ZACKS | Our Research. Your Success.

May 11, 2020

Workday Inc. (WDAY)

$165.55 (As of 05/08/20)

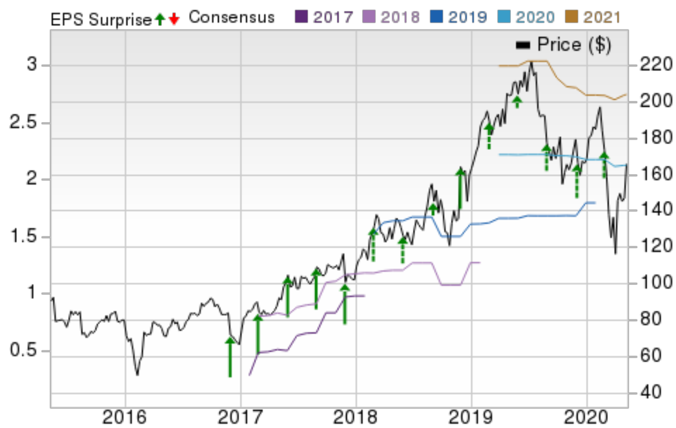
Price Target (6-12 Months): **$174.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/11/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:B
	Value: D / Growth: A / Momentum: C	

Summary

Workday is expected to benefit from solid adoption of subscription and professional software solutions. The buyout of Adaptive Insights is enabling it to help enterprises in making better business decisions with Adaptive Insights business planning cloud, which bodes well for its prospects. Further, extended capabilities and tools in Workday HCM and Workday Financial Management to enhance customer experience is a positive. Workday's foray into the platform-as-a-service market by launching the Workday Data-as-a-Service Platform also holds promise. However, stiff competition from Oracle and SAP is likely to limit margin expansion at least in the near term. Increasing investments to achieve long-term growth are likely to put pressure on the bottom line. Notably, shares have underperformed the industry in the year-to-date period.

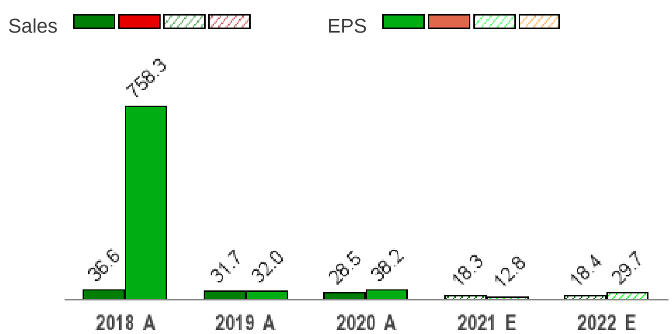
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$226.83 - $107.75**
20 Day Average Volume (sh)	**1,901,860**
Market Cap	**$38.4 B**
YTD Price Change	**0.7%**
Beta	**1.51**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Software**
Zacks Industry Rank	**Top 12% (31 out of 253)**
Last EPS Surprise	**25.0%**
Last Sales Surprise	**1.1%**
EPS F1 Est- 4 week change	**-3.2%**
Expected Report Date	**05/28/2020**
Earnings ESP	**-27.3%**
P/E TTM	**87.1**
P/E F1	**78.1**
PEG F1	**2.9**
P/S TTM	**10.6**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2022	1,181 E	1,245 E	1,301 E	1,353 E	5,082 E
2021	1,002 E	1,052 E	1,098 E	1,142 E	4,292 E
2020	825 A	888 A	938 A	976 A	3,627 A

EPS Estimates

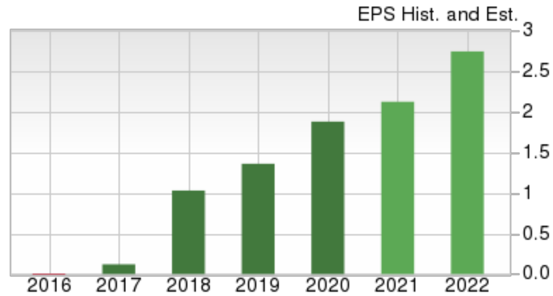
	Q1	Q2	Q3	Q4	Annual*
2022	$0.64 E	$0.66 E	$0.72 E	$0.73 E	$2.75 E
2021	$0.48 E	$0.52 E	$0.57 E	$0.56 E	$2.12 E
2020	$0.43 A	$0.44 A	$0.53 A	$0.50 A	$1.88 A

*Quarterly figures may not add up to annual.

