The Henry Fund
Henry B. Tippie College of Business
Charlie Pattinson [charlie-pattinson@uiowa.edu]

ServiceNow, Inc. (NOW)

February 26, 2025

Information Technology – Software – Application

Investment Thesis

ServiceNow offers a compelling investment opportunity, driven by artificial intelligence and business transformation, paired with rapid revenue growth and customer acquisition. The firm's subscription model allows them to be industry agnostic and flexible to changes in technology. With the introduction of AI Agents later this year, we expect customers to continue to flock to their Now Platform. Although the firm faces macroeconomic risks and fierce competition, we believe ServiceNow's diverse business will be durable. We give ServiceNow a **BUY** rating, with a target price of $1,126, representing a 19.5% upside from its current price.

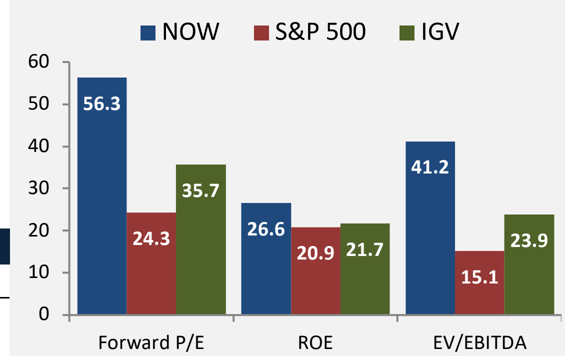
Drivers of Thesis

- We forecast subscription revenues to grow by a CAGR of 16.7% through 2034, as ServiceNow grows its customer base and contract values.
- NOW's "platform of platforms" business model creates a strong moat for the firm, as they are diversified across industries and sectors, and easily adaptable to changes in technology.
- The firm boasts a 98% annual retention rate, which proves that they provide significant value to customers and can continue to advertise new products to them once they are integral to client's business processes.

Risks to Thesis

- The firm boasts an expensive valuation due to its fast growth at a large scale. However, the stock has traded off 21.4% from its 52-week high, which we find to be an attractive buying opportunity.
- The firm faces fierce competition from competitors who specialize in industries (i.e. Salesforce) instead of being generalists like ServiceNow.

Stock Rating	BUY
Target Price	**$1,126**
Henry Fund DCF	$1,126
Henry Fund DDM	$1,174
Relative Multiple	$555
Price Data	
Current Price	$942
52wk Range	$638 – 1,198
Consensus 1yr Target	$1,154
Key Statistics	
Market Cap (B)	$194.0
Shares Outstanding (M)	206
Institutional Ownership	92.2%
Beta	1.0
Dividend Yield	0.0%
Est. 5yr Growth	18.6%
Price/Earnings (TTM)	137.2
Price/Earnings (FY1)	56.3
Price/Sales (TTM)	17.8
Price/Book (25E)	14.8
Profitability	
Operating Margin	7.6%
Gross Margin	79.2%
Return on Assets (TTM)	7.6%
Return on Equity (TTM)	18.7%



Earnings Estimates (GAAP)

Year	2022	2023	2024	2025E	2026E	2027E
EPS	$1.61	$8.48	$6.92	$8.49	$11.11	$14.13
HF est.				$8.77	$11.25	$14.21
Growth	*39.0%*	*425.6%*	*-18.4%*	*26.7%*	*28.3%*	*26.4%*

12 Month Performance

Company Description

ServiceNow is a cloud-based software-as-a-service company that focuses on enterprise solutions. The firm utilizes AI to provide products that make corporations operations flow better. The firm delivers products across IT, Human Resources, Customer Service, etc. The firm has seen significant growth in recent years and is poised to take advantage of the AI revolution. The firm operates with a subscription model and has a diverse geographic revenue mix, selling their services across the U.S., Europe, and Asia.

COMPANY DESCRIPTION

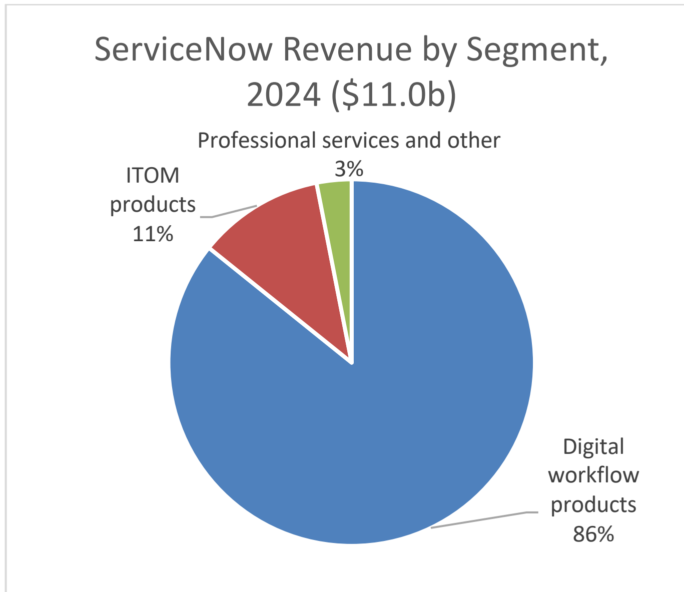
ServiceNow (NOW) is a cloud-based software company that provides information technology (IT) services and digital workflows to firms to streamline enterprise processes. ServiceNow's intelligent platform, "the Now Platform," offers a wide variety of products and services across four main areas: Technology, Customer and Industry, Employee, and Creator/Other. The Now Platform is utilized by companies in both the private and public sector. The firm grew revenues by a CAGR of 26.0% over the past five years (2019-2024), led by a continuing digital transformation for enterprises, and an eruption in the artificial intelligence (AI) field. NOW has a market cap of $193 billion and is one of the world's ten largest software companies[1].

ServiceNow offers 175+ unique products on its Now Platform. The firm consistently creates new products, which gives itself more ways to integrate into client's workflows. The table below describes the products that ServiceNow promotes as featured products on its platform.

Now Platform Flagship Products

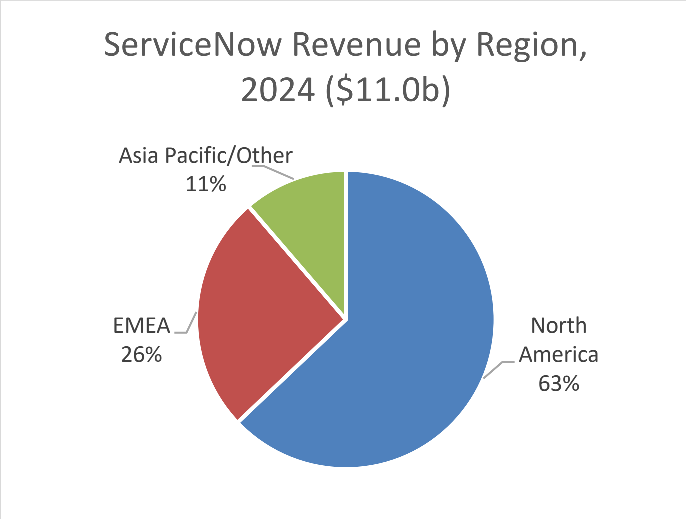
Workflow Type	***Product Name***	***Description***
Cross-functional	AI Agents	Automate tasks with AI
Technology	IT Service Management	Improve IT efficiency
Customer	Customer Service Management	Enhance customer support through AI
Technology	IT Operations Management	Predict and prevent IT issues
Employee	HR Service Delivery	Help employees quickly
Cross-functional	Integration Hub	Connect different systems within the NOW platform
Technology	Security Operations	Protect against cyber threats
Customer	Field Service Management	Improve field service efficiency
Creator	App Engine	Build custom workflows
Support	ServiceNow Impact success plans	Guide NOW platform adoption

In 2024, the firm generated $11.0b in revenue, a 22.4% year-over-year (YoY) increase. Subscription revenues accounted for 97% of sales, and 3% came from Professional Services. Subscription revenues are earned from customers who subscribe to the NOW platform and is highly profitable (81.8% segment margin in 2024). Subscription contracts are typically three years. Professional Services are offered through ServiceNow and a partner program, where NOW employees and partners work with clients to help configure, optimize, and implement ServiceNow products. The Professional Services segment is slightly unprofitable for the firm, but we believe it plays a crucial role for the firm. Professional Services increases the likelihood that ServiceNow's subscription sticks by teaching enterprises how to use it, as well as other ways to implement the Now Platform into their enterprise.



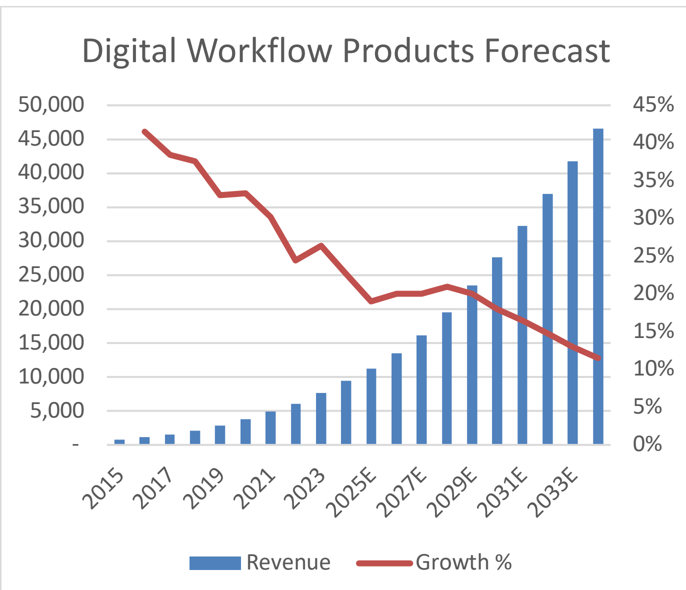
Source: ServiceNow 10-K

ServiceNow earns their revenues across the globe. In 2024, 63% of revenues came from North America, 26% from Europe, Middle East, and Africa (EMEA), and 11% from Asia Pacific/Other. The firm's diverse product offerings give appeal to businesses of all shapes and sizes, which gives NOW a large market to chase after. The firm does hedge its currency risk. We like the diversification in NOW's revenue mix and expect the geographic mix to continue to shift as ServiceNow acquires more non-U.S. clients. The U.S. remains critical to the firm, but international markets are a major growth engine as ServiceNow expands.



Source: ServiceNow 10-K

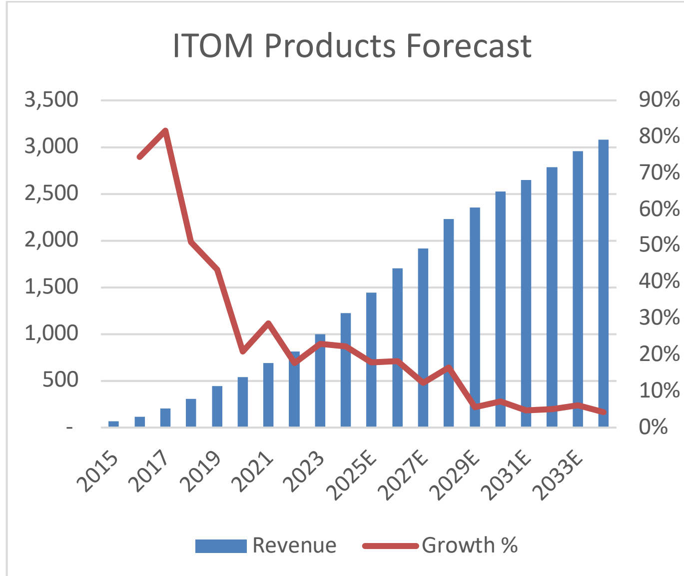
Digital Workflow Products (86% of Sales)



Source: ServiceNow 10-K and HF Forecast

Digital Workflow Products are the bread and butter of ServiceNow's business. This segment encompasses most products that the firm offers on the Now Platform. These are priced on a per-user basis for each client company. In 2024, Digital Workflow Products grew by 22.7% YoY. We forecast revenues to grow by a CAGR of 17.3% through 2034. We project revenues in line with consensus and on the higher end of management's guidance for 2025. We anticipate this segment to be the fastest growing within ServiceNow as it is where their non-ITOM their products are classified and where AI initiatives will be included in. We are optimistic in the firm's ability to grow revenues and scale up due to lock-in effect with their subscriptions and the introduction of Agentic AI.

