the old unmute trick, apologies for that.

Carl Eschenbach: That's okay.

Michael Turrin: Given there's a few moving pieces you're contemplating and it's not that -- that's not the case across software, maybe if you could add some more context and what informs the Q4 guide given just a bigger seasonal profile for Workday there. Any commentary and if there's any FX impact or other layers to consider and anything you can just add around how that close to the year, could inform your views on the trade-off between growth and margin into next year as it all progresses is helpful. Thank you.

Carl Eschenbach: Yes. Thanks, Michael. We have a solid pipeline coming into Q4. One that is reflected in the guide that we did give you for the quarter. We also, as I said we have a lot of momentum in the business right now, especially when you think about some of our AI solutions like the Recruiter Agent, what we're doing with Talent Optimization and Extend Pro. I mean, in the quarter, selling back into our customer base where 30% of our deals now include an AI SKU is a pretty rapid uptake of these technologies. And what's really interesting is that our customers are willing to pay for these solutions because they have tangible ROI that they can get from these products. So it's the momentum, it's the pipeline. It's the large deals that we have in the quarter. And as you always know, Q4 is historically the largest quarter of the year for us, and I don't think it will be any different this quarter as well.

Zane Rowe: Yes, Michael, I would just add obviously, we feel good about the cRPO. It's just one of the elements we look at the growth that we saw in the third quarter, we believe positions us well exceeding our expected range by a number of basis points. So we feel good about the setup. FX is an impact, but obviously, where the majority of our business is still US base, so we don't see it as being that significant this close into the fourth quarter. So we still feel good about the guide and the outlook for the quarter. And then we are always balancing that top-line growth opportunity with margin. We've done, I think, a good job over the last number of years in thinking about people, process and systems, and we'll continue to focus on efficiencies and continuing to scale the business. So we feel great about the margin outlook not only for the remainder of this year, but into next year and beyond that as we grow margins beyond 30% over the next two years.

Michael Turrin: Thanks very much.

Zane Rowe: Thank you.

Operator: And our next question comes from Brad Zelnick, Deutsche Bank.

Brad Zelnick: Great. Thank you so much. Guys, it's really great to hear about many of the strategic wins, seeing the partner leverage shining through. But I wanted to ask about Europe, where frankly, we picked up some mixed things in talking to partners. Can you just talk a little bit about what's happening there in that theater? And if you could distinguish between environment and execution and any more granularity would be helpful. Thank you.

Carl Eschenbach: Yes. Thanks for the question, Brad. So let me start with the thesis. That has not changed, and that is 50% of the addressable market for Workday is outside the US. That has not changed. Yes, while we have seen some headwinds in the economy, specifically, if you will in EMEA, and I think a lot of people have called that out, our business still remains intact. Our leadership team is stronger than ever. And at the same time, when people do ultimately make a decision on a large transformational opportunity, whether it's HCM or Financials or both, we are winning a significant portion of those deals. Our win rate in Europe when these customers do decide to go forward is very strong. So while there are some headwinds, we can't control that, obviously. What we can control is continuing to innovate, continuing to work with our customers and prospects, so that when they do

make a decision to do a transformational project, we are continuing the win rates that we've seen over the last couple of quarters. I'm very confident in what we're doing in Europe and the opportunity ahead.
Brad Zelnick: Excellent, thank so much.

Operator: Our next question comes from Brad Sills, Bank of America.

Brad Sills: Hello, great. Thank you so much. I wanted to ask a question around some of the strengths you're seeing in government and higher ed. Obviously, this has been going on for quite some time, and you cited some platform deals there that are going well. Just curious, what's working in that vertical? Is there a certain application that you found that is really driving that kind of combined Fins plus HCM glue, if you will? And are there others that are kind of up and coming that we should be thinking about that might become the next source of strength across the verticals?

