ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition and results of operations as of, and for, the periods presented and should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto included elsewhere in this report and with our audited consolidated financial statements and notes thereto in our 2023 Form 10-K. This discussion and analysis contains forward-looking statements, including statements regarding industry outlook, our expectations for the future of our business, and our liquidity and capital resources as well as other non-historical statements. These statements are based on current expectations and are subject to numerous risks and uncertainties, including but not limited to the risks and uncertainties described in Part II, Item 1A, "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements." Our actual results may differ materially from those contained in or implied by these forward-looking statements. Any reference to a "Note" in this discussion relates to the accompanying notes to the unaudited condensed consolidated financial statements included elsewhere in this report unless otherwise indicated.

Overview

Dayforce, Inc. is a global human capital management ("HCM") software company. We categorize our solutions into three categories: Cloud recurring, other recurring, and professional services and other. Cloud recurring revenue is generated from HCM solutions that are primarily delivered via two offerings: Dayforce, our flagship Cloud HCM platform, and Powerpay, a Cloud human resources ("HR") and payroll solution for the Canadian small business market. Revenue from our Cloud recurring and other recurring solutions includes investment income generated from holding customer funds, also referred to as float revenue or float.

Dayforce provides HR, payroll and tax, benefits, workforce management, and talent management functionality. Our platform is used by organizations of all sizes, from small businesses to global organizations, regardless of industry, to optimize management of the entire employee lifecycle, including attracting, hiring, engaging, paying, and developing their people. Dayforce was built as a single application from the ground up that combines a modern, consumer-grade user experience with proprietary application architecture, including a single employee record and a rules engine spanning all areas of HCM. Dayforce provides continuous real-time calculations across all modules to enable, for example, payroll administrators access to data through the entire pay period, and managers access to real-time data to optimize work schedules. Our platform is designed to drive efficiencies for our customers and their employees by improving HCM decision-making processes, streamlining workflows, revealing strategic organizational insights, and simplifying legislative compliance. The platform is designed to ease administrative work for both employees and managers, creating opportunities for companies to increase employee engagement. We sell Dayforce through our direct sales force on a subscription per-employee, per-month ("PEPM") basis. Our subscriptions are typically structured with an initial fixed term of between three and five years, with evergreen renewal thereafter.

Our Business Model

Our business model focuses on supporting the growth of Dayforce and maximizing the lifetime value of our Dayforce customer relationships. Due to our subscription model, where we recognize subscription revenues ratably over the term of the subscription period, and our high customer retention rates, we have a high level of visibility into our future revenues. The profitability of a customer depends, in large part, on how long they have been a customer. We estimate that it takes approximately two years before we are able to recover our implementation, customer acquisition, and other direct costs on a new Dayforce customer contract.

Over the lifetime of the customer relationship, we have the opportunity to realize additional PEPM revenue, both as the customer grows or rolls out the Dayforce solution to additional employees, and also by selling additional functionality to existing customers that do not currently utilize our full HCM suite. We also incur costs to manage the account, to retain customers, and to sell additional functionality. These costs, however, are significantly less than the costs initially incurred to acquire and to take customers live.

How We Assess Our Performance

In assessing our performance, we consider a variety of annual and quarterly performance indicators in addition to revenue and net income. Set forth below are descriptions of our quarterly key performance measures. Additional information on our annual performance measures is described in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "How We Assess Our Performance" contained in our 2023 Form 10-K. Please refer to the "Non-GAAP Financial Measures" and "Results of Operations" sections below for further description and definitions of certain performance indicators which are considered non-GAAP financial measures.

Live Dayforce Customers

We use the number of live Dayforce customers as an indicator of future revenue and the overall performance of the business and to assess the performance of our implementation services.

Dayforce Recurring Revenue Per Customer

We use Dayforce recurring revenue per customer, a non-GAAP financial measure, as an indicator of the average size of our Dayforce customer, which we believe is also useful to management and investors. We calculate and monitor Dayforce recurring revenue per customer on a quarterly basis. Our Dayforce recurring revenue per customer may fluctuate as a result of a number of factors, including the number of live Dayforce customers and the number of customers purchasing our full HCM suite.

Constant Currency Revenue

We present percentage change in revenue on a constant currency basis to assess how our underlying business performed, excluding the effect of foreign currency rate fluctuations. We believe this non-GAAP financial measure is useful to management and investors. The average U.S. dollar to Canadian dollar foreign exchange rate was $1.37 and $1.36 for the three and six months ended June 30, 2024, respectively, compared to $1.34 and $1.35 for the three and six months ended June 30, 2023, respectively.

Adjusted Operating Profit, Adjusted EBITDA, Adjusted EBITDA Margin, and Adjusted Cloud Recurring Gross Margin

We believe that Adjusted operating profit, Adjusted EBITDA, Adjusted EBITDA margin, and Adjusted Cloud recurring gross margin, non-GAAP financial measures, are useful to management and investors as supplemental measures to evaluate our overall operating performance. Adjusted EBITDA is a component of our management incentive plan and Adjusted operating profit and Adjusted Cloud recurring gross margin are components of certain performance based equity awards for our named executive officers, and these metrics are used by management to assess performance and to compare our operating performance to our competitors. Management believes that these non-GAAP financial measures are helpful in highlighting management performance trends because these metrics exclude the results of decisions that are outside the normal course of our business operations.

