

Workday Inc. (WDAY)

\$145.28 (As of 03/26/20)

Price Target (6-12 Months): **\$157.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: F

Growth: A

Momentum: A

Summary

Workday is expected to benefit from solid adoption of subscription and professional software solutions. Adaptive Insights buyout is enabling it to help enterprises in making better business decisions and enhance operational expertise 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 remains 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 primarily 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 weigh on the bottom line. Shares have underperformed the industry in the past year.

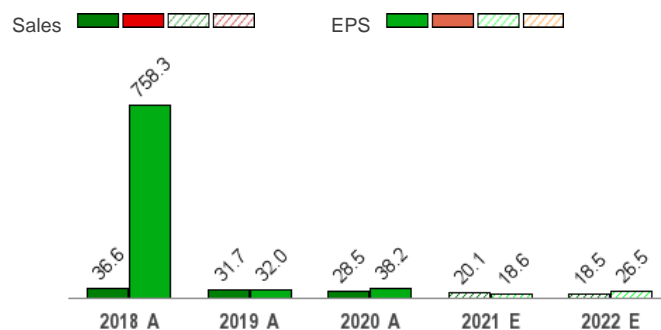
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$226.83 - \$107.75
20 Day Average Volume (sh)	3,604,716
Market Cap	\$33.7 B
YTD Price Change	-11.7%
Beta	1.42
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 32% (80 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	25.0%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	5.2%
Expected Report Date	05/26/2020
Earnings ESP	0.1%
P/E TTM	76.5
P/E F1	65.2
PEG F1	2.4
P/S TTM	9.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,204 E	1,271 E	1,327 E	1,374 E	5,160 E
2021	1,011 E	1,069 E	1,116 E	1,161 E	4,355 E
2020	825 A	888 A	938 A	976 A	3,627 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.66 E	\$0.67 E	\$0.72 E	\$0.74 E	\$2.82 E
2021	\$0.53 E	\$0.52 E	\$0.57 E	\$0.58 E	\$2.23 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 03/26/2020. The reports text is as of 03/27/2020.

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.

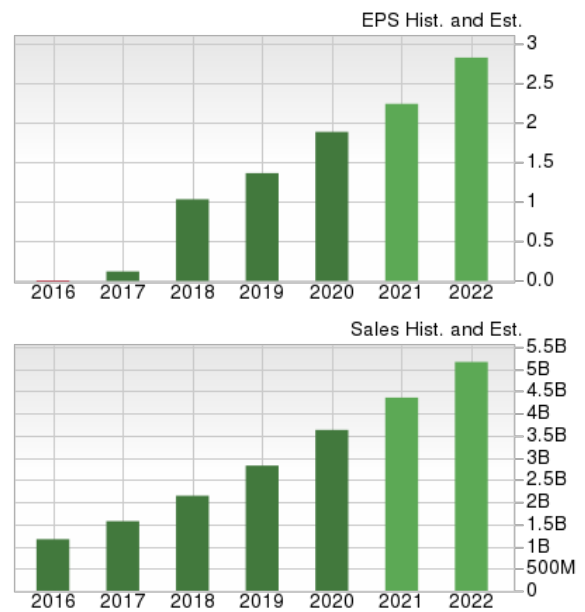
The company offers Adaptive Insights Business Planning Cloud solutions, Workday Prism Analytics, Workday Data-as-a-Service (DaaS) and Workday Marketplace. Workday Prism Analytics helps in business planning and collaborative approach.

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'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 is a cash-rich company with a strong balance sheet. The company generated approximately \$864.6 million cash from operating activities in fiscal 2020, which increased from \$11.2 million in 2013. Cash, cash equivalents and marketable securities were \$1.94 billion as of Jan 31, 2020. Further, Workday has no long-term debt. The strong cash balance can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders.

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

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.
- ▼ 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 13.56X. This level compares unfavorably with what the industry witnessed in the last year. Hence, valuation looks slightly stretched from a P/B perspective.

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

Last Earnings Report

Workday Earnings & Revenues Top Estimates in Q4

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 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

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, 2020**, 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.

On **Dec 9, 2019**, Workday concluded acquisition of Scout RFP. The buyout is anticipated to aid customers in enhancing source-to-pay solution and optimizing spend.

On **Nov 4, 2019**, Workday announced acquisition of Scout RFP for approximately \$540 million in cash. The company expects the buyout to close in the fourth quarter of fiscal 2020.

Valuation

Workday shares are down 14.5% in the past six-month period, and 23.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and in the Zacks Computer & Technology sector are down 3.8% and 2.4% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is down 11.6% while the sector is up 0.5%.

The S&P 500 index is down 11.5% in the past six-month period and 7.5% in the past year.