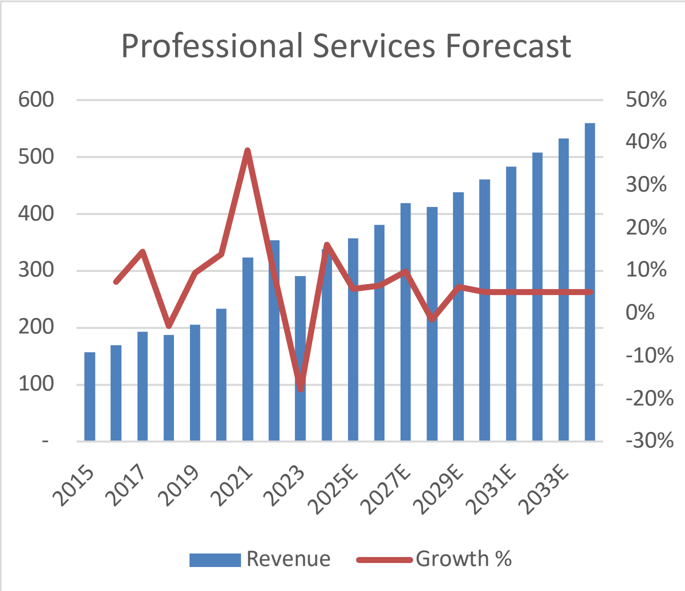
ITOM Products (11% of Sales)



Source: ServiceNow 10-K and HF Forecast

ServiceNow's roots are within IT management, and the firm's IT Operations Management (ITOM) products are priced on a subscription unit basis, unlike Digital Workflow Products which are priced on a per user basis. ITOM products often manage IT infrastructure, systems, and services, where the value is not necessarily tied to the number of individual users. We forecast ITOM products to grow by a CAGR of 9.7% through 2034, which is in line with analyst consensus. We project ITOM products to continue high levels of growth through 2028. From 2029 onward we expect growth to slow as the segment matures and ServiceNow reaches higher market penetration. We expect the firm's focus will be on Digital Workflow Products and new AI innovations there.

Professional Services/Other (3% of Sales)



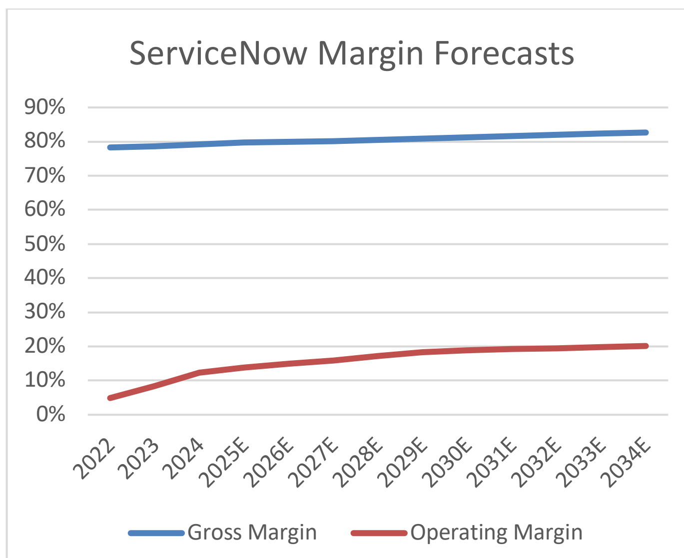
Source: ServiceNow 10-K and HF Forecast

We expect Professional Services to grow at a much slower pace than Digital Workflow Products and ITOM Products. We believe it is an essential aspect to their customer acquisition and retention process, but due to its lack of profitability we see it as more of an operating expense that happens to produce some revenue. We forecast Professional Services to grow by a CAGR of 5.2% over the next 10 years, as the firm grows its scale. In 2024, Professional Services made up 3.1% of revenue, and we expect that to slowly decrease over time as customers become more familiar with ServiceNow products and have longer tenured subscriptions. By 2034, we expect Professional Services to make up 1.1% of revenue.

Cost Structure Analysis

ServiceNow produces a very strong gross margin, which came in at 79.2% FY 2024. This is due to their scalable cloud-based model and efficient infrastructure management. The firm can leverage its cloud platform to support a fast-growing customer base without significantly increasing costs. The bulk of NOW's expenses are operating. In FY 2024, Sales and Marketing costs were 35.1% of revenue, Research and Development (R&D) 23.2% of revenue, and General and Administrative (G&A) 8.5% of revenue. These figures reflect NOW being in the growth stage of its lifecycle. ServiceNow is committing a large amount of capital into Sales and Marketing as it attempts aggressive customer acquisition and retention strategies. The firm's high R&D expense is due to investments in advancing the AI and cloud technology for its NOW platform. We anticipate R&D elevated in the short-term due to the firm innovating in AI but expect it to drop as NOW matures.

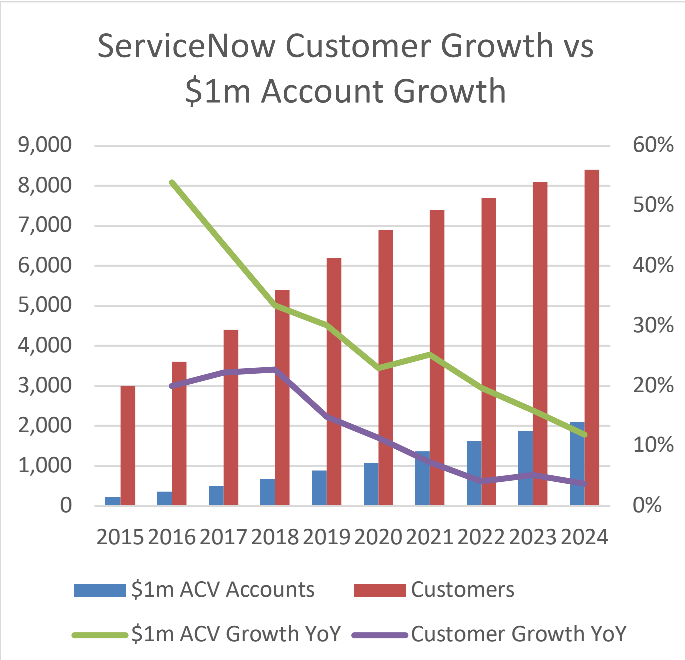
Our expectation is that the firm will expand both gross margin and operating margin over the next ten years. We expect gross margin to grow by a CAGR of 0.4% and still be around the 80% mark, reaching a peak of 82.6% in 2034. The larger margin expansion in our forecast comes from lowered Sales and Marketing and R&D costs over time. We anticipate the firm will continue to invest heavily in growing its customer base and technology, especially as the AI market changes daily. However, we project the two expense items lowering steadily over time as the company sees its customer base build and significant leaps in revenue. In 2024, the two operating expense categories took up 58.2% of revenue, and we project that to drop to 54.5% by 2029 and holding at that level through the back half of the forecasted period. We also project General and Administrative to move from 8.5% of revenue to 8.0% of revenue by 2029. As the firm matures, we expect operating margin to tick up as the company slowly cycles out of a growth stage.



Source: ServiceNow 10k, HF Forecast

How Does NOW Make Money

The majority of ServiceNow's revenues are generated through a subscription-based model. The firm's pricing structure is complex and customized depending on the client. Factors that play a role into pricing include company size, industry, and specific product needs. Exact pricing is not publicly available, but we can gather some takeaways from overall customer count data and the number of customers who have an annual contract value greater than $1 million.



Source: ServiceNow

As shown in the chart above, ServiceNow has grown its customer base and accounts worth $1 million significantly over the past decade. $1m+ ACV account growth outpaces overall customer growth, which we see as a positive for the firm. This is because once ServiceNow has hooked a customer with an initial service on its platform it can begin to upsell other products on the Now Platform that make sense for the customer. As the customer grows number of products they utilize on the Now Platform, ServiceNow generates higher revenue and becomes a much harder subscription to ditch. In addition, the consistent additions of new technology and products to the platform give ServiceNow additional monetizable avenues and advertising opportunities. Moving forward, we would like to see the accounts with $1m+ ACV to continue to grow at a double-digit clip for as long as possible. As of 2024, only 25% of customers had an ACV of $1m+ and we believe there is plenty of runway to build up that portion.

Target Market & Strategic Positioning

ServiceNow operates as a generalist, targeting any enterprise who is looking to digitize operations and expand AI capabilities. Customers range from small offices to global corporations and government agencies. Nearly every company has an IT and HR department, which creates a large total addressable market (TAM) for ServiceNow. Management cites a $275 billion TAM for the firm. With revenue at $11.0 billion, there is plenty of room to run for the firm. We see multiple years of high growth ahead as ServiceNow and the enterprise solutions industry matures.

As of 2024, over 85% of the Fortune 500 and nearly 60% of the Global 2000 subscribed to the Now Platform. The remaining customers ServiceNow is reaching for likely have some combination of niche verticals, smaller size, or are attached to competitors. ServiceNow also offers sector specialized products for companies in Financial Services, Health Care & Life Sciences, Government, Retail, Technology, and Telecom. We are bullish on the fact that ServiceNow has signed up a signed up many major corporations and believe that the firm can capitalize on its growing customer base as AI develops. The firm boasts a 98% customer retention rate, which should allow the firm flexibility to adapt to changes in technology and sell more of its services on a yearly basis.

Firm Differentiation

ServiceNow differentiates itself from peers through its product diversification. There is no sole focus or product, but rather many that customers can purchase. This allows them flexibility to move with business and technology trends. The fact that they have a multitude of services enables them to be a one-stop-shop for firms looking to digitize operations and leverage AI. A risk of this model is not being specialized in a certain area, but we believe the broad nature of ServiceNow will help the firm capture market share faster. Additionally, they purchase and roll up software startups regularly, which contributes to a growing product base. NOW's strength lies in its cloud-based platform. This allows it to seamlessly integrate new products and offerings for customers, such as the introduction of Now Assist or any niche startup it acquires. We are fans of ServiceNow's place in the market, and believe their diversification is key to continued growth and customer retention.

Sustainability of Business Model

In our eyes, ServiceNow operates a very appealing business model. The firm's cloud-based and asset-light nature allows for high gross margins and low debt levels. As a platform of platforms, their diverse product offerings provide many ways to obtain customers and keep them. The firm can continue to add offerings to its platform and sell its customers on adding more once they are hooked. As customers' accounts grow significantly in dollar amount and importance in operations, ServiceNow's platform becomes a very sticky subscription. This business model generates strong FCF, which also allows the firm to be flexible in M&A activity as it seeks new products, R&D on technological changes, or returns to shareholders. Although currently in the growth stage of the lifecycle, we believe ServiceNow is an attractive investment for the long-term. It is likely to continue innovating and making its subscription more valuable to enterprises over time.

Debt Maturity Analysis

ServiceNow operates with little need for debt. The firm's only debt outstanding comes from a $1.5 billion 10-year issuance that matures in 2030. NOW's boasts strong credit metrics, with a Total Debt/EBITDA multiple of 0.8x. The firm brought in operating cash flows of $4.3 billion in 2024, and we expect that to grow to nearly $8.0 billion by 2030 when the firm's long-term debt matures. We believe this sets the firm up well to handle its debt load. We forecasted the firm to start paying off its long-term debt in 2026, achieving a full paydown by 2030 maturity. Refinancing their 2030 notes is an option if ServiceNow wants to extend the maturity, but that would be more of a strategic decision than a necessity. We anticipate the firm should be able to fund its research and development initiatives and CapEx from strong financial performance and operating cash flows. If the firm changes strategies and seeks to issue debt, NOW will likely be able issue cheap debt due to its excellent credit profile. This sentiment is shared with S&P, which gives NOW an A rating, which is in line with peers.

Five-Year Debt Maturity Schedule

Fiscal Year	Coupon (%)	Payment ($mil)
2025		$0
2026		0
2027		0
2028		0
2029		0
Thereafter	1.4%	1,489
Total		$1,489

Source: FactSet

ESG Analysis

Firm	ESG Rating
ServiceNow (NOW)	***16.3 (low risk)***
Salesforce (CRM)	18.1 (low risk)
Oracle (ORCL)	14.9 (low risk)
Workday (WDAY)	16.2 (low risk)
Paycom Software (PAYC)	18.9 (low risk)
Pegasystems (PEGA)	26.2 (medium risk)
Palo Alto Networks (PANW)	12.9 (low risk)
Microsoft (MSFT)	13.7 (low risk)
SAP (SAP)	14.4 (low risk)

Source: Morningstar Sustainalytics

ServiceNow is rated as a low-risk firm by Morningstar Sustainalytics, which is in line with peers in the software/workforce-oriented sector. Overall, ESG risk is not a concern for ServiceNow. The firm even offers ESG Management and Reporting as a workflow product to its customers. However, the firm does not discuss its ESG initiatives often. As the Trump Administration enters full force, we expect ESG talk to be on the backburner for ServiceNow.

Environmental:

ServiceNow is committed to sustainability and is on track to achieve net-zero emissions by 2030. The firm has also achieved 100% renewable electricity and offers a carbon-neutral cloud solution for customers. As AI progresses, environmental focus in the tech industry will shift towards the energy impact data centers and AI have. AI is a very power intensive process, and we believe once we get past the early innings of development there will be more investor focus on doing AI efficiently and environmentally friendly.

Social:

The firm has committed to building an inclusive work environment and has a growing employee base. In the past five years, the firm has more than doubled its number of employees to 22,500+. ServiceNow has multiple initiatives within the firm to help their employees excel, such as its RiseUp program which is intended to train people with limited tech backgrounds on how to implement ServiceNow's software. ServiceNow faced backlash for the program, alongside many companies in America for offering diversity, equity, and inclusion (DEI) programs. This coincides with a landslide victory for Donald Trump in the 2024 election, as conservative campaigns swept elections across the globe. ServiceNow is rebranding the program to be called ServiceNow University, and we do not anticipate the firm to completely halt the program or diversity talent initiatives. However, we do expect the firm's DEI strategies to become less of a talking point and exit the public eye during the Trump Administration.