Carl Eschenbach: Yes. Thanks for the question, Brad. I think historically, we've always had a pretty damn strong business in both government, state and local government and higher ed. In this quarter, we called out that 90% of our wins this quarter included full suite and full platforms. So when you're dealing with the state and local government or even the federal government and then you do it in higher ed, these people have a tendency to make a decision for full platform, full suite at the same time. I also think because of the student product that continues to gain momentum in higher ed, it gives us an advantage over the competition. The one we also called out that performed quite well, it didn't have the exact growth rate we've had over the last couple of quarters that we've called out is health care. We continue to win in health care. In fact, I think it was probably the largest deal on the table over the last 12 months in the health care market, CommonSpirit. We were able to win that which is a testament to -- not only our platform, both our HCM and Financials, but it's also our supply chain product as well. So I think these are three industry verticals we'll continue to have momentum because they look at full suite and in certain industries, we have products like student for higher ed and then we have supply chain for health care.

Brad Sills: Wonderful, thanks Carl.

Operator: Thank you. And our next question comes from Karl Keirstead, UBS.

Karl Keirstead: Okay, great. Thanks. Maybe Zane, a couple for you on the outlook for next year. Just first of all, on Q1, you mentioned that it will likely be sub 14%. So that would be, call it, a 150-plus bps decel from the second half this year. Typically, it doesn't fall that quickly. So it seems to me there must be some -- maybe some onetime issues there. Maybe you could unpack the Q1 performance that you expect? And then secondly, on the second half acceleration, I'm just curious, you had mentioned it's a function of the strategic wins finally ramping, but also emerging AI. Are you able to rank order, which is the bigger driver of that second half acceleration? And if it is AI, maybe help us get a little visibility into what you're seeing to give you the confidence that you can monetize second half next year? Thank you.

Zane Rowe: Sure. Yes, let me start with Q1. I highlighted that obviously, we have the leap year compare, which was about 1 point. We haven't given any linearity or any more detail into FY26, Carl, other than to mention that, obviously, we see the pressure there in Q1. And obviously, it will build through the course of FY26. Yes, as it relates to AI, and the strategic wins. This is a small part of, obviously, the [\$8.8 billion] (ph). I just wanted to highlight on the strategic wins that as we recognize it, we expect to see 0.5 point of improvement just related to those deals for the second half. So we do expect to see slightly higher growth in the back half. And then I'll let Carl talk about some of the momentum and what we're seeing on the AI front through the course of FY26.

Carl Eschenbach: Yes. So Karl, a couple of things on AI. Remember that we just closed earlier this year, the acquisition of HiredScore and we highlighted some of the success we had in Q3, selling the Recruiter Agent back into our customer base. That typically gets sold back into customers who have our recruiting platform. That's 4,000-plus strong. So we're only in the low single digits of penetration or attach rate to our existing customer base to sell, for example our Recruiter Agent. When you couple that with the momentum we're seeing around Talent Optimization, which is an internal workforce mobility AI platform and things like Extend Pro, which has an AI API gateway and a Copilot for developers to write and build applications on top of us, these are all indications that the customers are seeking AI solutions from Workday. And then later this year and into next year, we have three new agents that will come out. We'll have an Expense Agent. We'll have a Successor Agent, and we'll have an Optimized Agent. These are all agents that will bring to market that are built deep into the core of

Workday. The data doesn't have to be extracted. It stays within the core of the platform, which is different than most AI solutions out there and we think they are going to have a nice impact on bookings and revenue as we go into the new year. So the momentum is there. We see it building. Customers are willing to pay for our AI solutions. And I didn't even mention oh, by the way, Evisort, which is an AI platform for scanning and looking at documents, especially in the unstructured world the data we live in today. That's very powerful and we're excited with the early indications and sign that, that's driving to.

Karl Keirstead: Okay, great. That color is helpful. Thank you both.

Carl Eschenbach: Thanks Karl.

Operator: Thank you. Our next question comes from Brent Thill, Jefferies.

Brent Thill: Thanks. Zane, on the guide, are you taking the same methodology as you've had before? Or are you injecting a little more conservatism given the guidance had to be walked down a few times now. Everyone's asking a new guide or kind of the same pipe that you're looking at? You -- can you give us any color on that methodology?