Results of Operations

Three Months Ended June 30, 2024 Compared With Three Months Ended June 30, 2023

	Three Months Ended June 30,		Increase/(Decrease)		Percentage of Revenue	
	2024	2023	Amount	%	2024	2023
	(In millions)					
Revenue:						
Recurring						
Cloud	$ 346.2	$ 292.3	$ 53.9	18.4%	81.8%	79.9%
Other	18.8	22.6	(3.8)	(16.8)%	4.4%	6.2%
Total recurring	365.0	314.9	50.1	15.9%	86.2%	86.1%
Professional services and other	58.3	51.0	7.3	14.3%	13.8%	13.9%
Total revenue	423.3	365.9	57.4	15.7%	100.0%	100.0%
Cost of revenue:						
Recurring						
Cloud	77.1	68.0	9.1	13.4%	18.2%	18.6%
Other	12.2	10.8	1.4	13.0%	2.9%	3.0%
Total recurring	89.3	78.8	10.5	13.3%	21.1%	21.5%
Professional services and other	69.6	67.0	2.6	3.9%	16.4%	18.3%
Product development and management	58.3	49.2	9.1	18.5%	13.8%	13.4%
Depreciation and amortization	19.3	15.0	4.3	28.7%	4.6%	4.1%
Total cost of revenue	236.5	210.0	26.5	12.6%	55.9%	57.4%
Gross profit	186.8	155.9	30.9	19.8%	44.1%	42.6%
Selling and marketing	83.1	61.5	21.6	35.1%	19.6%	16.8%
General and administrative	89.6	65.0	24.6	37.8%	21.2%	17.8%
Operating profit	14.1	29.4	(15.3)	(52.0)%	3.3%	8.0%
Interest expense, net	11.1	9.1	2.0	22.0%	2.6%	2.5%
Other expense, net	3.0	0.7	2.3	328.6%	0.7%	0.2%
Income before income taxes	—	19.6	(19.6)	(100.0)%	—	5.4%
Income tax expense	1.8	16.5	(14.7)	(89.1)%	0.4%	4.5%
Net (loss) income	$ (1.8)	$ 3.1	$ (4.9)	(158.1)%	(0.4)%	0.8%

Revenue. The following table sets forth certain information regarding our revenues for the periods presented:

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Percentage change in revenue 2024 vs. 2023	Impact of changes in foreign currency (a)	Percentage change in revenue on a constant currency basis (a) 2024 vs. 2023
	(In millions)				
Revenue:					
Recurring revenue:					
Dayforce recurring, excluding float	$ 277.7	$ 231.3	20.1%	(0.4)%	20.5%
Dayforce float	43.9	36.9	19.0%	(0.5)%	19.5%
Total Dayforce recurring	321.6	268.2	19.9%	(0.5)%	20.4%
Powerpay recurring, excluding float	19.9	19.7	1.0%	(2.0)%	3.0%
Powerpay float	4.7	4.4	6.8%	(—)%	6.8%
Total Powerpay recurring	24.6	24.1	2.1%	(1.6)%	3.7%
Total Cloud recurring	346.2	292.3	18.4%	(0.6)%	19.0%
Other recurring (b)	18.8	22.6	(16.8)%	(1.8)%	(15.0)%
Total recurring revenue	365.0	314.9	15.9%	(0.7)%	16.6%
Professional services and other (c)	58.3	51.0	14.3%	(0.2)%	14.5%
Total revenue	$ 423.3	$ 365.9	15.7%	(0.6)%	16.3%

(a) We have calculated percentage change in revenue on a constant currency basis by applying the average foreign exchange rate in effect during the comparable prior period. Please refer to the "Non-GAAP Financial Measures" section for discussion of percentage change in revenue on a constant currency basis.

(b) Float attributable to Other recurring was $0.3 million and $0.5 million for the three months ended June 30, 2024, and 2023, respectively.

(c) For the three months ended June 30, 2024, Professional services and other consisted of $56.4 million, $1.8 million, and $0.1 million associated with Dayforce, Other, and Powerpay, respectively. For the three months ended June 30, 2023, Professional services and other consisted of $46.9 million, $4.0 million, and $0.1 million associated with Dayforce, Other, and Powerpay respectively.

Total revenue increased $57.4 million, or 15.7%, to $423.3 million for the three months ended June 30, 2024, compared to $365.9 million for the three months ended June 30, 2023. This increase was primarily attributable to the increase in live Dayforce customers, the increase in Dayforce recurring revenue per customer, and the increase in float revenue. The number of live Dayforce customers increased 6.1% to 6,657 at June 30, 2024 from 6,272 at June 30, 2023. Additionally, for the trailing twelve months ended June 30, 2024, Dayforce recurring revenue per customer grew to $154,998 compared to $131,693 for the comparable period in 2023. Please refer to the "How We Assess Performance" and "Non-GAAP Financial Measures" section for discussion of and the definition of Dayforce recurring revenue per customer.

The increase in Dayforce recurring revenue per customer is driven by the growing average size of our customers, as we continue to expand within the enterprise segment, as well as more customers purchasing our full HCM suite. The increase in float revenue is driven by an increase in average yield of 45 basis points compared to the three months ended June 30, 2023, in addition to a 3.7% increase in average float balance for our customer funds for the three months ended June 30, 2024, which increased to $4.74 billion, compared to $4.57 billion for the three months ended June 30, 2023.

Cost of revenue. Total cost of revenue for the three months ended June 30, 2024, was $236.5 million, an increase of $26.5 million, or 12.6%, compared to the three months ended June 30, 2023.

Recurring cost of revenue for the three months ended June 30, 2024, increased $10.5 million, or 13.3%, compared with the three months ended June 30, 2023, primarily due to additional labor-related costs incurred and increased costs of hosting our applications to support the growing Dayforce customer base globally.

Professional services and other cost of revenue increased $2.6 million, or 3.9%, for the three months ended June 30, 2024, compared to the three months ended June 30, 2023, primarily due to increased labor-related costs incurred to take new customers live.

