

WEEKLY IDEA

WORKDAY INC-CLASS A

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BUY WORKDAY INC-CLASS A (WDAY US EQUITY) @186.59 WITH
UPSIDE TARGET OF 14.70% @214.11 – COMPOUNDING VALUE

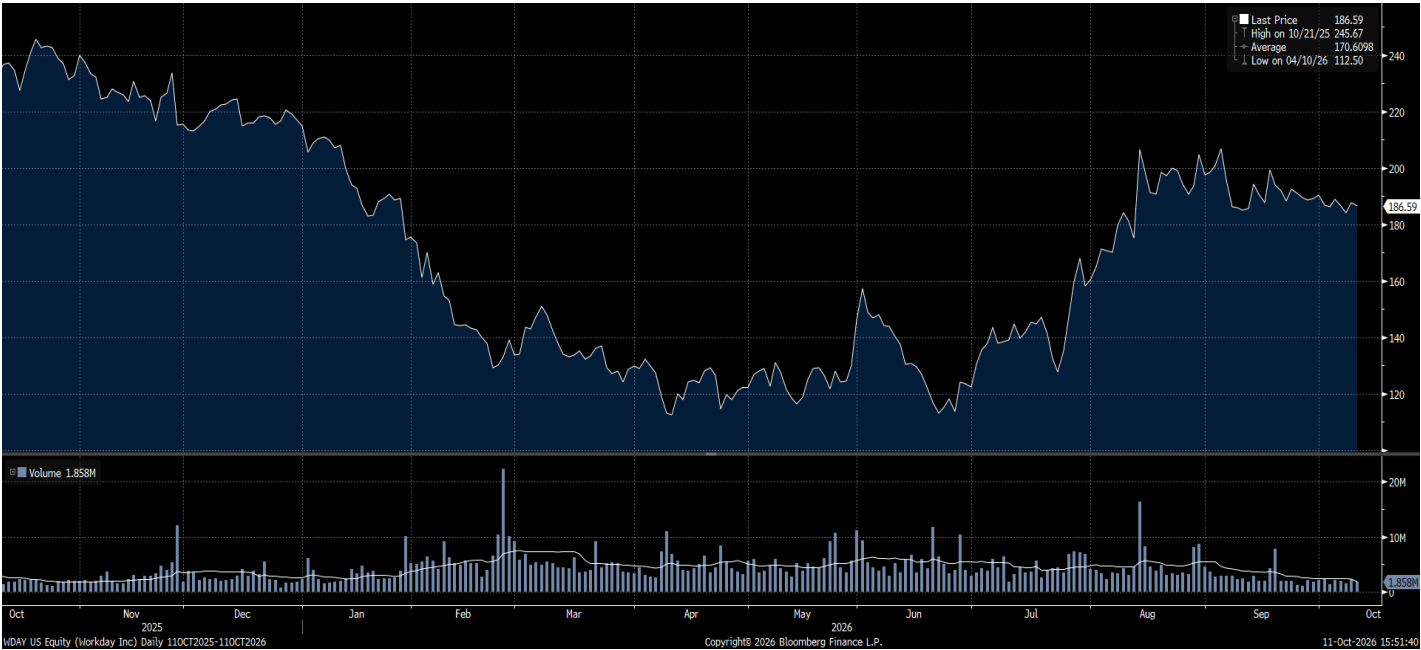
Workday, Inc. is a global enterprise software company providing cloud applications for finance, human resources, spend management, and planning. Its platform helps organizations manage financial processes, employees, procurement, and business planning, alongside specialized solutions for healthcare, education, and custom application development through Workday Extend. Founded in 2005 and headquartered in Pleasanton, California, Workday serves industries including financial services, healthcare, manufacturing, technology, retail, government, and education.

We believe Workday offers an attractive long-term opportunity as accelerating AI adoption and improving profitability support its growth outlook, despite concerns around moderating subscription growth and AI disruption. The company is increasingly integrating AI across its platform, with Agentic AI ARR reaching approximately \$600 million, up over 200% YoY, while more than 5,500 customers are using its organic agents. Q2 subscription revenue increased 13.9% and 12-month backlog grew 14.2%, while expanding margins, early-stage Flex Credit monetization, and continued share repurchases provide further support for growth.

Specification

Ticker	WDAY
Exchange	NASDAQ
Sector	Application Software
Market Cap	\$44.97B
Target upside	14.70%
Free Float	50.30%
ISIN	US98138H1014

WDAY Price per share, USD - 1Y Chart



Financial Performance – Strong Q2 Growth

Workday delivered a strong Q2, with revenue increasing 12.8% YoY to ~\$2.65 billion, while subscription revenue grew 13.9% to \$2.47 billion, supported by continued customer expansion. Gross profit increased 12.4% to ~\$2.00 billion, while EBITDA rose 20.8% to \$448 million, reflecting improving profitability. Net income increased 168.5% to \$631 million, with EPS rising 195.4% to \$2.57, although results benefited from a \$374 million non-recurring tax benefit. Non-GAAP operating margin expanded 212 bps to 31.1%, while operating cash flow declined 15.6% to \$520 million and free cash flow fell 21.8% to \$460 million, partly reflecting timing effects.