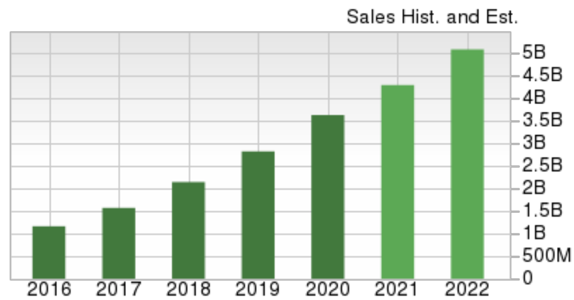
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Founded in 2005 and headquartered in Pleasanton, CA, Workday Inc. (WDAY) is a provider of enterprise-level software solutions for financial management and human resource domains. The company's cloud-based platform combines finance and HR in a single system that makes it easier for organizations to provide analytical insights and decision support.



Notably, organizations ranging from medium-sized businesses to Fortune 50 enterprises have opted for Workday solutions. The company also offers open, standards-based web-services application programming interfaces and pre-built packaged integrations and connectors.



In fiscal 2020, the company reported revenues of $3.63 billion. Subscription revenues accounted for 85.4% of total revenues, while professional revenues made up the rest.

Apart from Financial Management and Human Capital Management (HCM) solutions, the company offers applications related to Payroll, Time Tracking, Recruiting, Learning, Planning, Professional Services Automation and Student.

The company offers Adaptive Insights Business Planning Cloud solutions, Workday Prism Analytics, Workday Data-as-a-Service (DaaS) and Workday Marketplace. Workday Prism Analytics helps in business planning and collaborative approach.

Workday Prism Analytics helps customers to bring Workday data and data from any outside source together in order to make better business decisions. Workday DaaS is a cloud service that provides important data to customers which in turn help in decision-making.

The company serves technology, financial services, business services, healthcare and life sciences, manufacturing, and consumer and retail industries, as well as education and government industries.

Workday ended fiscal 2020 with more than 3,200 customers, including 45% of the Fortune 500, precisely 60% of the Fortune 50, as HCM customers and penetration in the Global 2000 clientele of up to 20%.

Workday's peers in HCM market include SAP SE, Oracle Corporation, Automated Data Processing, and Ceridian, among others.

Reasons To Buy:

> Workday is benefiting from increasing demand for human capital management and financial software solutions, diversified product portfolio, expanding customer base and strong liquidity.

- Workday's revenue growth continues to be driven by high demand for its HCM and financial management solutions. The company's cloud-based business model and expanding product portfolio have been the primary growth drivers. Moreover, growing clout of Workday Prism Analytics and Adaptive Insights business planning cloud offerings holds promise. According to Gartner, the global Software-as-a-Service (SaaS) revenues are expected to touch $143.7 billion in 2022 from $80 billion in 2018, witnessing a CAGR of 15.8%. Based on its expanding product portfolio, we believe that Workday is well positioned to gain from this strong growth prospect going forward.

- Workday's HCM suite of applications demonstrates strong growth momentum driven by the transition of organizations to the cloud. In fact, per research firm MarketsandMarkets, the HCM market size is anticipated to hit $26.5 billion by 2024 from $16.7 billion in 2019, seeing a CAGR of 9.7%. Notably, Gartner's May 2019 "Magic Quadrant for Cloud Core Financial Management Suites for Midsize, Large, and Global Enterprises" report put Workday in the "Leaders" quadrant which reflects the company's growing clout in the cloud market. Workday was recognized as a Leader for the third year in a row. The company witnessed rapid deployment of HCM solution in the fiscal fourth quarter. The company added 16 Global 2000 and 11 Fortune 500 companies during the fiscal fourth quarter. We, therefore, see much room for expansion here. Key deal wins include Southwest Airlines, Wells Fargo and Spain-based multinational bank Banco Bilbao Vizcaya Argentaria or BBVA. Moreover, companies like Prudential Company of America, the U.K.-based Natwest Group and Spain-based Banco Santander, went live with Workday's HCM solutions during the fiscal fourth quarter.