Product development and management expense increased $9.1 million, or 18.5%, for the three months ended June 30, 2024, compared to the three months ended June 30, 2023. The increase primarily reflects additional personnel costs and increased costs of hosting our development applications. For the three months ended June 30, 2024, and 2023, our investment in software development was $55.5 million and $48.3 million, respectively, consisting of $32.3 million and $23.7 million of research and development expense, and $23.2 million and $24.6 million in capitalized software development costs, respectively.

Depreciation and amortization expense associated with cost of revenue increased $4.3 million, or 28.7%, for the three months ended June 30, 2024, compared to the three months ended June 30, 2023, as we continue to capitalize and subsequently amortize Dayforce related and other development costs.

Gross profit. The following table presents total gross margin and solution gross margins for the periods presented:

	Three Months Ended June 30,	
	2024	2023
Total gross margin	44.1%	42.6%
Gross margin by solution:		
Cloud recurring	77.7%	76.7%
Other recurring	35.1%	52.2%
Professional services and other	(19.4)%	(31.4)%

Total gross margin is defined as total gross profit as a percentage of total revenue, which is inclusive of product development and management costs, as well as depreciation and amortization associated with cost of revenue. Gross margin for each solution in the table above is defined as total revenue less cost of revenue for the applicable solution as a percentage of total revenue for that related solution, which is exclusive of any product development and management or depreciation and amortization cost allocations.

Total gross margin for the three months ended June 30, 2024 increased 150 basis points compared to the three months ended June 30, 2023 and gross profit increased by $30.9 million, or 19.8% for the three months ended June 30, 2024 compared to the three months ended June 30, 2023, primarily due to the $57.4 million or 15.7% increase in revenue, including float revenue, which outpaced the increase in cost of revenue.

Cloud recurring gross margin was 77.7% for the three months ended June 30, 2024, compared to 76.7% for the three months ended June 30, 2023. The increase in Cloud recurring gross margin was primarily due to the increase in float revenue and due to the growth of the proportion of Dayforce customers live for more than two years, which increased from 82% as of June 30, 2023 to 86% as of June 30, 2024.

Professional services and other gross margin improved to (19.4)% for the three months ended June 30, 2024, compared to (31.4)% for the three months ended June 30, 2023.

Selling and marketing expense. Selling and marketing expense increased $21.6 million, or 35.1%, for the three months ended June 30, 2024, compared to the three months ended June 30, 2023. The increase in selling and marketing expense is primarily driven by higher personnel-related costs, as well as higher advertising expenses related to the transition of the Company's name and branding to Dayforce, Inc.

General and administrative expense. General and administrative expense increased $24.6 million, or 37.8%, for the three months ended June 30, 2024, compared to the three months ended June 30, 2023. The increase in general and administrative expense is primarily driven by increases in amortization of intangible assets and employee-related costs. Amortization of the Ceridian trade name contributed $20.9 million of the increase in expense for the three months ended June 30, 2024.

Operating profit. For the three months ended June 30, 2024, operating profit was $14.1 million, compared to $29.4 million for the three months ended June 30, 2023. Operating profit decreased primarily due to the increase in amortization expense and selling and marketing expenses, partially offset by gross margin expansion, driven by an increase in revenue, including float revenue.

Interest expense, net. Interest expense, net was $11.1 million and $9.1 million for the three months ended June 30, 2024, and 2023, respectively. The increase was primarily due to a decrease in interest income.

Other expense, net. For the three months ended June 30, 2024, and 2023, we incurred other expense, net of $3.0 million and $0.7 million, respectively. Other expense, net was primarily comprised of foreign currency translation losses (gains) and net periodic pension expense.

Income tax expense. For the three months ended June 30, 2024, and 2023, we recorded income tax expense of $1.8 million and $16.5 million, respectively. The decrease in income tax expense was primarily due to $4.1 million attributable to current operations, $3.8 million attributable to tax credits, $3.7 million attributable to share-based compensation, and $2.7 million attributable to the change in valuation allowance.

Net (loss) income. We realized net loss of $1.8 million for the three months ended June 30, 2024, compared to net income of $3.1 million for the three months ended June 30, 2023. The change was driven by a decrease in operating profit, partially offset by lower income tax expense.

Six Months Ended June 30, 2024 Compared With Six Months Ended June 30, 2023

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Increase/(Decrease) Amount	Increase/(Decrease) %	Percentage of Revenue 2024	Percentage of Revenue 2023
	(In millions)					
Revenue:						
Recurring						
Cloud	$ 709.4	$ 587.6	$ 121.8	20.7%	83.0%	79.8%
Other	38.3	45.2	(6.9)	(15.3)%	4.5%	6.1%
Total recurring	747.7	632.8	114.9	18.2%	87.5%	85.9%
Professional services and other	107.1	103.7	3.4	3.3%	12.5%	14.1%
Total revenue	854.8	736.5	118.3	16.1%	100.0%	100.0%
Cost of revenue:						
Recurring						
Cloud	153.4	134.9	18.5	13.7%	17.9%	18.3%
Other	24.3	24.0	0.3	1.3%	2.8%	3.3%
Total recurring	177.7	158.9	18.8	11.8%	20.8%	21.6%
Professional services and other	135.7	130.9	4.8	3.7%	15.9%	17.8%
Product development and management	111.4	100.2	11.2	11.2%	13.0%	13.6%
Depreciation and amortization	37.8	30.3	7.5	24.8%	4.4%	4.1%
Total cost of revenue	462.6	420.3	42.3	10.1%	54.1%	57.1%
Gross profit	392.2	316.2	76.0	24.0%	45.9%	42.9%
Selling and marketing	162.1	115.7	46.4	40.1%	19.0%	15.7%
General and administrative	175.3	132.7	42.6	32.1%	20.5%	18.0%
Operating profit	54.8	67.8	(13.0)	(19.2)%	6.4%	9.2%
Interest expense, net	24.4	18.3	6.1	33.3%	2.9%	2.5%
Other expense, net	12.0	1.5	10.5	700.0%	1.4%	0.2%
Income before income taxes	18.4	48.0	(29.6)	(61.7)%	2.2%	6.5%
Income tax expense	13.1	35.0	(21.9)	(62.6)%	1.5%	4.8%
Net income	$ 5.3	$ 13.0	$ (7.7)	(59.2)%	0.6%	1.8%