Zane Rowe: Sure. Yes, Brent, thanks for the reminder. Yes, I would say look, this is our current line of sight as we look at FY26. For that reason, we didn't want to give sort of a broader range as we roll up now, we are confident in approximately \$8.8 billion, as I mentioned. We're very excited but we think it is still early days in a number of these AI opportunities in particular. And also, I wanted to highlight just that -- this is first off, an early look. And then as we look to next year, we have the leap year overlap. And in the second half, we've already closed a number of transactions that will impact the growth rate heading into the second half of next year. But we'll leave it there and obviously look forward to providing more color next quarter as we lay out FY26 in more detail. But we feel good about the initial guidance, but that's what it is. It's just an initial look.

Brent Thill: Okay. Great. And then quickly for Carl. With Rob coming on, there have been a lot of questions about its impact usually when you bring someone new in at his caliber, there tend to be changes. And I know you've already made a lot of proactive positive changes for the go-to-market. But how do you kind of give confidence to investors that or there's -- not another way turbulence that comes through with another go-to-market [exec] (ph)? How do you -- how should we think about that?

Carl Eschenbach: Yes. Thanks for the question. I am very confident that we're not going to have any negative impact with Rob joining. It's all going to be positive because of his experience and his knowledge of the industry. I also believe we have enough overlap with Doug for the next six months, we will be sticking around and ensuring that it's a smooth transition. So I'm not nervous at all about any impact from him joining the team and think -- in fact, I know it's only net positives from here.

Brent Thill: Great. Thanks.

Operator: Thank you. We will now take two more questions. And our next question comes from Raimo Lenschow, Barclays.

Raimo Lenschow: Thank you. Can I go back to the AI question for the acceleration for the next half. Carl, how is your thinking in terms of monetization changing in industry? If you think about a lot of players in [Eurosace] (ph) are kind of seeing it more as a -- as an add-on solution, as a kind of bundled add-on solution that is coming in there, how do you make sure you kind of get paid for those solutions?

Carl Eschenbach: Yes. Thanks for the question. As we've stated in the past, we take a multipronged approach to AI monetization. It starts with, number one, when we meet with customers or prospects, they truly believe that an investment in Workday, is an investment in their AI strategies and that gets reflected for us in our customer win rates on new opportunities, our expansion rates with our existing customers and our renewal rates, as well as our customer satisfaction. And a lot of times, our customers are leaning into us with a core platform that already has a whole bunch of AI built into it. It's not bolted-on. At the same point, as we bring new solutions to market, like Recruiter Agent, it's a great example where customers are willing to pay us for that platform. Our customers are seeing upwards of 30% productivity gain in the recruiters, which is significant when you think about recruiting being one of your biggest costs associated with HR. So our customers are willing to pay for it and we monetize it. Another example is Talent Optimization, where we have over 3,000 customers using it to drive internal mobility and reduce attrition. And then lastly, our current example of Extend Pro, how people are leaning into it and buying it. It's actually a significant uplift from our Extend Essentials platform, and

people are paying us for it as well. And as we bring out new products and new agents, like I said earlier, we're going to bring out an Expense Agent, a Successor Agent, as well as an Optimized Agent, we're going to be pricing them based on the impact and the values our customer gets. So I think we have a good strategy around AI monetization. And I think it is going to continue to help drive a sustainable growth over time.

Raimo Lenschow: Okay. Perfect. And then, Carl, one for you -- Zane, sorry, one for you. On the cash flow side, you kind of didn't change the cash flow guidance. Can you talk a little bit about the puts and takes like this quarter and what drove the guidance decision? Thank you.

Zane Rowe: Raimo, we mentioned last quarter that collections came in really strong. So if you balance out the two quarters that gets you back to a more normalized rate. And if you recall for this fiscal year, we've also mentioned that we had an additional pay period, which actually comes into the fourth quarter. So a lot of this is expected. We haven't changed our guide for some time, obviously, for FY25. You may recall as well, we had sizable collections last fiscal year, which impacted FY25, and we called that out early in the year as well. So I feel really good about OCF generation through the course of the year and in-line with our expectations, even though I understand that you're picking up on the variability we saw in Q3, we were off about 10%. But net-net, we feel good about OCF.

