

Workday

Sustainable Growth Hypothesis:

Workday is a disruptor in the market for human capital management and enterprise resource planning software. It is a company driven by a strong sense of purpose, helping its corporate customers reduce bias in hiring and improve employee retention. It role models many of these behaviours itself.

1. Growth: How likely is the company to deliver 10% p.a. profit growth over the next decade?

- Growth has been 25% p.a. for past decade and the company is now working with 50% of Fortune 500 firms, however this is primarily with human capital management software. Scope to sell finance software to these same clients, as well as winning new ones.

2. Resilience: How much control does the company have over its own success?

- A recurring revenue business that is widely diversified by customer type and once its software is installed it is very disruptive to rip out.

3. Valuation: What is our insight?

- We think sales can more than double on a ten-year view, and with an operating margin close to 20% eminently achievable. This implies a valuation c.50% above the current levels. Valuation levels are roughly in line with peers that are growing less quickly.

4. Products: To what extent will the core products & services create value for society over the next decade?

- Workday provides tools that make diversity and inclusion easier to manage, promoting equal opportunities and improving the workplace experience with efficiency gains.

5. Practices: Does the company show leadership in its business practices?

- The company shows clear leadership when it comes to employee treatment and environmental issues within its industry. It uses its own tech to enhance the employee experience, such as its 'Peakon employee Voice' tool, which uses machine learning to collect and analyse confidential employee feedback that managers can use to create change.

6. Ambition: What is the company's purpose, and how ambitious are they?

- The rate at which Workday has encouraged businesses with data security concerns to swap out essential systems in such a short period of time is a testament to its ambition. The new products it is offering, such as the machine learning focused feedback system, continue to solve complex problems for organisations that ultimately make working lives better.

7. Trust: Should we trust the company with our clients' capital?

- Founder Aneel Bhushi recently took a step back, taking the executive chair position and hiring Carl Eschenbach as CEO. Eschenbach came from VMWare in 2016 after various sales roles. Most recently he was at Sequoia Capital, an investment firm we respect for its long-term approach. Eschenbach seems appropriate as the company focuses on executing on the opportunity that customer switches from on-premise to cloud software presents.

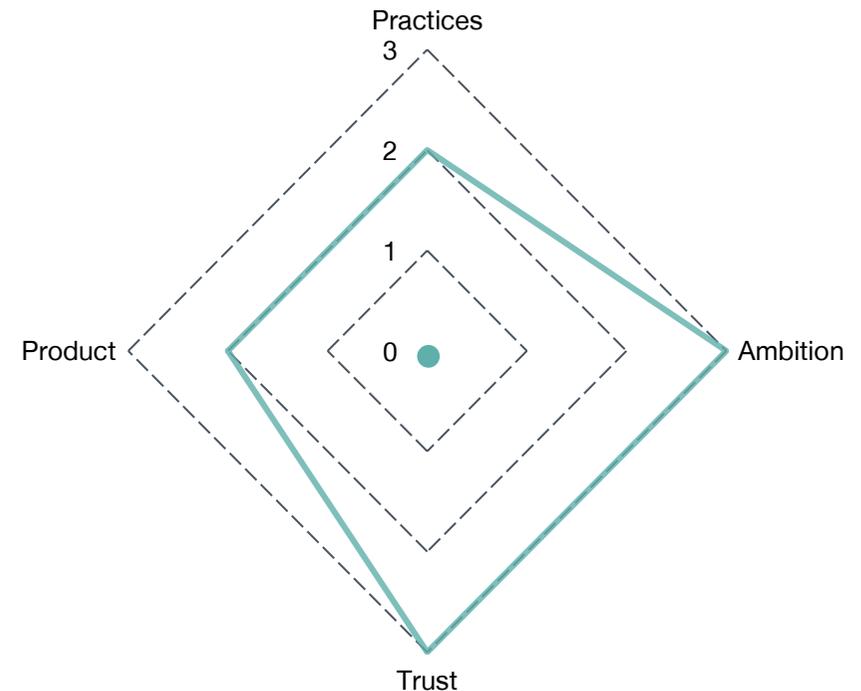
8. Engagement: No company is perfect, what should be our engagement priority?

- The balance between cash and stock-based compensation. Could Workday follow the Spotify model and let employees choose their own splits as they seek to move to more traditional pay practices?

9. Milestones: What developments should we pay most attention to? Where could we be wrong?

- International success, and traction with their financials software in the industries they target.

Compass Scores



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