We also expect the firm to face some sort of backlash in the future if AI completely revolutionizes the corporate workforce. If there was a significant increase in unemployment due to automated products from ServiceNow and other software firms alike, they would become villainous entities. We believe ServiceNow's products help push employees to more productive and fulfilling work by eliminating painful and slow workflow processes. If that were to change, NOW's social threat level would rise.

Governance:

The firm's CEO is Bill McDermott, who is a veteran technology executive. He joined ServiceNow as CEO in 2019, leaving his position as CEO of SAP (enterprise software) after growing SAP's market cap from $39 billion to $156 billion. McDermott's compensation structure is heavily weighted towards performance incentives. In 2023, McDermott received a $37.6 million, 96.5% of which was comprised by performance incentives and 3.5% by base salary.

ServiceNow's board is comprised of 11 members. Nine members are independent, and two are not. McDermott and ServiceNow founder Fred Luddy are the two non-independent directors. Four out of nine independent directors are women. We like that the board is composed of mostly independent directors and two key ServiceNow figures, which aligns the firm's roots and future with independent oversight.

RECENT DEVELOPMENTS

Recent Earnings Announcement

ServiceNow announced its Q4 2024 results on January 29, 2025. The firm had mixed results, with earnings beating expectations by 0.20%, but revenues missing by -0.18%. Despite the revenue miss, the firm still grew subscription revenues 21% year-over-year, which we believe is a strong performance. The firm also authorized an additional $3 billion in share repurchases, which bodes confidence in the firm's financial position and future growth prospects.

Management also updated their 2025 revenue outlook lower to be in the range of $12.64-$12.68 billion, below analyst consensus of $12.83 billion. The firm's Q1 2025 revenue expectation also fell lower to a range of $2.99 billion to $3.00 billion, which was lower than analyst consensus of $3.04 billion. A key factor in the firm's lowered revenue guidance in 2025 was an expected $175 million foreign exchange headwind due to a stronger U.S. dollar. Although lower revenue expectations are not a good thing, the changes were minute and due to non-operating issues. We believe the firm is in great shape for growth, and project subscription revenues on the higher end of their newly reported expectation range ($12.7b). CapEx guidance was not explicitly detailed in management's earnings call. We project the firm to grow CapEx by 10% annually through the next 10 years as the firm scales up its AI/data center capabilities.

Given the mixed results and weaker 2025 guidance, the stock reacted with an 11.5% fall. In our eyes, the reaction was overdone and presents an even more appealing buying opportunity for ServiceNow.

Agentic AI

AI is developing at a fast and furious pace. There is a new large language model (LLM) every other week, and companies are pouring in billions on research and development. The hot new buzzword in AI is "agentic AI", which ServiceNow is a leader of, but not the sole player. Agentic AI refers to a specific type of AI that utilizes autonomous agents to perform complex tasks by working together across different systems. A simple use case for ServiceNow's Now Platform is when employees submit IT service requests. An AI agent can diagnose a server issue, create a resolution plan, and execute a solution after obtaining approval from an AI Agent Orchestrator. The AI Agent Orchestrator acts as a control tower for all AI agents, ensuring specialized AI agents work together to solve anything from high volume mundane issues to complex problems. AI Agents will make their way to the ServiceNow platform in March 2025.

The firm is providing three key areas for growth within the agentic AI space. The first is the deployment of thousands of prebuilt AI agents to integrate into the ServiceNow platform for IT, CRM, HR, Security, Finance, etc. The second is AI Agent Studio, which allows companies to make niche AI Agents for specific industries or use cases. We believe this will create stickier subscriptions as firms adopt unique AI Agents to their business processes. The third and final tenant of their Agentic AI rollout is the AI Agent Orchestrator, which coordinates multiple AI agents across tasks, systems, and departments. We are bullish on this development for the firm, as adoption of AI Agents will increase the value of the ServiceNow platform to companies.

Although ServiceNow currently offers AI capabilities, Agentic AI takes things to another level. It enables autonomous decision-making and proactive actions within the Now Platform, which allows systems to react and adapt without human intervention. Although it sounds scary and like humans will never have jobs, the likely outcome of this product will be that it solves repetitive and mundane tasks and frees time for workers to spend on beneficial things.

Agentic AI systems employ several mechanisms to ensure they are not taking incorrect actions. These include predefined objectives and constraints, continuous feedback loops, and human oversight. Human oversight can include mechanisms for monitoring and intervention as well as transparent decision logs.

In October 2024, the firm introduced Workflow Data Fabric, which provides secure, real-time data to flow through multiple sources. This technology equips AI agents and predictive analytics tools with updated information for decision making. Data quality is assessed for accuracy, completeness, consistency, and timeliness. Data is continuously monitoring and has a governance system in place with policies and procedures to maintain data security and privacy. An example use-case for Workflow Data Fabric being utilized by AI Agents on behalf of a company is a telecom company. Live tracking of network performance data across multiple systems enables AI agents to detect anomalies, predict outages, and automatically initiate a set of tasks to resolve issues before they reach customers. This use case makes us optimistic on the potential for AI agents to deployed across many organizations. No human would be able to track large swathes of data 24/7, but error prevention for customers through Workflow Data Fabric and Agentic AI adds an appealing ROI for companies seeking to stop problems before they occur. For this reason, we are bullish on the Agentic AI and Workflow Data Fabric aspect of ServiceNow and will monitor the performance of ServiceNow's AI Agent ecosystem in March.

Strategic Partnerships

Notable ServiceNow Strategic Partnerships		
Firm:	***Date:***	***Purpose:***
VISA (V)	1/29/2025	Streamline payment card dispute resolutions and improve payment services
Oracle (ORCL)	1/29/2025	Expand Workflow Data Fabric capabilities with Oracle data sources
Amazon (AMZN)	12/3/2024	Accelerate AI transformation with AWS
NVIDIA (NVDA)	10/23/2024	Co-develop native AI Agents; accelerate enterprise adoption of Agentic AI
Microsoft (MSFT)	7/9/2019	Disrupt CRM sector with partnership of Microsoft Copilot and NOW AI Agents
Alphabet (GOOGL)	5/6/2019	Launch NOW on Google Cloud Marketplace; integrate Workflow Data Fabric with Google Cloud AI

Source: ServiceNow, Bloomberg

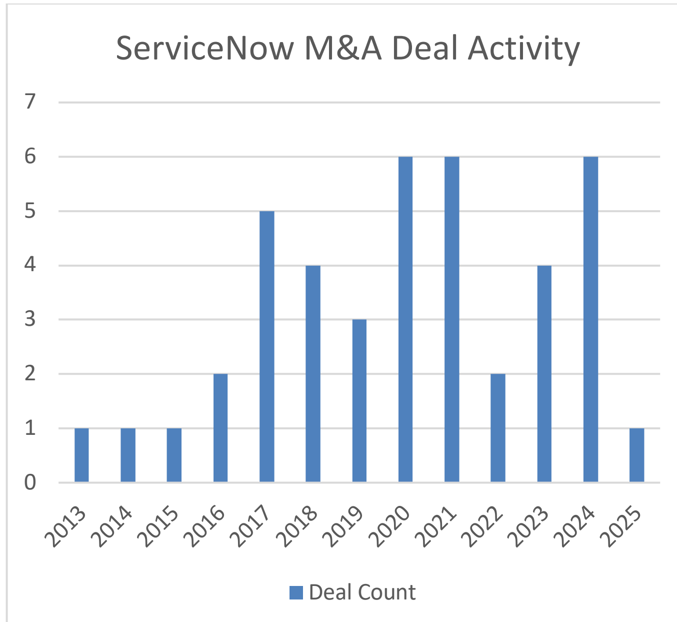
ServiceNow has established strategic partnerships with many industry-leading companies to enhance NOW's AI capabilities and expand market reach. Some notable collaborations include NVIDIA, Amazon, Alphabet, Microsoft, Visa, and Oracle. These partnerships focus on AI transformation and development across many sectors. Many of the partnerships revolved around the advancement of Agentic AI, which is the next big initiative from ServiceNow. Others are more sector focused, such as Visa and CRM with Microsoft. We are bullish on ServiceNow entering strategic partnerships with tech leaders, as it leverages the other firm's capabilities to help position NOW at the forefront of AI and enterprise solution innovation. It is important to note that the chart above does not encompass all of ServiceNow's strategic partnerships and is limited to the heavy hitters. The firm maintains other strategic relationships including major accounting firms KPMG and EY, Accenture, SoftwareOne, etc. These relationships play a crucial role in ServiceNow expanding its reach and platform across varying industries.

M&A Activity

Notable ServiceNow Acquisitions			
Target:	***Size ($M):***	***Date:***	***Purpose:***
CueIn	N/A	1/17/25*	Enhance effectiveness of AI agents
Raytion	N/A	7/24/24	GenAI-powered search and knowledge management capabilities
4Industry	N/A	3/18/24*	Mobile app for shop floor work
G2K	N/A	5/12/23	Improve IoT-driven retail and industry operations with real-time data
Element AI	230	1/8/21	Accelerate AI innovation within the Now Platform and establish an AI Innovation Hub in Canada

*Source: FactSet; *announcement date*

ServiceNow is very active in the M&A space. The company typically targets niche software companies that can integrate into the Now Platform or improve upon current workflows. The firm has worked on 42 M&A deals since 2013, 40 of which were purchases. Most of these acquisitions are paid for with cash, given the firm has very little debt on its balance sheet. Many of the deals are small enough that there is no public information, but there are a few large enough for FactSet to report data on. The most notable acquisition was NOW's 2021 purchase of Canadian firm Element AI for $230 million. The goal of the purchase was to advance AI progress quicker within NOW and get access to some of the most advanced AI researchers and developers in the world. We appreciate ServiceNow's constant search for "what's next" within software and tech and believe their aggressive M&A approach is very beneficial to their strategy of being a platform of platforms. Moving forward it will be key to track their startup acquisitions, as they are a key indicator of where the firm thinks tech and trends are headed, or where the firm has a weak spot. The chart below displays ServiceNow's deal count each of the past 12 years. The firm has gotten more aggressive over the past five years as it has grown its scale. Their deal flow tends to fluctuate depending on the overall M&A and tech environment. Looking ahead, we anticipate the firm to remain aggressive and continue pursuit of hot AI and enterprise SaaS startups to continue building on its portfolio of products.



Source: FactSet

INDUSTRY TRENDS

Deepseek/Cost Efficient AI

Deepseek, a Chinese startup, took the tech community by storm to start 2025. The firm disrupted the AI industry by developing a powerful LLM at a fraction of the cost of western competitors. The company's R1 model, which was reportedly trained for $6 million, demonstrated performance that was comparable to OpenAI's o1 model. Whether or not it was trained for $6 million is up for interpretation, but regardless, Deepseek showed a path to AI at a cheaper level than most American companies were achieving. In ServiceNow's Q4 earnings call, Bill McDermott discussed the breakthrough, acknowledging that LLMs are being "commoditized at a rapid rate and probably more rapid than anyone could have dreamed of." This brings a couple things to the table for ServiceNow and competitors alike. AI integration costs are likely to lower with the availability of cheap AI models such as Deepseek, which makes things easier for adopting new tech to the Now Platform. It also adds more competitive pressure to ServiceNow and other large tech players. As AI becomes more affordable, big tech firms may see increased competition from small players who have access to world-class AI. We are bullish on ServiceNow's flexibility to adapt to changes in the AI market. Cheaper costing models is likely to lead NOW to differentiate itself by creating unique, industry-specific solutions that are hard to replicate a company with smaller scale and less capabilities. It also boosts our confidence in their M&A strategy as they scoop up high-flying startups who could be "Deepseeks" in their own right.

McDermott also noted that NOW is very cautious when adopting new AI tech, and that the firm is committed to understanding implications of AI models and ensuring responsible AI practices. Deepseek also presented broader geopolitical issues with the AI race, as the firm censored content regarding China's communist regime. Watching how nations leverage AI for political and economic growth will be something to monitor in coming years. We have full confidence in ServiceNow's ability to manage changes in tech with ethical and responsible practices.

Agentic AI Competition

ServiceNow is not the only company with aspirations to be a leader in the Agentic AI space. Firms such as Microsoft, Salesforce, IBM, and other notable software companies are planning strategies to enter the space. We believe ServiceNow is positioned best amongst peers to be a leader in the Agentic AI industry for enterprise solutions. However, we concede that AI Agents have larger potential than just workforce solutions and do not anticipate ServiceNow to expand outside the realm of business-focused solutions anytime soon. As the technology takes off, we will be tracking which companies offer AI Agents that offer businesses and consumers the best practical use-cases. ServiceNow has a diverse offering of products and industries within the Now Platform that we anticipate the firm will have immediate successes with AI Agents in specific areas. Once this technology hits the market we would like to see the difference in offerings between firms. We have confidence that ServiceNow is set up best amongst peers for growth in this space.