- Workday's diversified product portfolio continues to yield a steady flow of customers. We believe that the company's high customer satisfaction rate bodes well for its long-term business model. In the fourth-quarter, the company achieved 97% customer satisfaction rating, which even surpassed its target of 95%. It plans to achieve similar levels every year. Moreover, Workday is gaining traction in the international market, which is evident from 33% year-over-year increase in revenues to $244 million (25% of total fourth-quarter fiscal 2020 revenues).

- Workday has a strong balance sheet with ample liquidity position and no debt obligations. Cash, cash equivalents and marketable securities were reported at $1.94 billion as of Jan 31, 2020. Further, Workday has no long-term debt. The company generated approximately $864.6 million cash from operating activities in fiscal 2020, which increased from $11.2 million in 2013. Moreover, free cash flow was reported at $250 million in fourth-quarter fiscal 2020 compared with $203 million in the prior quarter. The increasing cash flow trend reflects that the company is making investments in the right direction. Moreover, since it carries no long-term debt, the cash is available for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

Reasons To Sell:

- Competition in the HCM and financial management software market is increasing, which could lead to pricing pressure and affect Workday's margins. Oracle's strong momentum in the cloud is a headwind for the company. Moreover, we believe that Workday's dominance could be challenged by new entrants. This could make the company take resort to competitive pricing to maintain and capture further market share. This apart, the ongoing trend to invest more in cloud solutions exposes Workday to the risk of losing existing "on-premise customers", which can adversely impact its top-line performance, especially in the near term.

Intensifying competition from the likes Oracle and SAP and increasing marketing spending are major concerns.

- The company's margin continues to be affected by higher operating expense, primarily due to an increase in headcount and marketing spending. As of Jan 31, 2019, Workday had about 12,200 employees (including 150 from Scout RFP acquisition) compared with about 1,500 employees as of its listing date in October 2012. Notably, non-GAAP sales and marketing expenses in fiscal 2020 increased 25.7% year over year to $929 million. We believe Workday's continuous investments in order to achieve long-term growth will hurt its margins in the short haul.

- We note that Workday currently has a trailing 12-month Price/Book (P/B) ratio of 15.45X. This level compares unfavorably with what the industry witnessed in the last year. Hence, valuation looks slightly stretched from a P/B perspective.

Last Earnings Report

Workday Earnings & Revenues Top Estimates in Q4

Quarter Ending	01/2020
Report Date	**Feb 27, 2020**
Sales Surprise	**1.13%**
EPS Surprise	**25.00%**
Quarterly EPS	**0.50**
Annual EPS (TTM)	**1.90**

Workday reported fourth-quarter fiscal 2020 non-GAAP earnings of 50 cents per share, which beat the Zacks Consensus Estimate by 25% and surged 22% year over year.

Robust growth can primarily be attributed to an improvement of 23.8% in revenues, which amounted to $976.3 million. The top line outpaced the Zacks Consensus Estimate for revenues by 1.1%. The upside was driven by solid growth in subscription and professional services revenues.

Quarter in Detail

Subscription services revenues (86% of total revenues) rallied 24.7% year over year to $839.7 million on the back of expanding customer base. The figure surpassed management's guidance of $828-$830 million.

Workday ended the fiscal fourth quarter with 45% of the Fortune 500, precisely 60% of the Fortune 50, as HCM customers and penetration in the Global 2000 clientele of up to 20%.

Management is optimistic regarding the growing clout of Workday Financial Management, Business Planning Cloud, and Workday Prism Analytics offerings. Further, synergies from Adaptive Insights acquisition and strength in product suite drove revenues in the reported quarter.