Revenue. The following table sets forth certain information regarding our revenues for the periods presented:

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	Percentage change in revenue 2024 vs. 2023	Impact of changes in foreign currency (a)	Percentage change in revenue on a constant currency basis (a) 2024 vs. 2023
	(In millions)				
Revenue:					
Recurring revenue:					
Dayforce recurring, excluding float	$ 560.1	$ 460.9	21.5%	(0.2)%	21.7%
Dayforce float	98.7	78.5	25.7%	(0.3)%	26.0%
Total Dayforce recurring	658.8	539.4	22.1%	(0.3)%	22.4%
Powerpay recurring, excluding float	40.4	39.2	3.1%	(0.7)%	3.8%
Powerpay float	10.2	9.0	13.3%	(—)%	13.3%
Total Powerpay recurring	50.6	48.2	5.0%	(0.6)%	5.6%
Total Cloud recurring	709.4	587.6	20.7%	(0.3)%	21.0%
Other recurring (b)	38.3	45.2	(15.3)%	(2.0)%	(13.3)%
Total recurring revenue	747.7	632.8	18.2%	(0.3)%	18.5%
Professional services and other (c)	107.1	103.7	3.3%	(0.3)%	3.6%
Total revenue	$ 854.8	$ 736.5	16.1%	(0.3)%	16.4%

a) Dayforce has calculated percentage change in revenue on a constant currency basis by applying the average foreign exchange rate in effect during the comparable prior period. Please refer to the "Non-GAAP Financial Measures" section for discussion of percentage change in revenue on a constant currency basis.

b) Float attributable to Other recurring was $0.7 million and $1.2 million for the six months ended June 30, 2024, and 2023, respectively.

c) For the six months ended June 30, 2024, Professional services and other consisted of $102.6 million, $4.3 million, and $0.2 million associated with Dayforce, Other, and Powerpay, respectively. For the six months ended June 30, 2023, Professional services and other consisted of $96.4 million and $7.3 million associated with Dayforce and Other, respectively.

Total revenue increased $118.3 million, or 16.1%, to $854.8 million for the six months ended June 30, 2024, compared to $736.5 million for the six months ended June 30, 2023. This increase was primarily attributable to the increase in live Dayforce customers, the increase in Dayforce recurring revenue per customer, and the increase in float revenue. The number of live Dayforce customers increased 6.1% to 6,657 at June 30, 2024 from 6,272 at June 30, 2023. Additionally, for the trailing twelve months ended June 30, 2024, Dayforce recurring revenue per customer grew to $154,998 compared to $131,693 for the comparable period in 2023. Please refer to the "How We Assess Performance" and "Non-GAAP Financial Measures" section for discussion of and the definition of Dayforce recurring revenue per customer.

The increase in Dayforce recurring revenue per customer is driven by the growing average size of our customers, as we continue to expand within the enterprise segment, as well as more customers purchasing our full HCM suite. The increase in float revenue is driven by an increase in average yield of 62 basis points compared to the six months ended June 30, 2023, in addition to a 5.3% increase in average float balance for our customer funds for the six months ended June 30, 2024, which increased to $5.18 billion, compared to $4.92 billion for the six months ended June 30, 2023.

Cost of revenue. Total cost of revenue for the six months ended June 30, 2024, was $462.6 million, an increase of $42.3 million, or 10.1%, compared to the six months ended June 30, 2023.

Recurring cost of revenue for the six months ended June 30, 2024, increased $18.8 million, or 11.8%, compared with the six months ended June 30, 2023, primarily due to additional labor-related costs and increased costs of hosting our applications to support the growing Dayforce customer base globally.

Professional services and other cost of revenue increased $4.8 million, or 3.7%, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023, primarily due to increased labor-related costs incurred to take new customers live.

Product development and management expense increased $11.2 million, or 11.2%, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023. The increase primarily reflects additional personnel costs and increased costs of hosting our development applications. For the six months ended June 30, 2024, and 2023, our investment in software development was $105.9 million and $95.2 million, respectively, consisting of $60.7 million and $51.7 million of research and development expense, and $45.2 million and $43.5 million in capitalized software development costs, respectively.

Depreciation and amortization expense associated with cost of revenue increased $7.5 million, or 24.8%, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023, as we continue to capitalize and subsequently amortize Dayforce related and other development costs.

Gross profit. The following table presents total gross margin and solution gross margins for the periods presented:

	Six Months Ended June 30,	
	2024	**2023**
Total gross margin	45.9%	42.9%
Gross margin by solution:		
Cloud recurring	78.4%	77.0%
Other recurring	36.6%	46.9%
Professional services and other	(26.7)%	(26.2)%

Total gross margin is defined as total gross profit as a percentage of total revenue, which is inclusive of product development and management costs, as well as depreciation and amortization associated with cost of revenue. Gross margin for each solution in the table above is defined as total revenue less cost of revenue for the applicable solution as a percentage of total revenue for that related solution, which is exclusive of any product development and management or depreciation and amortization cost allocations.