Predictive Analytics

Real-time data and predictive analytics are major industry trends that ServiceNow is aiming to help with. Companies across the globe seek real-time AI processing of large chunks of data to quicken decision-making and optimize processes/supply chains. ServiceNow offers AI products within its platform that seek to analyze and provide oversight that humans physically cannot. Some examples include fraud detection, wireless connectivity, dynamic pricing in retail, autonomous vehicles, etc. As ServiceNow levels up its AI capacities with continued M&A activity, improved services, and AI Agents, we expect the firm to be a market leader in the predictive analytics space. The firm's diverse platform lends itself very well to providing tailor-made solutions to businesses. The expansion of this space contributes to our optimistic revenue growth expectations.

MARKETS AND COMPETITION

Due to ServiceNow's vast number of products and industries, we chose a broad basket of software companies. Our peer group encompasses niche enterprise software firms, as well as leaders in customer relationship management (CRM), human capital management (HCM), cybersecurity, and other related areas.

Major Players[2]

Firm	Mkt. Cap	Forward P/E	TTM Revenue	FCF Yield
NOW	***$193B***	***56.3***	***11.0B***	***1.8%***
CRM	295B	34.1	37.2B	*3.2%*
ORCL	482B	28.0	54.9B	2.4%
WDAY	72B	31.7	8.4B	3.0%
PAYC	12.6B	25.2	1.8B	2.7%
PEGA	6.8B	25.4	1.5B	5.0%
PANW	126B	59.3	8.6B	2.5%
MSFT	2.9T	30.3	261.8B	2.6%
SAP	328B	43.8	36.9B	1.5%

Salesforce (CRM):

- Provides cloud-based CRM solutions, enabling businesses to manage sales, marketing, and customer service.
- Industry leader in CRM with a 23.9% market share[15]

Oracle (ORCL):

- Offers a wide range of enterprise software solutions, including databases, cloud infrastructure, and applications for various industries
- Oracle PeopleSoft product holds 10.4% market share in HCM[15]

Workday (WDAY):

- Specializes in cloud-based financial management and human capital management (HCM) software for enterprises
- Leader in HCM market with 26.0% market share[15]

Paycom Software (PAYC):

- Develops cloud-based payroll and human capital management software for businesses
- Significant player in HCM and payroll software

Pegasystems (PEGA):

- Focuses on software solutions for CRM, business process management, and digital transformation
- 1.0% market share in Business Process Management[15]

Palo Alto Networks (PANW):

- Provides cybersecurity solutions, including firewalls, threat detection, and cloud security services
- Leading cybersecurity vendor, with a 9.7% market share[15]

Microsoft (MSFT):

- Offers a broad portfolio of software products, including operating systems, productivity tools (Excel, Teams), cloud services (Azure), and enterprise software solutions.
- 7.7% market share in CRM sector[15]

SAP (SAP):

- Develops enterprise software solutions for managing business operations, including ERP, CRM, and supply chain management.
- SAP HCM holds 11.2% market share of HCM industry[15]

When compared to peers, ServiceNow provides a mixed performance. The firm is still significantly smaller than giants like Microsoft but is also ahead of workforce software peers Workday, Paycom, etc. ServiceNow's forward P/E of 56.3 is relatively high but is a much more normalized P/E than what it was trading at previously. This is in large part due to the tech selloff of late February 2025 and increased earnings expectations for 2025. We expect the company to continue high revenue growth as it competes in new industries and sees product development from AI. We believe the firm's FCF yield will improve as ServiceNow matures, grows its scale, and improves margins.

We also expect ServiceNow's revenue growth and product development to propel it further and faster than enterprise software companies such as Workday, Paycom, and Pegasystems who all trail ServiceNow in market cap. We believe ServiceNow's high valuation is justified due to the unique moat it creates and the diversity of clients and sectors it reaches with the Now platform.

Debt & Margins

ServiceNow demonstrates both strengths and areas for potential improvement relative to its software peers. NOW maintains a relatively conservative financial position with a low debt-to-EBITDA ratio of 0.8x, significantly lower than competitors like Oracle (4.1x) and Workday (3.8x). ServiceNow's interest coverage ratio of 185.5 is strong, second only to Palo Alto Networks (661.3), indicating robust ability to service its debt obligations. On the profitability side, NOW boasts one of the highest gross margins at 79.2%, outperforming most peers including Microsoft (69.4%) and Oracle (66.6%). However, its operating margin of 12.4% falls in the lower-middle range compared to competitors. ServiceNow excels at generating high-margin revenue, but is still working to improve operational efficiency, and pours a large amount of proceeds into operating expenses. As the firm continues to mature, we expect growth in operating margin.

Firm	D/ EBITDA	Int. Coverage	Gross Margin	Operating Margin
NOW	***0.8x***	***185.5***	***79.2%***	***12.4%***
CRM	0.7x	-	70.7%	20.2%
ORCL	4.1x	6.0	66.6%	31.8%
WDAY	3.8x	21.6	75.4%	5.5%
PAYC	0.1x	159.2	73.7%	33.7%
PEGA	2.6x	50.6	73.8%	10.7%
PANW	0.4x	661.3	73.9%	11.6%
MSFT	0.6x	46.9	69.4%	45.0%
SAP	1.1x	5.1	73.2%	24.1%

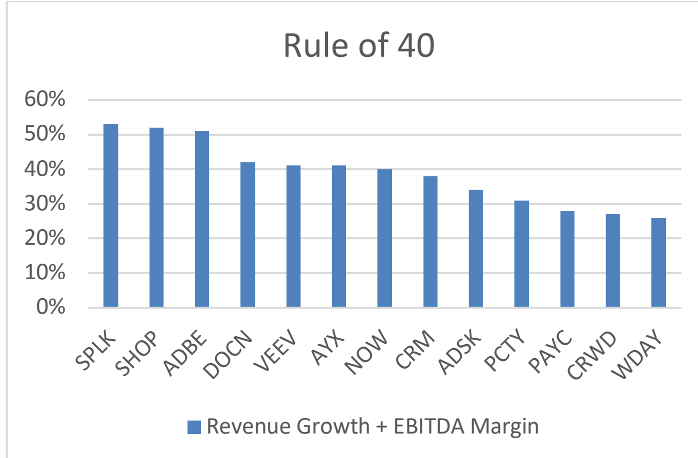
Source: FactSet

Structure and Stability

The enterprise software industry in 2025 is defined by fierce competition. The sector is nowhere near an equilibrium. While there are major players such as Microsoft, Salesforce, etc., the market is not divided neatly into specific niches. All firms are scrapping for territory, ServiceNow included. Companies are aggressively pursuing growth through acquisition, AI and Cloud research and development etc. We believe NOW's platform of platforms business model sets the firm up to be durable and diversified compared to key peers. The firm's aggressive M&A and R&D allow NOW to adapt to new technologies and trends and fend of risks of disruption. Due to the scale and number of products their platform offers, the risk of substitution is lower for ServiceNow compared to a competitor such as Salesforce.

Rule of 40

The Rule of 40 is a financial metric used in the SaaS industry that states a company's combined revenue growth rate and profit margin should be greater than or equal to 40%. It emphasizes a balance between growth and profitability, which is crucial for long-term business sustainability. As of now, ServiceNow exceeds the rule of 40 (and is even past 50 if you use FCF margin). This metric is important to track as it provides investors with an idea of which software companies are the best investment ideas. It also exemplifies ServiceNow's fantastic combination of growth and increasing profitability, which are impressive for a company of its scale.



Source: Volition Capital

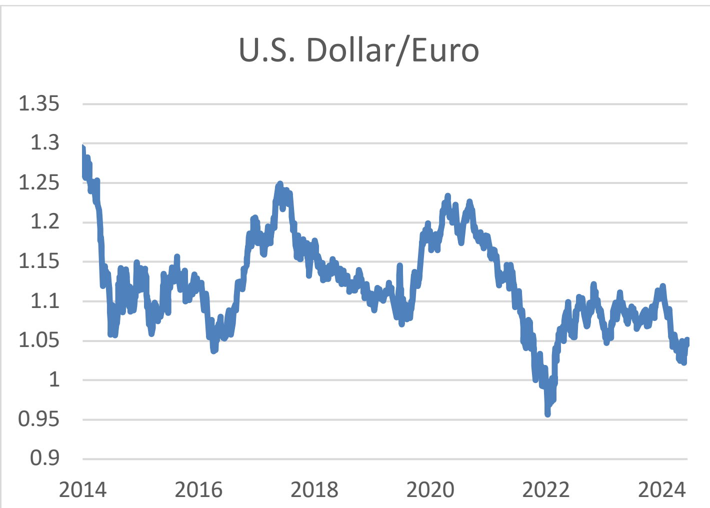
ECONOMIC OUTLOOK

Trump, Musk, & DOGE

The biggest wildcard in the economy is the new Trump administration and Elon Musk's Department of Government Efficiency (DOGE). Trump started his new term as President by threatening North American allies Mexico and Canada with tariffs and is looking to drop long-term treasury rates. Musk has also been running amok in the federal government, with his DOGE program making cuts to government spending left and right. Musk recently emailed federal employees requesting them to validate their roles, which caused infighting within the Trump administration. The administration is already facing legal challenges, with over two dozen cases battling DOGE and Trump cuts. On Tuesday, February 25, 21 DOGE staff members quit, refusing to execute Musk's vision[14]. The story is developing rapidly, and it will be a key economic driver moving forward. The future results of Trump and Musk's actions are unclear, but they are a bombshell to the status-quo of the government. From a ServiceNow perspective, the company has many contracts with federal agencies. If government spending and agencies are completely cut, NOW may face a harder time hitting expected revenues. We anticipate the firm will be able to weather the DOGE storm but are still unsure on how much of Musk and Trump's policies will stick.

Currency Exchange Rates

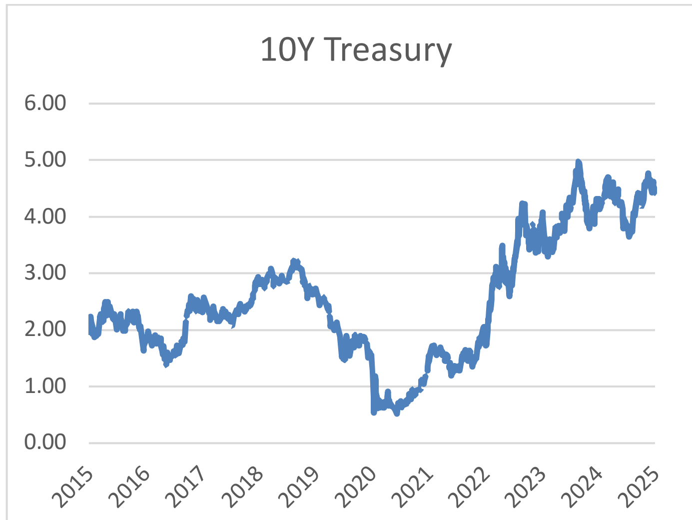
Approximately 37% of ServiceNow's revenues come from outside of the United States, with 26% of total revenues coming from the EMEA region. According to the firm's 2024 10-K, a hypothetical 10% increase in the U.S. Dollar against other currencies would have resulted in a $150 million decrease in operating income for 2024. The firm also lowered revenue guidance for 2025 in part due to a $175 million foreign exchange headwind. NOW does work to mitigate this risk by using derivative contracts to hedge a portion of foreign currency denominated revenues. Over the past year plus, the dollar has strengthened against the Euro which hurts ServiceNow's returns from Europe. Moving forward we will monitor the strength of the U.S. Dollar against the Euro. A weaker dollar would help ServiceNow, but it is not a key driver to the overall state of NOW's business.



Source: European Central Bank

Interest Rates

ServiceNow, like many other tech and growth-oriented firms is sensitive to long-term interest rates. The days of zero interest rates are long gone, and the 10Y treasury has fluctuated between 4-5% for the past few years. The higher interest rate environment affects ServiceNow in several ways. From a valuation perspective, it increases the discount rate which reduces the present value of future cash flows. ServiceNow, like many tech peers has a significant focus on terminal-value, so higher rates could play a role in lowering the stock price. Additionally, higher rates increase borrowing costs which could impact NOW's ability to issue cheap debt. We do not anticipate them having significant reason to issue debt in this current environment. If rates remain elevated and the U.S. enters a recession, consumer spending will slow which impacts many of ServiceNow's enterprise clients. If corporate budgets get squeezed, it could slow the adoption of ServiceNow's platform. We believe that this would have a greater impact on customer acquisition than retention, however. Firm's that sign up for ServiceNow are unlikely to leave as the workflows provided become essential to the client's operations. Looking ahead, we believe a lower rate environment would be more beneficial to ServiceNow. We also acknowledge company performance is strong and growing at a fast pace in an elevated rate environment, which speaks to the strength of ServiceNow and the resilience of the U.S. economy.