The stock is currently trading at 7.52X forward 12-month sales, which compares to 5.44X for the Zacks sub-industry, 3.08X for the Zacks sector and 2.85X 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 9.43X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$157 price target reflects 8.13X 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	7.52	5.44	3.08	2.85
	5-Year High	13.82	15.61	3.58	3.43
	5-Year Low	5.92	3.06	2.3	2.54
	5-Year Median	9.43	5.35	3.07	3
P/B TTM	Current	13.56	5.74	4.55	3.54
	5-Year High	24.35	8.23	5.70	4.56
	5-Year Low	8.39	2.29	3.13	2.85
	5-Year Median	15.47	5.18	4.27	3.63
EV/Sales TTM	Current	8.82	6.03	3.60	2.65
	5-Year High	19.17	11.55	4.48	3.46
	5-Year Low	6.54	3.04	2.57	2.16
	5-Year Median	11.03	6.04	3.54	2.83

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 32% (80 out of 253)



Top Peers

Microsoft Corporation (MSFT)	Outperform
SAP SE (SAP)	Outperform
Automatic Data Processing, Inc. (ADP)	Neutral
Ceridian HCM Holding Inc. (CDAY)	Neutral
salesforce.com, inc. (CRM)	Neutral
HubSpot, Inc. (HUBS)	Neutral
Oracle Corporation (ORCL)	Neutral
Anaplan, Inc. (PLAN)	Neutral

Industry Comparison Industry: Internet - Software				Industry Peers		
	WDAY Neutral	X Industry	S&P 500	ADP Neutral	ORCL Neutral	SAP Outperform
VGM Score	B	-	-	D	C	F
Market Cap	33.70 B	396.57 M	18.50 B	59.18 B	159.19 B	137.56 B
# of Analysts	36	5	13	11	13	4
Dividend Yield	0.00%	0.00%	2.35%	2.66%	1.90%	1.04%
Value Score	F	-	-	C	C	D
Cash/Price	0.07	0.18	0.07	0.03	0.18	0.06
EV/EBITDA	-536.96	-0.52	11.16	13.21	10.58	18.44
PEG Ratio	2.28	2.37	1.74	1.88	1.34	1.99
Price/Book (P/B)	13.56	4.28	2.44	11.03	10.70	3.98
Price/Cash Flow (P/CF)	323.06	20.59	9.87	16.05	11.45	19.94
P/E (F1)	61.62	35.13	15.29	22.57	13.02	18.95
Price/Sales (P/S)	9.29	3.53	1.93	4.08	4.00	4.46
Earnings Yield	1.53%	0.84%	6.47%	4.43%	7.69%	5.28%
Debt/Equity	0.51	0.11	0.70	0.25	3.31	0.42
Cash Flow (\$/share)	0.45	-0.01	7.01	8.54	4.41	5.78
Growth Score	A	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	NA%	16.66%	10.85%	16.45%	7.82%	6.28%
Proj. EPS Growth (F1/F0)	18.82%	4.64%	2.89%	11.44%	10.12%	6.34%
Curr. Cash Flow Growth	10.10%	6.87%	5.93%	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	1.23	1.02	2.12	1.05
Debt/Capital	33.62%	16.90%	42.57%	20.26%	76.82%	29.54%
Net Margin	-13.25%	-16.16%	11.64%	16.97%	27.06%	12.07%
Return on Equity	-12.92%	-13.19%	16.74%	46.96%	64.68%	15.42%
Sales/Assets	0.59	0.61	0.54	0.33	0.39	0.46
Proj. Sales Growth (F1/F0)	20.07%	13.89%	2.37%	5.11%	0.35%	5.15%
Momentum Score	A	-	-	C	B	C
Daily Price Chg	7.04%	3.64%	6.21%	11.80%	9.88%	8.32%
1 Week Price Chg	-9.26%	-7.65%	-16.96%	-22.45%	-4.76%	-12.97%
4 Week Price Chg	-15.14%	-14.13%	-15.70%	-12.99%	-0.59%	-7.66%
12 Week Price Chg	-13.25%	-18.19%	-23.67%	-19.53%	-6.43%	-15.76%
52 Week Price Chg	-23.62%	-23.24%	-13.99%	-13.46%	-5.09%	0.91%
20 Day Average Volume	3,604,716	426,380	4,286,768	4,125,775	23,400,834	1,434,145
(F1) EPS Est 1 week change	3.14%	0.00%	-0.15%	-0.43%	-0.34%	0.00%
(F1) EPS Est 4 week change	5.21%	-0.76%	-2.28%	-1.52%	0.35%	0.00%
(F1) EPS Est 12 week change	5.21%	-9.87%	-3.22%	-1.39%	0.35%	6.43%
(Q1) EPS Est Mthly Chg	23.16%	0.00%	-1.60%	-0.36%	-0.41%	0.00%

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	F
Growth Score	A
Momentum Score	A
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.

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