Raimo Lenschow: Perfect. Thank you.

Zane Rowe: Thanks Raimo.

Operator: And our final question comes from Alex Zukin, Wolfe Research.

Alex Zukin: Hi, guys. Thanks for taking my question. I want to -- maybe just the first one on the quarter itself. Your quarter ended during a pretty anxious time in the marketplace. And I'm wondering if the election either caused any kind of late minute deal slippage, or just incremental friction, in the quarter itself that maybe unwound, if you will post. And maybe comment both on that. And the conversation with customers as we're coming out of it, you got asked the question on the federal vertical, obviously, in Doge. But any other verticals that you feel incrementally more positive about would also be interesting. And I have a quick follow-up.

Carl Eschenbach: Yes. Hi Alex, thanks for the question. Listen, we were pleased with our execution in Q3 and the results were in-line with our expectations that we had internally. We had a good bookings quarter. We closed a number of significant deals and we saw tremendous momentum on AI. So what I would say is we're happy to have the election behind us for any distractions that it may created. It's good to have that behind us. But we didn't see any impact one way or the other in the quarter, or any change in deal scrutiny or anything else. It was pretty consistent both pre-election and post-election.

Alex Zukin: Perfect. And then as we think about the deliverables, kind of taking a little bit of a change of pace in terms of [online] (ph) for the impact to numbers. Was that a -- was that a surprise in terms of you were able to sign these larger deals, and you knew you were going to sign them, but you didn't necessarily know that they would ask for these incremental things and -- or you -- help us understand that because it's the first time we're kind of hearing of this thing, if you will, impacting the quarter really for any of the companies, at least that I cover. So I'd love to just understand a little bit was the mechanics and logistics of this issue?

Carl Eschenbach: Yes, Alex as you get into a number of these strategic deals. They're obviously deliverables, and in some case, you recognize revenue sooner in some cases later. Just so happened that these two were later. As it -- whether or not it was a surprise, obviously, we've been working these for some period of time. And you traditionally look at the accounting and everything that you have to produce through the course of the negotiation. So obviously, if you had perfect line of sight into these, you may have either structure them differently or there may be some different elements to it, but we feel very good about these transactions. They are incredibly strategic. I just wanted to call it out, as one of the elements as we went into -- as we looked out at Q4 and into FY '26. They together were large enough where they had an impact on our revenue. And to your point, traditionally you recognize revenue shortly after signing, but we are encouraged by the nature of these types of transactions. They're very strategic. We expect them to grow significantly over a number of years. So we're very excited about them. Again, I wouldn't read too much into it. It's just one part of the business that we just decided to call out this quarter.

Alex Zukin: So it doesn't -- basically, it doesn't change the ACV. It's just a timing element that maybe

moves a little bit to the latter period?

Carl Eschenbach: Correct. I mean, in some cases, you can't necessarily capture the cRPO element because of the nature of the deal. But yes, it's just a timing element. That's exactly right.

Alex Zukin: Perfect. Thank you guys.

Carl Eschenbach: Thanks Alex.

Operator: Thank you. Ladies and gentlemen, thank you for your participation on today's conference. I'll now turn it over to Mr. Eschenbach for final comments.

Carl Eschenbach: Thank you, operator, and thank you again for everyone for joining our call today. Before we go, I'd like to thank our Workmates, our customers and partners around the world who continue to fuel Workday success. We continue to believe Workday can be amongst the most enduring and profitable software business of our time. We're focused on driving durable growth at scale and expanding operating margins and we once again achieved this in Q3, all while executing on our platform strategy to deliver the world's best AI solutions for our customers. Thanks again. And to those of you in the US, happy Thanksgiving. With that, I'll turn it back to the operator to close out the call. Thank you, everyone.

Operator: Thank you. This does conclude today's teleconference. You may disconnect your lines at this time.