Source: FRED

VALUATION

Revenue Growth Forecasts:

We forecast total revenue to grow by a CAGR of 16.4% through 2034. We forecasted the first five years in line with analyst expectations and at the high end of management guidance. We believe the firm is set up well to monetize on new technologies such as Agentic AI and its growing customer base. Over the back half of the forecast, we projected total revenue growth to slow but still relatively high at 10.9% in 2034 due to the rapid and expanding nature of AI and ServiceNow's business.

Operating Expense Assumptions:

In 2024, Sales and Marketing and Research and Development took up 58.2% of revenues, and General and

Administrative another 8.5%. We expect Sales and Marketing and R&D to still take up a large chunk of revenues in the near-term as the firm builds AI products and its customer base but anticipate them to lessen over time (54.5% of revenues in 2029). We forecast General and Administrative to take up 10 bps less of revenue per year through 2029, and then straight lined 9.0% through 2034 as the firm becomes more stable and matures.

Profit Margin Forecasts:

We expect a slow and steady increase to ServiceNow's margins. We predict both gross margin and operating margin to take a jump up in 2025 as the firm continues to see growth at scale. Over the next 10 years, we expect gross margin to grow by a CAGR of 0.4%, and operating margin by a CAGR of 5.0% as the firm can trim costs around the edges as less money gets poured into R&D and the firm builds economies of scale and high penetration in key markets.

Earnings Estimates Relative to Consensus:

We expect ServiceNow to out earn its consensus EPS estimates. The largest reason for this is due to slightly lower operating cost projections than Wall Street consensus. Another potential factor is differences in share buyback projections. We believe sustained strong earnings are around the corner for ServiceNow, in part due to their high growth potential and deployment of Agentic AI.

Earnings Estimates (GAAP)

Year	2022	2023	2024	2025E	2026E	2027E
EPS	$1.61	$8.48	$6.92	$8.49	$11.11	$14.13
HF est.				$8.77	$11.25	$14.21
Growth	*39.0%*	*425.6%*	*-18.4%*	*26.7%*	*28.3%*	*26.4%*

CapEx:

ServiceNow's capital expenditures revolve around building data centers and AI capacity for its NOW platform. The company invested $852 million in CapEx in 2024, and the YoY growth rate of CapEx was 22.8%. In its Q4 2024 earnings call, the firm did not give any CapEx guidance. However, NOW's AI capabilities continue to grow, and other tech companies are spending massive amounts on CapEx. Our expectation is that YoY growth in CapEx will peak in 2025 at 25%, then scale down over the forecasted period, arriving at a 9% YoY CapEx growth rate between 2033-2035. The path might not be as linear, but we anticipate higher AI spending costs up front and for CapEx in the tech space to slow down in the next five years.

Capital Structure Forecasts:

ServiceNow operates with low leverage and only has one 10-year note outstanding ($1.5b, 2030 maturity). Given the firm's asset-light nature, we did not forecast any additional debt issuances. We also forecasted the firm to begin paying down its long-term debt in 2026, with a complete paydown by 2030 maturity. Refinancing is also an option, and either path has minimal impact to our DCF valuation. We believe the firm should be able to handle its current CapEx strategy with operating cash flows. If the firm desires to scale up its data center capabilities much bigger and quicker, that could spur a new issuance of debt. However, we do not anticipate this happening.

In 2024, the firm repurchased $696 million of shares. As the firm sees significant growth and an eventual maturity, we expect share repurchases to continue. We forecasted the dollar amount of shares repurchased to grow by 10% a year throughout the entire period.

Payout Policy Forecasts (Dividends):

We forecasted zero dividends for the firm through the next ten. ServiceNow is in the middle of a rapid growth stage, so we expect the large majority of cashflows to be recommitted to the business. We anticipate the firm's focus aside from growth will be providing value through share repurchases. It is possible the firm issues a dividend in year 8, 9, or 10, but we chose not to take a random guess due to the rapid and uncertain development of AI.

DCF/EP:

Our DCF Model projects a price of $1,126 for ServiceNow, which represents a 19.5% upside from its current price. We place the most weight on the DCF of any model, as it incorporates our specific expectations for cash flows and margin expansion. Key assumptions include CV growth of 7.5% and a WACC of 9.37%, which creates an exit multiple of 53.5x in the CV year. We believe this multiple is justified due to all the potential avenues for ServiceNow Growth, and it is in line with analyst projections.

DDM:

Our DDM model projects a price of $1,174 for ServiceNow, which represents a 24.7% upside from its current price.

Key inputs in the model include CV EPS growth of 8.3% and a 21.4% CV year ROE. We believe the EPS growth estimate is justified, as we believe the firm is set up well to continue innovating over time with a platform of platforms model. By 2034, the firm will likely be improving upon margins and profitability as it matures. We place less weight on this model due to the historical lack of dividend, as well as no dividend issuance projected.

Relative Valuation:

Our Relative P/E model projects a price of $555 for ServiceNow, which represents an approximate 41.0% downside from its current price. This is because of ServiceNow's elevated valuation and material difference in GAAP and Non-GAAP EPS estimates due to stock-based compensation. We do not place any weight on this valuation method, as it does not incorporate the cash flow growth we expect from NOW. We believe the expensive P/E valuation is justified due to ServiceNow's unique moat and high revenue growth at such a large scale.

Sensitivity Analysis:

We also tested key model inputs to see how our DCF share price would react. Our model is very sensitive to the CV Growth of NOPLAT (7.5%), as much of the intrinsic value is tied into future growth. WACC is also a key input to the model, as it impacts the intrinsic value calculation of the firm.

CV Growth of NOPLAT (rows: WACC)

1,126.11	7.20%	7.30%	7.40%	7.50%	7.60%	7.70%	7.80%
9.07%	1,157.43	1,215.20	1,279.90	1,352.85	1,435.75	1,530.77	1,640.77
9.17%	1,095.49	1,146.89	1,204.10	1,268.18	1,340.43	1,422.53	1,516.64
9.27%	1,039.55	1,085.54	1,136.45	1,193.11	1,256.58	1,328.14	1,409.45
9.37%	988.80	1,030.14	1,075.69	1,126.11	1,182.23	1,245.09	1,315.97
9.47%	942.55	979.88	1,020.83	1,065.94	1,115.87	1,171.46	1,233.72
9.57%	900.22	934.08	971.05	1,011.61	1,056.28	1,105.74	1,160.80
9.67%	861.34	892.16	925.69	962.31	1,002.48	1,046.72	1,095.71

We also examined 2025 subscription revenue growth and CapEx forecasts' impact on our DCF price. 2025 is a key year for the firm as they introduce Agentic AI, build AI infrastructure, and grow revenue at a rapid pace. These inputs were much less impactful than the WACC and growth rate but still set the foundation for growth rates in the future. However, a major miss or beat in subscription revenue growth would send the stock in a direction further than what the sensitivity table shows.

2025 Subscription Revenue Growth (rows: 2025 Capex)

1,126.11	17.37%	17.87%	18.37%	18.87%	19.37%	19.87%	20.37%
915	1,128.56	1,134.25	1,139.94	1,145.63	1,151.32	1,157.00	1,162.69
965	1,122.05	1,127.74	1,133.43	1,139.12	1,144.81	1,150.50	1,156.19
1,015	1,115.55	1,121.24	1,126.92	1,132.61	1,138.30	1,143.99	1,149.68
1,065	1,109.04	1,114.73	1,120.42	1,126.11	1,131.80	1,137.49	1,143.18
1,115	1,102.53	1,108.22	1,113.91	1,119.60	1,125.29	1,130.98	1,136.67
1,165	1,096.02	1,101.72	1,107.41	1,113.10	1,118.79	1,124.48	1,130.17
1,215	1,089.52	1,095.21	1,100.90	1,106.59	1,112.28	1,117.97	1,123.66

KEYS TO MONITOR

ServiceNow presents a very compelling investment opportunity, driven by rapid growth in AI-powered business transformation and revenue. The company's business model is adaptable and diverse, which we believe sets it up well for the future. Moving forward it will be key to track the following drivers and risks.

Drivers:

ServiceNow's growth is propelled by its expanding customer base and the constant introduction of new AI workflow products. We forecast an 18.9% YoY increase in revenue in 2025 and expect the firm to capitalize on its launch of AI Agents. Its "platforms of platforms" business model creates a strong moat that is ever expanding. With a 98% renewal rate and growing adoption of its technology the firm is set up well to increase prices and expand margins throughout the next decade.

Risks:

Despite strong fundamentals, ServiceNow faces risk from high valuations. The company's stock has experienced volatility over the past few months, which we believe sets up a strong buying opportunity. Additionally, the firm faces tough competition from companies like Salesforce and Workday who specialize in certain sectors such as CRM and HCM. To continue beating competition, ServiceNow will need to offer a product on the level of top industry competitors. The firm also faces macro risk through foreign currency exchange rates and long-term interest rates. For our buy recommendation to change, we would need to see a significant decline in revenue and market share growth over the next year-plus.

Conclusion:

Looking ahead, we will be focusing on the launch of AI agents in March, how the overall tech sector performs in response to weakening economic data, and any M&A in the enterprise software space. We give ServiceNow a **BUY** rating, placing emphasis on our DCF model, which outputs a target price of $1,126 and an upside of 19.5%. We believe this valuation method is superior, as it encapsulates ServiceNow's future growth prospects and cash flows.

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DISCLAIMER

ServiceNow

Revenue Decomposition

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Digital workflow products	6,077	7,679	9,422	11,212	13,455	16,146	19,536	23,443	27,663	32,228	36,981	41,789	46,594
growth	24.5%	26.4%	22.7%	**19.0%**	**20.0%**	**20.0%**	**21.0%**	**20.0%**	**18.0%**	**16.5%**	**14.8%**	**13.0%**	**11.5%**
ITOM products	814	1,001	1,224	1,443	1,706	1,917	2,233	2,357	2,528	2,650	2,786	2,957	3,082
growth	17.8%	23.0%	22.3%	17.9%	18.2%	12.4%	16.5%	5.6%	7.3%	4.8%	5.1%	6.1%	4.2%
Total subscription revenues	6,891	8,680	10,646	12,655	15,161	18,062	21,769	25,800	30,191	34,877	39,767	44,746	49,677
growth	17.8%	23.0%	22.3%	**18.9%**	**19.8%**	**19.1%**	**20.5%**	**18.5%**	**17.0%**	**15.5%**	**14.0%**	**12.5%**	**11.0%**
Professional services and other	354	291	338	357	381	418	413	438	460	483	508	533	560
growth	9.6%	-17.8%	16.2%	**5.8%**	**6.6%**	**9.9%**	**-1.4%**	**6.3%**	**5.0%**	**5.0%**	**5.0%**	**5.0%**	**5.0%**
Total revenues	7,245	8,971	10,984	13,012	15,542	18,481	22,181	26,239	30,652	35,361	40,275	45,279	50,236
growth	22.9%	23.8%	22.4%	18.5%	19.4%	18.9%	20.0%	18.3%	16.8%	15.4%	13.9%	12.4%	10.9%

ServiceNow
Income Statement

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenues:													
Subscription	6,891	8,680	10,646	12,655	15,161	18,062	21,769	25,800	30,191	34,877	39,767	44,746	49,677
Professional services and other	354	291	338	357	381	418	413	438	460	483	508	533	560
Total revenues	7,245	8,971	10,984	13,012	15,542	18,481	22,181	26,239	30,652	35,361	40,275	45,279	50,236
Cost of Revenues:													
Subscription	1,187	1,606	1,942	2,278	2,729	3,251	3,918	4,580	5,284	6,016	6,760	7,495	8,197
Professional services and other	386	315	345	361	381	415	405	426	442	460	477	496	515
Total cost of revenues	1,573	1,921	2,287	2,639	3,110	3,666	4,323	5,005	5,726	6,476	7,238	7,991	8,712
Gross profit	5,672	7,050	8,697	10,373	12,431	14,815	17,858	21,234	24,926	28,885	33,037	37,288	41,524
Operating expenses:													
Sales and marketing	2,814	3,301	3,854	4,501	5,298	6,207	7,339	8,551	9,989	11,523	13,124	14,755	16,371
Research and development	1,768	2,124	2,543	2,980	3,520	4,140	4,914	5,747	6,713	7,745	8,821	9,917	11,003
General and administrative	735	863	936	1,096	1,293	1,519	1,801	2,105	2,459	2,836	3,231	3,632	4,030
Total operating expenses	5,317	6,288	7,333	8,577	10,111	11,867	14,054	16,402	19,161	22,104	25,176	28,304	31,403
Income from operations	355	762	1,364	1,797	2,320	2,948	3,804	4,832	5,765	6,781	7,861	8,984	10,121
Interest income	82	302	419	412	506	607	730	836	974	1,149	1,372	1,634	1,937
Other expense, net	(38)	(56)	(45)	(72)	(72)	(58)	(43)	(29)	(14)	-	-	-	-
Income before income taxes	399	1,008	1,738	2,136	2,754	3,498	4,491	5,639	6,725	7,929	9,233	10,618	12,058
Provision for (benefit from) income taxes	(74)	723	(313)	(323)	(418)	(531)	(685)	(870)	(1,038)	(1,220)	(1,415)	(1,617)	(1,822)
Net income	325	1,731	1,425	1,813	2,336	2,967	3,806	4,769	5,687	6,709	7,818	9,001	10,237