Key Financial Highlights – Q2 FY 2027

In Millions, USD	2026 Q2	2027 Q2	YoY
Revenue	2,348	2,649	12.82%
Gross Profit	1,776	1,997	12.44%
EBITDA	371	448	20.75%
Net Income	235	631	168.51%
EPS	0.87	2.57	195.40%

Key Financial Highlights – Last 4 Financial Years

In Millions, USD	2023	2024	2025	2026
Revenue	6,215	7,259	8,446	9,552
Gross Profit	4,500	5,488	6,377	7,231
EBITDA	165	574	969	1,711
Net Income	-220	1,396	621	1,005
EPS	-0.87	5.27	2.31	3.77
Cash From Operations	1,657	2,149	2,461	2,939
Capex	-359	-228	-269	-162
Free Cash Flow	1,297	1,921	2,192	2,777

Key Growth Drivers

Agentic AI Is Becoming a Meaningful Growth Driver

Workday is seeing strong adoption of its AI products, with Agentic AI ARR reaching approximately \$600 million, up more than 200% YoY, while new ACV from Agentic AI exceeded \$100 million and represented more than 25% of total new ACV in Q2. More than 5,500 customers are now using at least one Workday organic agent, up over 35% from the prior quarter. With AI adoption expanding while monetization remains relatively early, Agentic AI provides an important additional growth channel for Workday.

Subscription Revenue and Backlog Provide Strong Visibility

Subscription revenue increased 13.9% YoY to \$2.47 billion in Q2, while 12-month subscription revenue backlog grew 14.2% to \$9.03 billion. Workday also maintains a 97% gross revenue retention rate, highlighting the recurring nature and stability of its customer base. Management expects FY27 subscription revenue of approximately \$9.95 billion, up 13%, providing continued visibility into future revenue growth.

Margin Expansion Supports Profitable Growth

Workday continues to improve profitability alongside double-digit revenue growth. Q2 non-GAAP operating margin expanded 212 bps YoY to 31.1%, compared with 29.0% a year earlier. The company expects a 31.0% non-GAAP operating margin for FY27, representing a significant improvement from 20.1% in FY23, while FY27 operating cash flow and free cash flow are expected to grow 17% and 15%, respectively. This demonstrates Workday's ability to scale its platform while improving operating efficiency.

Enterprise Scale and AI Ecosystem Expand the Growth Runway

Workday serves 11,500+ customers across more than 180 countries, including over 65% of the Fortune 500, with more than 80 million users under contract. Its position across HR, finance, and IT provides a large enterprise data and workflow base for deploying AI products. Workday is also expanding its ecosystem through integrations with AWS and Google Cloud, while new capabilities such as Developer Agent, Agent Passport, and Adaptive Decision Intelligence broaden the platform and support further AI adoption across existing customers.

Valuation – Attractive Multiples Support the Opportunity

Workday trades at attractive valuation multiples relative to the broader sector, with the stock trading at 18.29x P/E (29.11% below sector median), 16.85x Forward P/E (27.49% below), 0.85x PEG (32.20% below), 4.25x Forward EV/Sales, and 12.67x Forward EV/EBITDA (12.58% below). These multiples come alongside Q2 revenue growth of 12.8%, EBITDA growth of 20.8%, and Agentic AI ARR growth of more than 200% YoY. Given Workday's recurring subscription base, expanding margins, and accelerating AI adoption, we believe the current valuation presents an attractive entry point.

Key Multiples

Metric	WDAY
P/E	18.29 x
Forward P/E	16.85 x
PEG	0.85 x
P/B	6.96 x
FWD EV/Sales	4.25 x
FWD EV/EBITDA	12.67 x

Historical Ratios – Last 4 Years

Ratio	2022	2023	2024	2025	Current - Q2 26
ROE	-7.25%	20.21%	6.15%	8.23%	16.01%
ROA	-3.06%	9.23%	3.06%	3.84%	7.40%
ROC	-3.70%	14.57%	5.22%	6.43%	11.76%
Gross Margin	72.41%	75.60%	75.50%	75.70%	75.39%
EBITDA Margin	2.67%	7.91%	10.23%	12.87%	16.84%
Operating Margin	-4.79%	2.52%	4.91%	7.55%	11.82%
Net Income Margin	-5.90%	19.02%	6.23%	7.26%	23.86%
CFO, USD Millions	1,657	2,149	2,461	2,939	520
FCF, USD Millions	1,297	1,921	2,192	2,777	460
Total Debt, USD Millions	3,233	3,295	3,361	3,809	3,764
Total Debt/T12M EBITDA	19.51 x	5.74 x	3.89 x	3.10 x	2.31 x
Net Debt/EBITDA	-17.42 x	-7.87 x	-5.39 x	-1.33 x	0.22 x
EBITDA to Interest Expense	1.62 x	5.04 x	7.58 x	10.78 x	15.93 x

WDAY vs Peers

Ticker	FWD P/E	PEG	FWD EV/SALES	FWD EV/EBITDA
WDAY	16.85	0.85	4.25	12.67
CRM	13.68	0.77	4.74	11.63
SAP	26.18	2.46	5.46	17.21
ADP	22.09	2.57	4.67	15.59

WDAY – Current vs 2Y Average Historical Blended Forward P/E ~32% lower



Key Risks

Workday's primary risk remains slowing subscription growth, with management guiding FY27 subscription revenue growth of 13%, while Q3 growth is expected to moderate to 12%. AI also presents execution risk, as strong adoption must translate into meaningful monetization and incremental revenue growth. Additional risks include intense competition across enterprise software and AI, high stock-based compensation, execution risk around recent workforce restructuring, and pressure on cash generation, with Q2 operating cash flow declining 15.6% and free cash flow falling 21.8% YoY. Failure to convert AI adoption into sustained revenue growth could limit Workday's longer-term growth despite its strong recurring revenue base and improving margins.

Target price of \$214.11 implies ~14.70% upside from current levels.

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