Total gross margin for the six months ended June 30, 2024 increased 300 basis points compared to the six months ended June 30, 2023 and gross profit increased by $76.0 million, or 24.0% for the six months ended June 30, 2024 compared to the six months ended June 30, 2023, primarily due to the $118.3 million or 16.1% increase in revenue, including float revenue, which outpaced the increase in cost of revenue.

Cloud recurring gross margin was 78.4% for the six months ended June 30, 2024, compared to 77.0% for the six months ended June 30, 2023. The increase in Cloud recurring gross margin was primarily due to the increase in float revenue and due to the growth of the proportion of Dayforce customers live for more than two years, which increased from 82% as of June 30, 2023 to 86% as of June 30, 2024.

Professional services and other gross margin was (26.7)% for the six months ended June 30, 2024, compared to (26.2)% for the six months ended June 30, 2023, reflecting costs to take new customers live.

Selling and marketing expense. Selling and marketing expense increased $46.4 million, or 40.1%, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023. The increase in selling and marketing expense is primarily driven by higher personnel-related costs, as well as higher advertising expenses related to the transition of the Company's name and branding to Dayforce, Inc.

General and administrative expense. General and administrative expense increased $42.6 million, or 32.1%, for the six months ended June 30, 2024, compared to the six months ended June 30, 2023. The increase in general and administrative expense is driven by increases in amortization of intangible assets, including $41.8 million related to the Ceridian trade name, and employee-related costs, partially offset by a lower expense related to the DataFuzion contingent consideration and a reduction in share-based compensation expense.

Operating profit. For the six months ended June 30, 2024, operating profit was $54.8 million, compared to $67.8 million for the six months ended June 30, 2023. Operating profit decreased due to increases in amortization expense and selling and marketing expenses related to rebranding, partially offset by gross margin expansion from the increase in revenue, including float revenue.

Interest expense, net. Interest expense, net was $24.4 million and $18.3 million for the six months ended June 30, 2024, and 2023, respectively. The increase was primarily due to a $4.3 million loss on debt extinguishment recognized during the six months ended June 30, 2024 related to the refinancing of certain credit agreements. Please refer to Part I, Item 1. Note 9, "Debt" for additional information.

Other expense, net. For the six months ended June 30, 2024, and 2023, we incurred other expense, net of $12.0 million and $1.5 million, respectively. Other expense, net was primarily comprised of foreign currency translation losses (gains) and net periodic pension expense.

Income tax expense. For the six months ended June 30, 2024, and 2023, we recorded income tax expense of $13.1 million and $35.0 million, respectively. The decrease in income tax expense was primarily due to $6.2 million attributable to current operations, $5.6 million attributable to share-based compensation, $5.0 million attributable to tax credits, and $4.4 million attributable to the change in valuation allowance.

Net income. We realized net income of $5.3 million for the six months ended June 30, 2024, compared to $13.0 million for the six months ended June 30, 2023. Net income declined primarily due to a decrease in operating profit and an increase in other expense, net, partially offset by lower income tax expense.

Liquidity and Capital Resources

Our primary sources of liquidity are our existing cash and equivalents, cash provided by operating activities, availability under our 2024 Revolving Credit Facility, and proceeds from debt issuances and equity offerings. As of June 30, 2024, we had cash and equivalents of $465.4 million and our total debt was $1,231.9 million.

Our primary liquidity needs are related to funding of general business requirements, including the payment of interest and principal on our debt, capital expenditures, fulfilling our contractual commitments, product development, and funding Dayforce Wallet on demand pay requests on behalf of our customers. From time to time, we have made investments in businesses or acquisitions of companies, which are also liquidity needs.

We believe that our cash flow from operations, available cash and equivalents, and availability under our 2024 Revolving Credit Facility will be sufficient to meet our liquidity needs for the next twelve months and for the foreseeable future. Dayforce Wallet on demand pay requests are currently funded from our operating cash balances, until the amounts are reimbursed by our customers through their normal payroll funding cycles. We evaluate the creditworthiness of each customer utilizing the Dayforce Wallet feature. We anticipate that to the extent that we require additional liquidity, it will be funded through the issuance of equity, the incurrence of additional indebtedness, or a combination thereof. We cannot provide assurance that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and to fund our capital requirements and Dayforce Wallet on demand pay requests are also dependent on our future financial performance, which is subject to general economic, financial, and other factors that are beyond our control. Accordingly, we cannot provide assurance that our business will generate sufficient cash flow from operations or that future borrowings will be available from additional indebtedness or otherwise to meet our liquidity needs. If we decide to pursue one or more significant acquisitions, we may incur additional debt or raise additional equity to finance such acquisitions, which would result in additional expenses and/or dilution.

Our customer funds are held and invested with the primary objectives being to protect the principal balance and to ensure adequate liquidity to meet cash flow requirements. Accordingly, we maintain on average approximately 45% to 55% of customer funds in liquidity portfolios with maturities ranging from one to 120 days, consisting of high-quality bank deposits, money market mutual funds, commercial paper, or collateralized short-term investments; and we maintain on average approximately 45% to 55% of customer funds in fixed income portfolios with maturities ranging from 120 days to 10 years, consisting of U.S. Treasury and agency securities, Canada government and provincial securities, as well as highly rated asset-backed, mortgage-backed, municipal, corporate, and bank securities. To maintain sufficient liquidity to meet payment obligations, we also have financing arrangements and may pledge fixed income securities for short-term financing. The customer assets are held in segregated accounts intended for the specific purpose of satisfying customer funding obligations and therefore are not freely available for our general business use.