Basic Earnings per Share (EPS)	1.61	8.48	6.92	8.77	11.25	14.21	18.22	22.87	27.35	32.38	37.88	43.78	50.00
Year end shares outstanding (basic)	203	205	206	208	209	210	209	208	207	206	206	205	204
Weighted average shares outstanding class A, B & C (basic)	201	204	206	207	208	209	209	209	208	207	206	206	205
Annual Dividends per Share	-	-	-	-	-	-	-	-	-	-	-	-	-

ServiceNow

Balance Sheet

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Assets													
Current assets:													
Cash and cash equivalents	1,470	1,897	2,304	4,250	6,336	8,921	11,095	14,020	17,810	22,745	28,594	35,406	43,141
Short-term investments	2,810	2,980	3,458	3,602	3,752	3,909	4,072	4,241	4,418	4,602	4,794	4,994	5,202
Accounts receivable, net	1,725	2,036	2,240	2,654	3,169	3,769	4,523	5,351	6,251	7,211	8,213	9,234	10,245
Current portion of deferred commissions	369	461	517	612	732	870	1,044	1,235	1,443	1,664	1,896	2,131	2,365
Prepaid expenses and other current assets	280	403	668	726	790	847	905	940	1,098	1,266	1,442	1,622	1,799
Total current assets	6,654	7,777	9,187	11,845	14,779	18,315	21,639	25,787	31,019	37,489	44,940	53,387	62,752
Deferred commissions, less current portion	742	919	999	1,183	1,414	1,681	2,017	2,386	2,788	3,216	3,663	4,118	4,569
Long-term investments	2,117	3,203	4,111	4,293	4,483	4,682	4,890	5,106	5,332	5,569	5,815	6,073	6,342
Property and equipment, net	1,053	1,358	1,763	2,346	3,015	3,777	4,631	5,573	6,588	7,656	8,748	9,828	10,925
Operating lease right-of-use assets	682	715	693	922	1,185	1,484	1,820	2,191	2,590	3,009	3,439	3,863	4,294
Intangible assets, net	232	224	209	129	79	43	15	2	-	-	-	-	-
Goodwill	824	1,231	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273
Deferred tax assets	636	1,508	1,385	1,512	1,676	1,885	2,154	2,496	2,903	3,383	3,939	4,575	5,290
Other assets	359	452	763	839	923	1,016	1,117	1,229	1,352	1,487	1,636	1,799	1,979
Total assets	13,299	17,387	20,383	24,343	28,828	34,156	39,556	46,042	53,845	63,082	73,452	84,915	97,424
Liabilities and Stockholders' Equity													
Current liabilities:													
Accounts payable	274	126	68	81	96	114	137	162	190	219	249	280	311
Accrued expenses and other current liabilities	975	1,365	1,369	1,622	1,937	2,303	2,765	3,270	3,820	4,407	5,020	5,643	6,261
Current portion of deferred revenue	4,660	5,785	6,819	7,948	9,338	10,919	12,883	14,977	17,496	20,184	22,989	25,846	28,676
Current portion of operating lease liabilities	96	89	102	136	174	218	268	322	381	443	506	569	632
Total current liabilities	6,005	7,365	8,358	9,786	11,545	13,555	16,053	18,733	21,888	25,253	28,764	32,338	35,880
Deferred revenue, less current portion	70	81	95	113	134	160	192	227	265	306	348	392	434
Operating lease liabilities, less current portion	650	707	687	914	1,175	1,472	1,805	2,172	2,567	2,983	3,409	3,830	4,257
Long-term debt, net	1,486	1,488	1,489	1,489	1,191	893	596	298	-	-	-	-	-
Other long-term liabilities	56	118	145	172	205	244	293	346	405	467	532	598	663
Total liabilities	8,267	9,759	10,774	12,474	14,251	16,324	18,938	21,775	25,125	29,009	33,053	37,157	41,235
Stockholders' equity:													
Treasury stock, at cost	-	(535)	(1,219)	(1,985)	(2,827)	(3,753)	(4,772)	(5,893)	(7,126)	(8,482)	(9,974)	(11,615)	(13,421)
Common equity	4,796	6,131	7,402	8,616	9,829	11,043	11,043	11,043	11,043	11,043	11,043	11,043	11,043
Accumulated other comprehensive loss	(102)	(37)	(68)	(68)	(68)	(68)	(68)	(68)	(68)	(68)	(68)	(68)	(68)
Retained earnings	338	2,069	3,494	5,307	7,643	10,610	14,416	19,185	24,872	31,581	39,399	48,399	58,636
Total stockholders' equity	5,032	7,628	9,609	11,870	14,577	17,832	20,619	24,267	28,721	34,073	40,399	47,759	56,190
Total liabilities and stockholders' equity	13,299	17,387	20,383	24,343	28,828	34,156	39,556	46,042	53,845	63,082	73,452	84,915	97,424

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Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2022	2023	2024
Cash flows from operating activities:			
Net income	325	1,731	1,425
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	433	562	564
Amortization of deferred commissions	358	459	550
Stock-based compensation	1,401	1,604	1,746
Deferred income taxes	15	(857)	98
Other	17	-	(51)
Changes in operating assets and liabilities, net of effect of business combinations:			
Accounts receivable	(340)	(300)	(254)
Deferred commissions	(566)	(717)	(713)
Prepaid expenses and other assets	(39)	(203)	(332)
Accounts payable	172	(142)	(52)
Deferred revenue	904	1,085	1,179
Accrued expenses and other liabilities	43	176	107
Net cash provided by operating activities	2,723	3,398	4,267
Cash flows from investing activities:			
Purchases of property and equipment	(550)	(694)	(852)
Business combinations, net of cash acquired	(91)	(279)	(113)
Purchases of other intangibles	-	(3)	(40)
Purchases of investments	(4,038)	(4,634)	(5,031)
Purchases of non-marketable investments	(167)	(75)	(181)
Sales and maturities of investments	2,245	3,522	3,752
Other	18	(4)	(36)
Net cash used in investing activities	(2,583)	(2,167)	(2,501)
Cash flows from financing activities:			
Repayments of convertible senior notes attributable to principal	(94)	-	-
Proceeds from employee stock plans	177	194	237
Repurchases of common stock	-	(538)	(696)
Taxes paid related to net share settlement of equity awards	(427)	(459)	(700)
Business combination	-	-	(184)
Net cash used in financing activities	(344)	(803)	(1,343)

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Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Operating Cash Flows										
Net Income	1,813	2,336	2,967	3,806	4,769	5,687	6,709	7,818	9,001	10,237
Depreciation	482	641	824	1,032	1,265	1,522	1,800	2,092	2,390	2,685
Change in Accounts receivable, net	(414)	(516)	(599)	(755)	(827)	(900)	(960)	(1,002)	(1,021)	(1,011)
Change in Current portion of deferred commissions	(95)	(119)	(138)	(174)	(191)	(208)	(222)	(231)	(236)	(233)
Change in Prepaid expenses and other current assets	(58)	(63)	(57)	(59)	(34)	(158)	(169)	(176)	(179)	(178)
Change in Deferred commissions, less current portion	(184)	(230)	(267)	(337)	(369)	(401)	(428)	(447)	(455)	(451)
Change in Operating lease right-of-use assets	(229)	(263)	(299)	(336)	(370)	(399)	(420)	(429)	(424)	(431)
Amortization expense (intangible assets)	80	50	36	28	13	2	-	-	-	-
Change in Deferred tax assets	(127)	(164)	(209)	(269)	(342)	(408)	(480)	(556)	(635)	(716)
Change in Accounts payable	13	16	18	23	25	27	29	30	31	31
Change in Accrued expenses and other current liabilities	253	315	366	461	506	550	587	612	624	618
Change in Current portion of deferred revenue	1,129	1,389	1,581	1,964	2,094	2,519	2,688	2,805	2,856	2,830
Change in Current portion of operating lease liabilities	34	39	44	49	54	59	62	63	62	63
Change in Deferred revenue, less current portion	18	22	25	32	35	38	41	43	43	43
Change in Operating lease liabilities, less current portion	227	261	297	333	367	396	416	425	421	428
Net cash flows from operating activities	2,939	3,714	4,589	5,800	6,995	8,326	9,653	11,047	12,478	13,914
Investing Cash Flows										
CapEx	(1,065)	(1,310)	(1,585)	(1,886)	(2,207)	(2,538)	(2,868)	(3,183)	(3,470)	(3,782)
Change in Short-term investments	(144)	(150)	(156)	(163)	(170)	(177)	(184)	(192)	(200)	(208)
Change in Long-term investments	(182)	(190)	(199)	(207)	(217)	(226)	(236)	(247)	(258)	(269)
Change in Other assets	(76)	(84)	(92)	(102)	(112)	(123)	(135)	(149)	(164)	(180)
Net cash flows from investing activities	(1,468)	(1,734)	(2,032)	(2,358)	(2,705)	(3,064)	(3,423)	(3,771)	(4,091)	(4,439)
Financing Cash Flows										
Repurchases of Stock (change in Treasury stock)	(766)	(842)	(926)	(1,019)	(1,121)	(1,233)	(1,356)	(1,492)	(1,641)	(1,805)
Change in Common equity	1,214	1,214	1,214	-	-	-	-	-	-	-
Change in Long-term debt, net	-	(298)	(298)	(298)	(298)	(298)	-	-	-	-
Change in Other long-term liabilities	27	33	39	49	54	58	62	65	66	65
Net cash flows from financing activities	475	107	28	(1,268)	(1,365)	(1,473)	(1,294)	(1,427)	(1,575)	(1,740)
Change in Cash	1,946	2,086	2,585	2,174	2,925	3,790	4,935	5,849	6,812	7,735
Beginning of Year Cash	2,304	4,250	6,336	8,921	11,095	14,020	17,810	22,745	28,594	35,406
End of Year Cash	4,250	6,336	8,921	11,095	14,020	17,810	22,745	28,594	35,406	43,141

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Common Size Income Statement

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Revenues:													
Subscription	95.11%	96.76%	96.92%	97.25%	97.55%	97.74%	98.14%	98.33%	98.50%	98.63%	98.74%	98.82%	98.89%
Professional services and other	4.89%	3.24%	3.08%	2.75%	2.45%	2.26%	1.86%	1.67%	1.50%	1.37%	1.26%	1.18%	1.11%
Total revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Revenues:													
Subscription	16.38%	17.90%	17.68%	17.51%	17.56%	17.59%	17.67%	17.45%	17.24%	17.01%	16.79%	16.55%	16.32%
Professional services and other	5.33%	3.51%	3.14%	2.78%	2.45%	2.24%	1.82%	1.62%	1.44%	1.30%	1.19%	1.10%	1.03%
Total cost of revenues	21.71%	21.41%	20.82%	20.28%	20.01%	19.84%	19.49%	19.08%	18.68%	18.31%	17.97%	17.65%	17.34%
Gross profit	78.29%	78.59%	79.18%	79.72%	79.99%	80.16%	80.51%	80.92%	81.32%	81.69%	82.03%	82.35%	82.66%
Operating expenses:													
Sales and marketing	38.84%	36.80%	35.09%	34.59%	34.09%	33.59%	33.09%	32.59%	32.59%	32.59%	32.59%	32.59%	32.59%
Research and development	24.40%	23.68%	23.15%	22.90%	22.65%	22.40%	22.15%	21.90%	21.90%	21.90%	21.90%	21.90%	21.90%
General and administrative	10.14%	9.62%	8.52%	8.42%	8.32%	8.22%	8.12%	8.02%	8.02%	8.02%	8.02%	8.02%	8.02%
Total operating expenses	73.39%	70.09%	66.76%	65.91%	65.06%	64.21%	63.36%	62.51%	62.51%	62.51%	62.51%	62.51%	62.51%
Income from operations	4.90%	8.49%	12.42%	13.81%	14.93%	15.95%	17.15%	18.41%	18.81%	19.18%	19.52%	19.84%	20.15%
Interest income	1.13%	3.37%	3.81%	3.16%	3.26%	3.29%	3.29%	3.19%	3.18%	3.25%	3.41%	3.61%	3.86%
Other expense, net	-0.52%	-0.62%	-0.41%	-0.55%	-0.46%	-0.31%	-0.20%	-0.11%	-0.05%	0.00%	0.00%	0.00%	0.00%
Income before income taxes	5.51%	11.24%	15.82%	16.41%	17.72%	18.93%	20.25%	21.49%	21.94%	22.42%	22.92%	23.45%	24.00%
Provision for (benefit from) income tax	-1.02%	8.06%	-2.85%	-2.49%	-2.69%	-2.87%	-3.09%	-3.31%	-3.39%	-3.45%	-3.51%	-3.57%	-3.63%
Net income	4.49%	19.30%	12.97%	13.93%	15.03%	16.06%	17.16%	18.18%	18.55%	18.97%	19.41%	19.88%	20.38%