Backlogs from Subscription revenues came in at $8.29 billion, up 23% year over year, primarily on the back of growth in net new bookings and deal renewals, and net retention of customers.

During the reported quarter, Workday concluded acquisition of Scout RFP. The buyout is anticipated to aid customers in enhancing source-to-pay solution and optimizing spend.

Professional services revenues (14% of total revenues) grew 18.7% from the year-ago quarter to $136.6 million and surpassed management's guidance of $134 million.

Revenues outside the United States improved 33% to $244 million and contributed 25% to total revenues.

The company witnessed rapid deployment of HCM solution in the fiscal fourth quarter. The company added 16 Global 2000 and 11 Fortune 500 companies in the reported quarter.

Key deal wins include Southwest Airlines, Wells Fargo and Spain-based multinational bank Banco Bilbao Vizcaya Argentaria or BBVA. Moreover, companies like Prudential Company of America, the U.K.-based Natwest Group and Spain-based Banco Santander, went live with Workday's HCM solutions during the fiscal fourth quarter.

Margin Highlights

Non-GAAP expenses pertaining to Product development, Sales and marketing, and General and administrative climbed 23.9% year over year to $621.3 million. As a percentage of revenues, the figure came in at 63.6%, flat on a year-over-year basis.

The company generated non-GAAP operating income of $116.6 million, up 25.8% year over year.

Non-GAAP operating margin expanded 10 bps on a year-over-year basis to 11.9% on higher revenue base.

Balance Sheet & Cash Flow

Cash, cash equivalents and marketable securities were $1.94 billion as of Jan 31, 2020, compared with $2.10 billion as of Oct 31, 2019.

Workday generated operating cash flow of $297.1 million compared with prior-quarter figure of $258 million.

Guidance

For first-quarter fiscal 2021, Workday expects subscription revenues in the range of $873-$875 million (indicating year-over-year growth of 25%). Professional services revenues are projected at $137 million.

The company raised fiscal 2021 guidance for subscription services revenues. It now expects subscription services revenues in the range of $3.755-$3.770 billion (previously $3.73 billion). For fiscal 2021, Scout RFP is anticipated to contribute less than 1% to subscription services revenue growth. Professional services revenues are projected to be around $580 million.

The company anticipates non-GAAP operating margin to be approximately 14.5%, up from the prior guidance of 14%. The guidance takes dilution of 150 bps margin from acquisition of Scout RFP, into account.

Recent News

On Feb 28**,** Workday announced that its HCM solutions have been adopted by Wells Fargo & Company (WFC) in a bid to enhance HR capabilities and improve employee experience.

Valuation

Workday shares are up 0.6% in the year to date period, and down 14.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 21.9% and 0.8%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 17.2% and 16.8%, respectively.

The S&P 500 index is down 9% in the year to date period and up 4% in the past year.

The stock is currently trading at 8.52X forward 12-month sales, which compares to 7.19X for the Zacks sub-industry, 3.62X for the Zacks sector and 3.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 13.82X and as low as 5.92X, with a 5-year median of 9.37X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $174 price target reflects 8.95X forward 12-month sales.

The table below shows summary valuation data for WDAY

Valuation Multiples - WDAY

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	8.52	7.19	3.62	3.30
	5-Year High	13.82	15.62	3.62	3.44
	5-Year Low	5.92	3.07	2.32	2.54
	5-Year Median	9.37	5.28	3.10	3.02
P/B TTM	Current	15.45	7.75	4.76	3.85
	5-Year High	24.35	8.23	5.38	4.55
	5-Year Low	8.39	2.30	3.16	2.84
	5-Year Median	15.47	5.19	4.29	3.64
EV/Sales TTM	Current	10.12	8.04	3.92	2.81
	5-Year High	17.70	11.57	4.43	3.45
	5-Year Low	6.54	3.05	2.58	2.15
	5-Year Median	10.97	6.00	3.57	2.8