Statements of Cash Flows

Changes in cash flows due to purchases of customer fund marketable securities and proceeds from the sale or maturity of customer fund marketable securities, as well as the carrying value of customer fund accounts as of period end dates can vary significantly due to several factors, including the specific day of the week the period ends, which impacts the timing of funds collected from customers and payments made to satisfy customer obligations to employees, taxing authorities, and others. The customer funds are fully segregated from our operating cash accounts and are evaluated and tracked separately by management. The table below summarizes the activity within the condensed consolidated statements of cash flows:

	Six Months Ended June 30,	
	2024	2023
	(In millions)	
Net cash provided by operating activities	$ 108.3	$ 93.0
Net cash (used in) provided by investing activities	(383.5)	14.9
Net cash provided by financing activities	7.7	119.5
Effect of exchange rate changes on cash, restricted cash, and equivalents	(21.7)	63.1
Net (decrease) increase in cash, restricted cash, and equivalents	(289.2)	290.5
Cash, restricted cash, and equivalents at beginning of period	3,421.4	3,151.2
Cash, restricted cash, and equivalents at end of period	3,132.2	3,441.7
Cash and equivalents	465.4	486.6
Restricted cash and equivalents	2,666.8	2,955.1
Total cash, restricted cash, and equivalents	$ 3,132.2	$ 3,441.7

Operating Activities

Net cash provided by operating activities was $108.3 million during the six months ended June 30, 2024 compared to $93.0 million during the six months ended June 30, 2023. For both periods, cash inflows from operating activities are primarily generated from the subscriptions of our solutions. Cash outflows from operating activities for both periods are primarily comprised of personnel-related expenditures, including the payout of year-end employee compensation, and the renewals of prepaid annual contracts that are integral to our business operations. The positive cash inflow in both periods is primarily due to our growing revenue, partially offset by our operating costs, mainly, investment in our sales force to support our growth initiatives and those product development and management costs which are not eligible for capitalization.

Investing Activities

During the six months ended June 30, 2024, net cash used in investing activities was $383.5 million, consisting of purchases of customer funds marketable securities of $322.9 million, acquisition costs, net of cash acquired, of $173.1 million, capital expenditures of $54.4 million, and purchases of marketable securities of $4.0 million, partially offset by proceeds from the sale and maturity of customer funds marketable securities of $167.9 million, and proceeds from the sale and maturity of marketable securities of $3.0 million. Our capital expenditures included $47.7 million for software and technology and $6.7 million for property, plant, and equipment.

During the six months ended June 30, 2023, net cash provided by investing activities was $14.9 million, consisting of proceeds from the sale and maturity of customer funds marketable securities of $174.0 million, partially offset by purchases of customer funds marketable securities of $101.6 million and capital expenditures of $56.5 million. Our capital expenditures included $46.4 million for software and technology and $10.1 million for property, plant, and equipment.

Financing Activities

Net cash provided by financing activities was $7.7 million during the six months ended June 30, 2024. This cash inflow is primarily attributable to an increase in proceeds from our debt issuance of $650.0 million and proceeds from issuance of common stock under our share-based compensation plans of $16.8 million, partially offset by payments on our long-term debt obligations of $644.7 million, payment of debt refinancing costs of $11.4 million, and a decrease in net customer fund obligations of $3.0 million.

Net cash provided by financing activities was $119.5 million during the six months ended June 30, 2023. This cash inflow is primarily attributable to an increase in net customer fund obligations of $100.4 million and proceeds from issuance of common stock under our share-based compensation plans of $23.2 million, partially offset by payments on our long-term debt obligations of $4.1 million.

Backlog

Backlog is equivalent to our remaining performance obligations, which represents contracted revenue for recurring and fixed price professional services, primarily implementation services, that has not yet been recognized, including deferred revenue and unbilled amounts that will be recognized as revenue in future periods. As of June 30, 2024, our remaining performance obligations were approximately $1,254.9 million. Please refer to Part 1, Item 1. Note 12, “Revenue and Revenue-Related Activities” for further discussion of our remaining performance obligations.

Off-Balance Sheet Arrangements

As of June 30, 2024, we did not have any “off-balance sheet arrangements” (as such term is defined in Item 303 of Regulation S-K).

Contractual Obligations

During the six months ended June 30, 2024, there were no significant changes to our contractual obligations as described in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Contractual Obligations" contained in our 2023 Form 10-K.

Critical Accounting Policies and Estimates

During the six months ended June 30, 2024, there were no significant changes to our critical accounting policies and estimates as described in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Critical Accounting Policies and Estimates" contained in our 2023 Form 10-K.

Non-GAAP Financial Measures

We use certain non-GAAP financial measures in this document including:

Non-GAAP Financial Measure	**GAAP Financial Measure**
EBITDA	Net (loss) income
Adjusted EBITDA	Net (loss) income
Adjusted EBITDA margin	Net profit margin
Adjusted Cloud recurring gross margin	Cloud recurring gross margin
Adjusted operating profit	Operating profit
Adjusted operating profit margin	Operating profit margin
Adjusted net income	Net (loss) income
Adjusted net profit margin	Net profit margin
Adjusted diluted net income per share	Diluted net (loss) income per share
Free cash flow	Net cash provided by operating activities
Percentage change in revenue, including total revenue and revenue by solution, on a constant currency basis	Percentage change in revenue, including total revenue and revenue by solution
Dayforce recurring revenue per customer	No directly comparable GAAP measure

We believe that these non-GAAP financial measures are useful to management and investors as supplemental measures to evaluate our overall operating performance including comparison across periods and with competitors. Our management team uses these non-GAAP financial measures to assess operating performance because these financial measures exclude the results of decisions that are outside the normal course of our business operations, and are used for internal budgeting and forecasting purposes both for short- and long-term operating plans. Additionally, Adjusted EBITDA is a component of our management incentive plan and Adjusted Cloud recurring gross margin and Adjusted operating profit are components of certain performance based equity awards for our named executive officers. Additionally, we believe that the non-GAAP financial measure free cash flow is meaningful to investors because it is a measure of liquidity that provides useful information in understanding and evaluating the strength of our liquidity and future ability to generate cash that can be used for strategic opportunities or investing in our business. The exclusion of capital expenditures facilitates comparisons of our liquidity on a period-to-period basis and excludes items that management does not consider to be indicative of our liquidity.