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Common Size Balance Sheet

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Assets													
Current assets:													
Cash and cash equivalents	20.29%	21.15%	20.98%	32.66%	40.77%	48.27%	50.02%	53.43%	58.10%	64.32%	71.00%	78.20%	85.88%
Short-term investments	38.79%	33.22%	31.48%	27.68%	24.14%	21.15%	18.36%	16.16%	14.41%	13.02%	11.90%	11.03%	10.36%
Accounts receivable, net	23.81%	22.70%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%	20.39%
Current portion of deferred commissions	5.09%	5.14%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%	4.71%
Prepaid expenses and other current assets	3.86%	4.49%	6.08%	5.58%	5.08%	4.58%	4.08%	3.58%	3.58%	3.58%	3.58%	3.58%	3.58%
Total current assets	91.84%	86.69%	83.64%	91.03%	95.10%	99.10%	97.56%	98.28%	101.20%	106.02%	111.58%	117.91%	124.91%
Deferred commissions, less current portion	10.24%	10.24%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%	9.10%
Long-term investments	29.22%	35.70%	37.43%	32.99%	28.85%	25.33%	22.04%	19.46%	17.40%	15.75%	14.44%	13.41%	12.62%
Property and equipment, net	14.53%	15.14%	16.05%	18.03%	19.40%	20.44%	20.88%	21.24%	21.49%	21.65%	21.72%	21.70%	21.75%
Operating lease right-of-use assets	9.41%	7.97%	6.31%	7.09%	7.63%	8.03%	8.21%	8.35%	8.45%	8.51%	8.54%	8.53%	8.55%
Intangible assets, net	3.20%	2.50%	1.90%	0.99%	0.51%	0.23%	0.07%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%
Goodwill	11.37%	13.72%	11.59%	9.78%	8.19%	6.89%	5.74%	4.85%	4.15%	3.60%	3.16%	2.81%	2.53%
Deferred tax assets	8.78%	16.81%	12.61%	11.62%	10.79%	10.20%	9.71%	9.51%	9.47%	9.57%	9.78%	10.10%	10.53%
Other assets	4.96%	5.04%	6.95%	6.45%	5.94%	5.50%	5.04%	4.68%	4.41%	4.20%	4.06%	3.97%	3.94%
Total assets	183.56%	193.81%	185.57%	187.08%	185.49%	184.82%	178.33%	175.47%	175.67%	178.40%	182.38%	187.54%	193.93%
Liabilities and Stockholders' Equity													
Current liabilities:													
Accounts payable	3.78%	1.40%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%	0.62%
Accrued expenses and other current liabilities	13.46%	15.22%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%	12.46%
Current portion of deferred revenue	64.32%	64.49%	62.08%	61.08%	60.08%	59.08%	58.08%	57.08%	57.08%	57.08%	57.08%	57.08%	57.08%
Current portion of operating lease liabilities	1.33%	0.99%	0.93%	1.04%	1.12%	1.18%	1.21%	1.23%	1.24%	1.25%	1.26%	1.26%	1.26%
Total current liabilities	82.88%	82.10%	76.09%	75.21%	74.29%	73.35%	72.37%	71.39%	71.41%	71.42%	71.42%	71.42%	71.42%
Deferred revenue, less current portion	0.97%	0.90%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%	0.86%
Operating lease liabilities, less current portion	8.97%	7.88%	6.25%	7.03%	7.56%	7.96%	8.14%	8.28%	8.38%	8.44%	8.46%	8.46%	8.47%
Long-term debt, net	20.51%	16.59%	13.56%	11.44%	7.66%	4.83%	2.69%	1.13%	0.00%	0.00%	0.00%	0.00%	0.00%
Other long-term liabilities	0.77%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%	1.32%
Total liabilities	114.11%	108.78%	98.09%	95.86%	91.70%	88.33%	85.38%	82.99%	81.97%	82.04%	82.07%	82.06%	82.08%
Stockholders' equity:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Treasury stock, at cost	0.00%	-5.96%	-11.10%	-15.25%	-18.19%	-20.31%	-21.51%	-22.46%	-23.25%	-23.99%	-24.77%	-25.65%	-26.72%
Additional paid-in capital	66.20%	68.34%	67.39%	66.21%	63.24%	59.75%	49.78%	42.09%	36.03%	31.23%	27.42%	24.39%	21.98%
Accumulated other comprehensive loss	-1.41%	-0.41%	-0.62%	-0.52%	-0.44%	-0.37%	-0.31%	-0.26%	-0.22%	-0.19%	-0.17%	-0.15%	-0.14%
Retained earnings	4.67%	23.06%	31.81%	40.78%	49.18%	57.41%	64.99%	73.12%	81.14%	89.31%	97.83%	106.89%	116.72%
Total stockholders' equity	69.45%	85.03%	87.48%	91.22%	93.80%	96.49%	92.96%	92.48%	93.70%	96.36%	100.31%	105.48%	111.85%
Total liabilities and stockholders' equity	183.56%	193.81%	185.57%	187.08%	185.49%	184.82%	178.33%	175.47%	175.67%	178.40%	182.38%	187.54%	193.93%

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Value Driver Estimation

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
NOPLAT:													
EBITA:													
Revenues	7,245	8,971	10,984	13,012	15,542	18,481	22,181	26,239	30,652	35,361	40,275	45,279	50,236
Operating Costs:													
Depreciation expense	261	372	371	482	641	824	1,032	1,265	1,522	1,800	2,092	2,390	2,685
Other Cost of revenues	1,312	1,549	1,916	2,158	2,469	2,842	3,291	3,740	4,203	4,676	5,146	5,601	6,027
Sales and marketing	2,814	3,301	3,854	4,501	5,298	6,207	7,339	8,551	9,989	11,523	13,124	14,755	16,371
Research and development	1,768	2,124	2,543	2,980	3,520	4,140	4,914	5,747	6,713	7,745	8,821	9,917	11,003
General and administrative	735	863	936	1,096	1,293	1,519	1,801	2,105	2,459	2,836	3,231	3,632	4,030
Plus: Implied interest on operating leases	31	36	39	38	51	65	82	101	121	143	166	190	213
EBITA:	386	798	1,403	1,835	2,371	3,014	3,886	4,932	5,886	6,924	8,027	9,174	10,335
Less: adjusted taxes													
Total income tax provision (income tax expense)	74	(723)	313	323	418	531	685	870	1,038	1,220	1,415	1,617	1,822
Minus: tax on interest or investment income	(15)	(54)	(75)	(74)	(91)	(109)	(131)	(150)	(175)	(207)	(247)	(294)	(349)
Add: tax shield on interest expense	5	4	4	13	13	10	8	5	3	-	-	-	-
Add: tax shield on implied lease interest	6	7	7	7	9	12	15	18	22	26	30	34	38
Add: tax shield on any non-operating losses	2	6	4	-	-	-	-	-	-	-	-	-	-
Total adjusted taxes	72	(761)	253	269	349	444	576	743	887	1,039	1,198	1,357	1,512
Change in Deferred Taxes	(56)	872	(123)	127	164	209	269	342	408	480	556	635	716
NOPLAT	258	2,431	1,027	1,693	2,186	2,779	3,579	4,531	5,407	6,364	7,385	8,452	9,539
Invested Capital (IC):													
Operating Current Assets (CA):													
Normal Cash	1,470	1,820	2,229	2,640	3,153	3,750	4,501	5,324	6,219	7,175	8,172	9,187	10,193
Accounts recievable	1,725	2,036	2,240	2,654	3,169	3,769	4,523	5,351	6,251	7,211	8,213	9,234	10,245
Prepaid expenses	280	403	668	726	790	847	905	940	1,098	1,266	1,442	1,622	1,799
Current portion of deferred commissions	369	461	517	612	732	870	1,044	1,235	1,443	1,664	1,896	2,131	2,365
Goodwill	824	1,231	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273	1,273
Total operating current assets	3,844	4,720	5,654	7,906	9,117	10,508	12,246	14,123	16,284	18,590	20,996	23,447	25,875
Non Interest-Bearing Current Liabilities (CL):													
Accounts payable	274	126	68	81	96	114	137	162	190	219	249	280	311
Accrued expenses and other current liabilities	975	1,365	1,369	1,622	1,937	2,303	2,765	3,270	3,820	4,407	5,020	5,643	6,261
Current portion of deferred revenue	4,660	5,785	6,819	7,948	9,338	10,919	12,883	14,977	17,496	20,184	22,989	25,846	28,676
Total non interest-bearing operating current liabilities	5,909	7,276	8,256	9,650	11,371	13,336	15,785	18,410	21,507	24,810	28,258	31,769	35,248
Net Operating Working Capital	(2,065)	(2,556)	(2,602)	(1,745)	(2,254)	(2,828)	(3,539)	(4,288)	(5,223)	(6,221)	(7,262)	(8,323)	(9,373)
Property and equipment, net	1,053	1,358	1,763	2,346	3,015	3,777	4,631	5,573	6,588	7,656	8,748	9,828	10,925
Net Other Operating Assets (net of depreciation or amortization)													
Deferred commissions, less current portion	742	919	999	1,183	1,414	1,681	2,017	2,386	2,788	3,216	3,663	4,118	4,569
Operating lease right-of-use assets	682	715	693	922	1,185	1,484	1,820	2,191	2,590	3,009	3,439	3,863	4,294
Intangible assets, net	232	224	209	129	79	43	15	2	-	-	-	-	-
Other assets	359	452	763	839	923	1,016	1,117	1,229	1,352	1,487	1,636	1,799	1,979
Total Net Other Operating Assets	2,015	2,310	2,664	3,074	3,601	4,224	4,970	5,808	6,729	7,712	8,737	9,780	10,842
Other Operating Liabilities													
Deferred revenue, less current portion	70	81	95	113	134	160	192	227	265	306	348	392	434
Other long-term liabilities	56	118	145	172	205	244	293	346	405	467	532	598	663
Total Other Operating Liabilities	126	199	240	284	340	404	485	573	670	773	880	989	1,098
INVESTED CAPITAL	877	913	1,585	3,391	4,023	4,768	5,578	6,520	7,425	8,375	9,343	10,296	11,296
Free Cash Flow (FCF):													
NOPLAT	258	2,431	1,027	1,693	2,186	2,779	3,579	4,531	5,407	6,364	7,385	8,452	9,539
Change in IC	175	36	671	1,807	632	745	809	942	905	950	968	953	1,000
FCF	84	2,395	356	(114)	1,555	2,033	2,770	3,589	4,502	5,413	6,417	7,499	8,539
Return on Invested Capital (ROIC):													
NOPLAT	258	2,431	1,027	1,693	2,186	2,779	3,579	4,531	5,407	6,364	7,385	8,452	9,539
Beginning IC	702	877	913	1,585	3,391	4,023	4,768	5,578	6,520	7,425	8,375	9,343	10,296
ROIC	**36.8%**	**277.2%**	**112.5%**	**106.8%**	**64.5%**	**69.1%**	**75.1%**	**81.2%**	**82.9%**	**85.7%**	**88.2%**	**90.5%**	**92.6%**
Economic Profit (EP):													
Beginning IC	702	877	913	1,585	3,391	4,023	4,768	5,578	6,520	7,425	8,375	9,343	10,296
x (ROIC - WACC)	27.41%	267.82%	103.09%	97.46%	55.10%	59.70%	65.70%	71.87%	73.57%	76.34%	78.81%	81.10%	83.28%
EP	**193**	**2,349**	**941**	**1,544**	**1,869**	**2,402**	**3,133**	**4,009**	**4,797**	**5,668**	**6,601**	**7,577**	**8,575**

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Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:			*ASSUMPTIONS:*
Risk-Free Rate	4.43%		*10y Treasury*
Beta	1.00		*5y Beta Monthly (actually 1.0)*
Equity Risk Premium	5.00%		*HF Assumption*
Cost of Equity	**9.43%**		
Cost of Debt:			
Risk-Free Rate	4.43%		*10y Treasury*
Implied Default Premium	0.42%		
Pre-Tax Cost of Debt	4.85%		YTM on 10y ServiceNow Bond
Marginal Tax Rate	18%		
After-Tax Cost of Debt	**3.98%**		

Market Value of Common Equity:		**MV Weights**
Total Shares Outstanding	206.487	
Current Stock Price	$938.41	
MV of Equity	**193,769.47**	98.84%
Market Value of Debt:		
Short-Term Debt	-	
Current Portion of LTD	-	
Long-Term Debt	1,489	
PV of Operating Leases	789	
MV of Total Debt	**2,278.00**	1.16%
Market Value of the Firm	**196,047.47**	100.00%

	Estimated WACC	**9.37%**

ServiceNow

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	7.50%
CV Year ROIC	81.24%
WACC	9.37%
Cost of Equity	9.43%

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
DCF Model:										
Free Cash Flow (FCF)	-114	1,555	2,033	2,770	3,589	4,502	5,413	6,417	7,499	8,539
Continuing Value (CV)										463,604
PV of FCF	-104	1,300	1,554	1,936	2,294	2,631	2,892	3,135	3,350	207,085