As of 05/08/2020

Industry Analysis **Zacks Industry Rank:** Top 12% (31 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Anaplan Inc **(PLAN)**	Outperform	1
Automatic Data Processing Inc **(ADP)**	Neutral	3
Ceridian HCM Holding Inc **(CDAY)**	Neutral	3
salesforcecom inc **(CRM)**	Neutral	3
HubSpot Inc **(HUBS)**	Neutral	3
Microsoft Corporation **(MSFT)**	Neutral	3
Oracle Corporation **(ORCL)**	Neutral	3
SAP SE **(SAP)**	Neutral	3

Industry Comparison Industry: Internet - Software

Industry Peers

	WDAY	X Industry	S&P 500	ADP	ORCL	SAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	3
VGM Score	B	-	-	C	B	B
Market Cap	38.41 B	558.39 M	20.19 B	62.75 B	168.94 B	139.35 B
# of Analysts	35	5.5	14	11	12	4
Dividend Yield	0.00%	0.00%	2.12%	2.49%	1.79%	1.03%
Value Score	D	-	-	C	B	C
Cash/Price	0.06	0.12	0.06	0.03	0.16	0.06
EV/EBITDA	-613.43	0.00	11.95	13.96	11.14	18.24
PEG Ratio	2.89	3.07	2.60	2.12	1.26	2.18
Price/Book (P/B)	15.45	5.85	2.75	11.43	11.35	4.11
Price/Cash Flow (P/CF)	368.14	23.57	10.78	17.09	12.15	20.20
P/E (F1)	78.09	46.23	19.85	25.40	13.87	20.69
Price/Sales (P/S)	10.59	4.40	2.03	4.27	4.25	4.48
Earnings Yield	1.28%	0.46%	4.83%	3.94%	7.21%	4.83%
Debt/Equity	0.51	0.13	0.75	0.25	3.31	0.41
Cash Flow ($/share)	0.45	-0.00	7.01	8.54	4.41	5.78
Growth Score	A	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.87%	17.22%	7.82%	7.48%
Proj. EPS Growth (F1/F0)	13.01%	-1.66%	-9.87%	5.47%	9.73%	-1.35%
Curr. Cash Flow Growth	10.10%	1.73%	5.88%	15.63%	-0.35%	-1.75%
Hist. Cash Flow Growth (3-5 yrs)	23.82%	18.18%	8.55%	14.63%	-1.03%	3.01%
Current Ratio	1.04	1.46	1.24	1.03	2.12	0.99
Debt/Capital	33.62%	19.18%	44.23%	19.90%	76.82%	28.90%
Net Margin	-13.25%	-14.46%	10.68%	17.20%	27.06%	15.27%
Return on Equity	-12.92%	-13.19%	16.36%	47.51%	64.68%	16.19%
Sales/Assets	0.59	0.62	0.55	0.34	0.39	0.46
Proj. Sales Growth (F1/F0)	18.33%	7.92%	-2.26%	2.33%	-0.01%	0.06%
Momentum Score	C	-	-	D	A	B
Daily Price Chg	3.04%	0.73%	2.40%	-1.20%	1.84%	1.33%
1 Week Price Chg	1.17%	0.08%	0.53%	0.85%	-2.30%	0.41%
4 Week Price Chg	13.85%	16.95%	2.68%	2.44%	0.73%	-3.84%
12 Week Price Chg	-14.96%	-6.67%	-19.20%	-18.94%	-3.15%	-15.06%
52 Week Price Chg	-17.37%	-11.32%	-8.44%	-9.07%	-1.25%	-6.13%
20 Day Average Volume	1,901,860	527,432	2,398,409	2,087,065	9,622,194	816,486
(F1) EPS Est 1 week change	0.69%	0.00%	0.00%	0.02%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.20%	0.00%	-6.95%	-5.06%	-0.24%	-9.55%
(F1) EPS Est 12 week change	-1.00%	-9.76%	-15.68%	-6.80%	-0.01%	-8.87%
(Q1) EPS Est Mthly Chg	-0.71%	0.00%	-13.12%	-26.84%	-1.34%	-12.50%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.