These non-GAAP financial measures are not required by, defined under, or presented in accordance with, GAAP, and should not be considered as alternatives to our results as reported under GAAP, have important limitations as analytical tools, and our use of these terms may not be comparable to similarly titled measures of other companies in our industry. Our presentation of non-GAAP financial measures should not be construed to imply that our future results will be unaffected by similar items to those eliminated in this presentation.

We define our non-GAAP financial measures as follows:

- EBITDA is defined as net (loss) income before interest, taxes, depreciation, and amortization, and Adjusted EBITDA is EBITDA, as adjusted to exclude share-based compensation expense and related employer taxes, and certain other items.
- Adjusted EBITDA margin is determined by calculating the percentage Adjusted EBITDA is of total revenue.
- Adjusted Cloud recurring gross margin is defined as Cloud recurring gross margin, as adjusted to exclude share-based compensation and related employer taxes, and certain other items, as a percentage of total Cloud recurring revenue.
- Adjusted operating profit is defined as operating profit, as adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items.
- Adjusted operating profit margin is determined by calculating the percentage Adjusted operating profit is of total revenue.
- Adjusted net income is defined as net (loss) income, as adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items, all of which are adjusted for the effect of income taxes.
- Adjusted net profit margin is determined by calculating the percentage Adjusted net income is of total revenue.
- Adjusted diluted net income per share is calculated by dividing adjusted net income by diluted weighted average shares outstanding. When adjusted net income is positive, diluted weighted average shares outstanding incorporate the effect of dilutive equity instruments.
- Free cash flow is defined as net cash provided by operating activities, as adjusted to exclude capital expenditures.
- Percentage change in revenue, including total revenue and revenue by solution, on a constant currency basis is calculated by applying the average foreign exchange rate in effect during the comparable prior period.
- Dayforce recurring revenue per customer is an indicator of the average size of Dayforce recurring revenue customers. To calculate Dayforce recurring revenue per customer, we start with Dayforce recurring revenue on a constant currency basis by applying the same exchange rate to all comparable periods for the trailing twelve months and excludes float revenue, and Ascender, ADAM HCM, and eloomi revenue. This amount is divided by the number of live Dayforce customers at the end of the trailing twelve month period, excluding Ascender, ADAM HCM, and eloomi. We have not reconciled the Dayforce recurring revenue per customer because there is no directly comparable GAAP financial measure.

The following tables reconcile our reported results to our non-GAAP financial measures:

	Three Months Ended June 30, 2024						
	As reported	As reported margins (a)	Share-based compensation	Amortization	Other (b)	As adjusted (b)	As adjusted margins (a)
	(Dollars in millions, except per share data)						
Cost of Cloud recurring revenue	$ 77.1	77.7%	$ 3.0	$ —	$ 0.8	$ 73.3	78.8%
Operating profit	$ 14.1	3.3%	$ 40.8	$ 29.5	$ 10.5	$ 94.9	22.4%
Net (loss) income	$ (1.8)	(0.4)%	$ 40.8	$ 29.5	$ 7.7	$ 76.2	18.0%
Interest expense, net	11.1		—	—	—	11.1	
Income tax expense (c)	1.8		—	—	(6.1)	7.9	
Depreciation and amortization	50.6		—	29.5	—	21.1	
EBITDA	$ 61.7		$ 40.8	$ —	$ 13.8	$ 116.3	27.5%
Net (loss) income per share - diluted (d)	$ (0.01)		$ 0.26	$ 0.18	$ 0.05	$ 0.48	

(a) Cloud recurring gross margin is defined as total Cloud recurring revenue less cost of Cloud recurring revenue as a percentage of total Cloud recurring revenue. Operating profit margin and net profit margin are determined by calculating the percentage operating profit and net (loss) income are of total revenue. Please refer above for additional information on the as adjusted margins.

(b) The as adjusted column is a non-GAAP financial measure, adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items including $10.5 million of restructuring expenses, and $3.3 million of costs associated with the planned termination of our frozen U.S. pension plan, along with a $6.1 million net adjustment for the effect of income taxes related to these items. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted metrics.

(c) Income tax effects have been calculated based on the statutory tax rates in effect in the U.S. and foreign jurisdictions during the period.

(d) GAAP diluted net loss per share is calculated based upon 157.9 million weighted average shares of common stock, and Adjusted diluted net income per share is calculated based upon 159.5 million weighted average shares of common stock.

	Three Months Ended June 30, 2023						
	As reported	As reported margins (a)	Share-based compensation	Amortization	Other (b)	As adjusted (b)	As adjusted margins (a)
	(Dollars in millions, except per share data)						
Cost of Cloud recurring revenue	$ 68.0	76.7%	$ 4.0	$ —	$ —	$ 64.0	78.1%
Operating profit	$ 29.4	8.0%	$ 41.7	$ 6.7	$ 5.2	$ 83.0	22.7%
Net income	$ 3.1	0.8%	$ 41.7	$ 6.7	$ (0.7)	$ 50.8	13.9%
Interest expense, net	9.1		—	—	—	9.1	
Income tax expense (c)	16.5		—	—	(5.4)	21.9	
Depreciation and amortization	23.3		—	6.7	—	16.6	
EBITDA	$ 52.0		$ 41.7	$ —	$ 4.7	$ 98.4	26.9%
Net income per share - diluted (d)	$ 0.02		$ 0.26	$ 0.04	$ —	$ 0.32	

(a) Cloud recurring gross margin is defined as total Cloud recurring revenue less cost of Cloud recurring revenue as a percentage of total Cloud recurring revenue. Operating profit margin and net profit margin are determined by calculating the percentage operating profit and net income are of total revenue. Please refer above for additional information on the as adjusted margins.