Value of Operating Assets:	226,073
Non-Operating Adjustments	
Excess Cash	75
Short-term investments	3,458
Long-term investments	4,111
Total Debt	-2,278
PV of ESOP	-2,332
Value of Equity	229,107
Shares Outstanding	206
Intrinsic Value of Last FYE	$ 1,109.55
Implied Price as of Today	$ 1,126.11

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EP Model:										
Economic Profit (EP)	1,544	1,869	2,402	3,133	4,009	4,797	5,668	6,601	7,577	8,575
Continuing Value (CV)										453,308
PV of EP	1,412	1,562	1,836	2,190	2,562	2,803	3,028	3,225	3,384	202,486

Total PV of EP	224,488
Invested Capital (last FYE)	1,585
Value of Operating Assets:	226,073
Non-Operating Adjustments	
Excess Cash	75
Short-term investments	3,458
Long-term investments	4,111
Total Debt	-2,278
PV of ESOP	-2,332
Value of Equity	229,107
Shares Outstanding	206
Intrinsic Value of Last FYE	$ 1,109.55
Implied Price as of Today	$ 1,126.11

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Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
EPS	$ 8.77	$ 11.25	$ 14.21	$ 18.22	$ 22.87	$ 27.35	$ 32.38	$ 37.88	$ 43.78	$ 50.00
Key Assumptions										
CV growth of EPS	8.25%									
CV Year ROE	21.43%									
Cost of Equity	9.43%									
Future Cash Flows										
P/E Multiple (CV Year)										52.08
EPS (CV Year)										$ 50.00
Future Stock Price										$ 2,603.89
Dividends Per Share	0	0	0	0	0	0	0	0	0	0
Discounted Cash Flows	0	0	0	0	0	0	0	0	0	$ 1,157.07
Intrinsic Value as of Last FYE	$ 1,157.07									
Implied Price as of Today	$ 1,174.34									

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Relative Valuation Models

Ticker	Company	Price	EPS 2025E	EPS 2026E	P/E 25	P/E 26
CRM	Salesforce	$328.96	$6.22	$7.29	52.89	45.12
ORCL	Oracle	$179.80	$4.55	$5.23	39.52	34.38
WDAY	Workday	$265.72	$2.11	$3.48	125.93	76.36
PAYC	Paycom Software	$213.77	$6.60	$7.59	32.39	28.16
PEGA	Pegasystems	$86.06	$1.88	$2.30	45.78	37.42
PANW	Palo Alto Networks	$208.28	$1.77	$1.97	117.67	105.73
MSFT	Microsoft	$409.64	$13.13	$15.01	31.20	27.29
SAP	SAP	$292.68	$6.08	$7.33	48.14	39.93
				Average	**61.69**	**49.30**
NOW	ServiceNow	$938.41	$8.77	$11.25	107.0	83.4

Implied Relative Value:

P/E (EPS25)	**$ 540.91**
P/E (EPS26)	**$ 554.52**

ServiceNow

Key Management Ratios

Fiscal Years Ending Dec. 31	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Liquidity Ratios:													
Current Ratio (current assets / current liabilities)	1.11	1.06	1.10	1.21	1.28	1.35	1.35	1.38	1.42	1.48	1.56	1.65	1.75
Net Working Capital % of Revenue	-28.50%	-28.49%	-23.69%	-13.41%	-14.50%	-15.30%	-15.95%	-16.34%	-17.04%	-17.59%	-18.03%	-18.38%	-18.66%
Cash Ratio (cash / current liabilities)	0.24	0.26	0.28	0.43	0.55	0.66	0.69	0.75	0.81	0.90	0.99	1.09	1.20
Asset-Management Ratios:													
Cash Turnover Ratio (Revenue / Cash)	4.93	4.73	4.77	3.06	2.45	2.07	2.00	1.87	1.72	1.55	1.41	1.28	1.16
Asset turnover ratio (Revenue / average total assets)	0.60	0.58	0.58	0.58	0.58	0.59	0.60	0.61	0.61	0.60	0.59	0.57	0.55
Working capital turnover ratio (revenue/(current assets - current liabilities))	11.16	21.77	13.25	6.32	4.81	3.88	3.97	3.72	3.36	2.89	2.49	2.15	1.87
Financial Leverage Ratios:													
LT Debt/Total Equity	0.30	0.20	0.15	0.13	0.08	0.05	0.03	0.01	0.00	0.00	0.00	0.00	0.00
LT Debt/Total Assets	0.11	0.09	0.07	0.06	0.04	0.03	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Total Debt/Total Assets	0.17	0.13	0.11	0.10	0.09	0.08	0.07	0.06	0.05	0.05	0.05	0.05	0.05
Profitability Ratios:													
Return on Equity (NI/Beg TSE)	8.80%	34.40%	18.68%	18.86%	19.68%	20.36%	21.34%	23.13%	23.44%	23.36%	22.94%	22.28%	21.43%
Gross Margin	78.29%	78.59%	79.18%	79.72%	79.99%	80.16%	80.51%	80.92%	81.32%	81.69%	82.03%	82.35%	82.66%
Return on Assets (NI/Avg Total Assets)	2.70%	11.28%	7.55%	8.11%	8.79%	9.42%	10.33%	11.14%	11.39%	11.48%	11.45%	11.37%	11.23%
Operating Margin	4.90%	8.49%	12.42%	13.81%	14.93%	15.95%	17.15%	18.41%	18.81%	19.18%	19.52%	19.84%	20.15%
Payout Policy Ratios:													
Dividend Payout Ratio (Dividend/EPS)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Payout Ratio ((Divs. + Repurchases)/NI)	0.00%	31.08%	48.84%	42.24%	36.05%	31.22%	26.77%	23.50%	21.68%	20.22%	19.08%	18.23%	17.64%

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Effects of ESOP Exercise and Share Repurchases on Common Stock Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	6
Average Time to Maturity (years):	3.00
Expected Annual Number of Options Exercised:	2
Current Average Strike Price:	$ 630.10
Cost of Equity:	9.43%
Current Stock Price:	$938.41

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Increase in Shares Outstanding:	2	2	2	0	0	0	0	0	0	0
Average Strike Price:	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10	$ 630.10
Increase in Common Stock Account:	**1,214**	**1,214**	**1,214**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share Repurchases ($)	766	842	926	1,019	1,121	1,233	1,356	1,492	1,641	1,805
Expected Price of Repurchased Shares:	$ 938.41	$ 1,026.91	$ 1,123.76	$ 1,229.74	$ 1,345.72	$ 1,472.63	$ 1,611.52	$ 1,763.50	$ 1,929.81	$ 2,111.82
Number of Shares Repurchased:	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.9**	**0.9**
Shares Outstanding (beginning of the year)	206	208	209	210	209	208	207	206	206	205
Plus: Shares Issued Through ESOP	2	2	2	0	0	0	0	0	0	0
Less: Shares Repurchased in Treasury	1	1	1	1	1	1	1	1	1	1
Shares Outstanding (end of the year)	**208**	**209**	**210**	**209**	**208**	**207**	**206**	**206**	**205**	**204**

ServiceNow

Valuation of Options Granted under ESOP

Current Stock Price	$938.41
Risk Free Rate	4.21%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	26.50%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	5.778	630.10	3.00	$ 403.54	$ 2,332
Total	6	$ 630.10	3.00	$ 403.54	**$ 2,332**

ServiceNow

Sensitivity Tables

CV Growth of NOPLAT

WACC	1,126.11	7.20%	7.30%	7.40%	7.50%	7.60%	7.70%	7.80%
	9.07%	1,157.43	1,215.20	1,279.90	1,352.85	1,435.75	1,530.77	1,640.77
	9.17%	1,095.49	1,146.89	1,204.10	1,268.18	1,340.43	1,422.53	1,516.64
	9.27%	1,039.55	1,085.54	1,136.45	1,193.11	1,256.58	1,328.14	1,409.45
	9.37%	988.80	1,030.14	1,075.69	1,126.11	1,182.23	1,245.09	1,315.97
	9.47%	942.55	979.88	1,020.83	1,065.94	1,115.87	1,171.46	1,233.72
	9.57%	900.22	934.08	971.05	1,011.61	1,056.28	1,105.74	1,160.80
	9.67%	861.34	892.16	925.69	962.31	1,002.48	1,046.72	1,095.71

Marginal Tax Rate

Pre-Tax Cost of Debt	1,126.11	16.50%	17.00%	17.50%	18.00%	18.50%	19.00%	19.50%
	4.10%	1,136.32	1,133.30	1,130.27	1,127.22	1,124.16	1,121.07	1,117.97
	4.35%	1,135.93	1,132.92	1,129.90	1,126.85	1,123.79	1,120.71	1,117.61
	4.60%	1,135.54	1,132.54	1,129.52	1,126.48	1,123.42	1,120.35	1,117.25
	4.85%	1,135.15	1,132.16	1,129.14	1,126.11	1,123.06	1,119.99	1,116.90
	5.10%	1,134.77	1,131.78	1,128.77	1,125.74	1,122.69	1,119.63	1,116.54
	5.35%	1,134.38	1,131.40	1,128.39	1,125.37	1,122.33	1,119.27	1,116.19
	5.60%	1,134.00	1,131.02	1,128.02	1,125.00	1,121.96	1,118.91	1,115.83

2025 Subscription Revenue Growth

2025 Capex	1,126.11	17.37%	17.87%	18.37%	18.87%	19.37%	19.87%	20.37%
	915	1,128.56	1,134.25	1,139.94	1,145.63	1,151.32	1,157.00	1,162.69
	965	1,122.05	1,127.74	1,133.43	1,139.12	1,144.81	1,150.50	1,156.19
	1,015	1,115.55	1,121.24	1,126.92	1,132.61	1,138.30	1,143.99	1,149.68
	1,065	1,109.04	1,114.73	1,120.42	1,126.11	1,131.80	1,137.49	1,143.18
	1,115	1,102.53	1,108.22	1,113.91	1,119.60	1,125.29	1,130.98	1,136.67
	1,165	1,096.02	1,101.72	1,107.41	1,113.10	1,118.79	1,124.48	1,130.17
	1,215	1,089.52	1,095.21	1,100.90	1,106.59	1,112.28	1,117.97	1,123.66

Normal Cash Estimate

Risl-Free Rate	1,126.11	18.79%	19.29%	19.79%	20.29%	20.79%	21.29%	21.79%
	4.13%	1,359.02	1,355.72	1,352.41	1,349.11	1,345.81	1,342.51	1,339.20
	4.23%	1,275.35	1,272.22	1,269.09	1,265.95	1,262.82	1,259.69	1,256.55
	4.33%	1,201.06	1,198.08	1,195.09	1,192.11	1,189.13	1,186.15	1,183.16
	4.43%	1,134.65	1,131.80	1,128.96	1,126.11	1,123.26	1,120.41	1,117.57
	4.53%	1,074.94	1,072.21	1,069.49	1,066.76	1,064.03	1,061.31	1,058.58
	4.63%	1,020.96	1,018.35	1,015.73	1,013.11	1,010.50	1,007.88	1,005.26
	4.73%	971.94	969.42	966.90	964.39	961.87	959.35	956.84

Beta

Equity Risk Premium	1,126.11	0.85	0.90	0.95	1.00	1.05	1.10	1.15
	4.70%	2,470.31	1,939.46	1,592.99	1,349.11	1,168.18	1,028.66	917.81
	4.80%	2,248.57	1,790.84	1,484.86	1,265.95	1,101.63	973.77	871.48
	4.90%	2,062.60	1,662.83	1,390.06	1,192.11	1,041.96	924.20	829.39
	5.00%	1,904.41	1,551.43	1,306.26	1,126.11	988.18	879.22	790.99
	5.10%	1,768.20	1,453.60	1,231.67	1,066.76	939.44	838.21	755.81
	5.20%	1,649.70	1,367.02	1,164.84	1,013.11	895.08	800.68	723.47
	5.30%	1,545.66	1,289.85	1,104.63	964.39	854.54	766.20	693.65

2025 Subscription COGS as % of subscription revenues

2025 Mktg exp as % of rev.	1,126.11	16.50%	17.00%	17.50%	18.00%	18.5%	19.0%	19.50%
	33.09%	1,309.20	1,278.89	1,248.58	1,218.26	1,187.93	1,157.60	1,127.26
	33.59%	1,278.51	1,248.20	1,217.88	1,187.55	1,157.22	1,126.87	1,096.52
	34.09%	1,247.82	1,217.50	1,187.17	1,156.84	1,126.49	1,096.14	1,065.77
	34.59%	1,217.12	1,186.79	1,156.45	1,126.11	1,095.75	1,065.39	1,035.01
	35.09%	1,186.41	1,156.07	1,125.73	1,095.37	1,065.01	1,034.63	1,004.24
	35.59%	1,155.69	1,125.34	1,094.99	1,064.62	1,034.24	1,003.85	973.45
	36.09%	1,124.96	1,094.60	1,064.24	1,033.86	1,003.47	973.07	942.65