(b) The as adjusted column is a non-GAAP financial measure, adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items including $3.7 million related to the impact of the fair value adjustment for the DataFuzion contingent consideration, $1.4 million of restructuring expenses, and $0.1 million related to the abandonment of certain leased facilities, and $0.5 million of foreign exchange gain, along with a $5.4 million net adjustment for the effect of income taxes related to these items. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted metrics.

(c) Income tax effects have been calculated based on the statutory tax rates in effect in the U.S. and foreign jurisdictions during the period.

(d) GAAP and Adjusted diluted net income per share are calculated based upon 157.6 million weighted average shares of common stock.

	Six Months Ended June 30, 2024						
	As reported	As reported margins (a)	Share-based compensation	Amortization	Other (b)	As adjusted (b)	As adjusted margins (a)
			(In millions)				
Cost of Cloud recurring revenue	$ 153.4	78.4%	$ 6.6	$ —	$ 0.8	$ 146.0	79.4%
Operating profit	$ 54.8	6.4%	$ 78.8	$ 57.9	$ 12.5	$ 204.0	23.9%
Net income	$ 5.3	0.6%	$ 78.8	$ 57.9	$ 2.2	$ 144.2	16.9%
Interest expense, net	24.4		—	—	—	24.4	
Income tax expense (c)	13.1		—	—	(23.0)	36.1	
Depreciation and amortization	99.4		—	57.9	—	41.5	
EBITDA	$ 142.2		$ 78.8	$ —	$ 25.2	$ 246.2	28.8%
Net income per share - diluted (d)	$ 0.03		$ 0.49	$ 0.36	$ 0.01	$ 0.90	

(a) Cloud recurring gross margin is defined as total Cloud recurring revenue less cost of Cloud recurring revenue as a percentage of total Cloud recurring revenue. Operating profit margin and net profit margin are determined by calculating the percentage operating profit and net income are of total revenue. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted margins.

(b) The as adjusted column is a non-GAAP financial measure, adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items including $12.5 million of restructuring expenses, $6.5 million of costs associated with the planned termination of our frozen U.S. pension plan, and $6.2 million of foreign exchange loss, along with a $23.0 million net adjustment for the effect of income taxes related to these items. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted metrics.

(c) Income tax effects have been calculated based on the statutory tax rates in effect in the U.S. and foreign jurisdictions during the period.

(d) GAAP and Adjusted diluted net income per share are calculated based upon 159.8 million weighted average shares of common stock.

	Six Months Ended June 30, 2023						
	As reported	As reported margins (a)	Share-based compensation	Amortization	Other (b)	As adjusted (b)	As adjusted margins (a)
				(In millions)			
Cost of Cloud recurring revenue	$ 134.9	77.0%	$ 8.0	$ —	$ —	$ 126.9	78.4%
Operating profit	$ 67.8	9.2%	$ 81.9	$ 12.2	$ 9.6	$ 171.5	23.3%
Net income	$ 13.0	1.8%	$ 81.9	$ 12.2	$ (7.0)	$ 100.1	13.6%
Interest expense, net	18.3		—	—	—	18.3	
Income tax expense (c)	35.0		—	—	(17.2)	52.2	
Depreciation and amortization	45.4		—	12.2	—	33.2	
EBITDA	$ 111.7		$ 81.9	$ —	$ 10.2	$ 203.8	27.7%
Net income per share - diluted (d)	$ 0.08		$ 0.52	$ 0.08	$ (0.04)	$ 0.63	

(a) Cloud recurring gross margin is defined as total Cloud recurring revenue less cost of Cloud recurring revenue as a percentage of total Cloud recurring revenue. Operating profit margin and net profit margin are determined by calculating the percentage operating profit and net income (loss) are of total revenue. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted margins.

(b) The as adjusted column is a non-GAAP financial measure, adjusted to exclude share-based compensation expense and related employer taxes, amortization of acquisition-related intangible assets, and certain other items including $7.2 million related to the impact of the fair value adjustment for the DataFuzion contingent consideration, $2.2 million of restructuring expenses, $0.6 million of foreign exchange loss, and $0.2 million related to the abandonment of certain leased facilities, along with a $17.2 million net adjustment for the effect of income taxes related to these items. Please refer to the "Non-GAAP Financial Measures" section for additional information on the as adjusted metrics.

(c) Income tax effects have been calculated based on the statutory tax rates in effect in the U.S. and foreign jurisdictions during the period.

(d) GAAP and Adjusted diluted net income per share are calculated based upon 157.8 million weighted average shares of common stock.

The following table reconciles net cash provided by operating activities to the non-GAAP financial measure free cash flow:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(In millions)				
Net cash provided by operating activities	$ 99.2	$ 81.7	$ 108.3	$ 93.0
Expenditures for property, plant, and equipment	(3.2)	(3.6)	(6.7)	(10.1)
Expenditures for software and technology	(23.3)	(24.5)	(47.7)	(46.4)
Free cash flow	$ 72.7	$ 53.6	$ 53.9	$ 36.5