

## The Krause Fund

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# SERVICENOW (NOW)

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Information Technology – Internet Information Providers

Stock Rating

**SELL**

### Investment Thesis

Our thesis centers on three compounding headwinds: **intensifying competition from larger platform providers**, **structural margin pressure as the industry matures**, and **diminishing returns on invested capital driven by acquisition-heavy growth**.

First, ServiceNow faces increasing competition from scaled competitors such as Microsoft and Salesforce, which benefit from significantly larger customer bases, stronger ecosystems, and greater financial flexibility. These firms can bundle workflow capabilities into broader software suites and sustain profitability even as pricing compresses, putting pressure on ServiceNow's ability to maintain premium pricing and market share over time.

Second, while ServiceNow has recently expanded operating margins, we expect **structural margin compression** as the workflow automation market matures. As competition intensifies and customers consolidate vendors, pricing power is likely to weaken, requiring higher sales and marketing investment to sustain growth. This dynamic limits the company's ability to achieve its long-term margin targets and reduces operating leverage.

Third, ServiceNow's growth strategy has increasingly relied on acquisitions, which have significantly expanded invested capital without a proportional increase in near-term earnings. This has resulted in **declining underlying returns on capital**, suggesting that incremental investments are generating lower economic value. As a result, we believe current profitability metrics overstate the company's long-term earnings power.

Taken together, these factors suggest that ServiceNow's current valuation does not fully reflect **competitive pressures, margin risks, and weakening capital efficiency**, supporting a negative outlook on the stock.

### Drivers of Thesis

- Large firms expanding into workflow automation: ServiceNow's core product overlaps increasingly with offerings from Microsoft and Salesforce. Microsoft's Power Automate offers similar workflow and CRM capabilities at approximately \$105 per user per month, comparable to ServiceNow's pricing range of \$100-\$150 for core offerings. However, Microsoft's advantage lies in integration with its Microsoft 365 ecosystem, which is already widely adopted among enterprises. This allows Microsoft to bundle products and reduce effective pricing, putting pressure on ServiceNow's ability to maintain premium pricing.
- Negative Margin Outlook: While ServiceNow has achieved significant margin expansion, this trend is unlikely to continue. Operating margin improved from -10.9% in 2016 to 15.6% in 2025, while subscription gross margins reached approximately 81.5% (ServiceNow, 2026). However, increased competition will likely require higher investment in R&D and

### Target Price

**\$20.53 - \$29.94**

Henry Fund DCF \$20.53  
Relative Multiple \$29.94

### Price Data

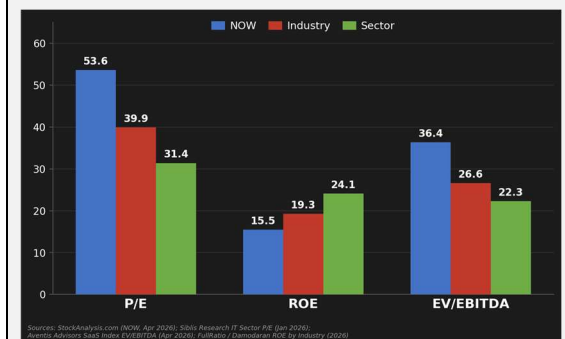
Current Price \$90.17  
52wk Range \$81.24-211.48  
Consensus 1yr Target \$143-166

### Key Statistics

Market Cap (B) \$93.43  
Shares Outstanding (B) 1.04  
Institutional Ownership 87.18%  
Beta 1.00  
Dividend Yield 0%  
Est. 5yr Growth 16.3%<sup>7</sup>  
Price/Earnings (TTM) 53.6x<sup>5</sup>  
Price/Earnings (FY1) 23.9x<sup>5</sup>  
Price/Sales (TTM) 7.1x<sup>5</sup>  
Price/Book (mrq) 4.8x<sup>5</sup>

### Profitability

Operating Margin 15.1%<sup>8</sup>  
Profit Margin 13.2%<sup>8</sup>  
Return on Assets (TTM) 7.0%<sup>5</sup>  
Return on Equity (TTM) 18.5%<sup>5</sup>



sales and marketing. Larger competitors such as Salesforce have spent over \$16 billion in R&D over the past 3 years, significantly outpacing ServiceNow’s investment levels. This dynamic suggests that ServiceNow will need to increase spending, limiting margin expansion.

- **Current ROIC is overstated:** ROIC is likely to decline going forward. ROIC has improved but this improvement has been largely driven by margin expansion rather than improved capital efficiency. Additionally, recent acquisitions such as the 7.75 billion Armis acquisition have increased invested capital without a corresponding increase in earnings (CXO Insight, 2026). As a result, returns on incremental capital are likely to decline.
- **Thinning margins in a rapidly maturing industry:** Salesforce will have a greater ability to endure thin margins as the industry matures. Both our models have a similar growth deceleration rate factored in to start after 2028. ServiceNow suffers greatly from the growth deceleration, while Salesforce is still able to grow its gross income over time.

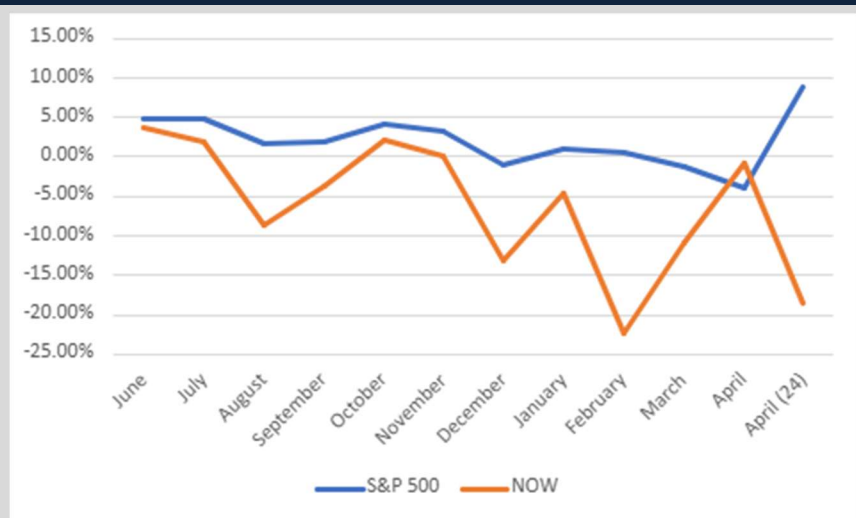
**Risks to Thesis**

- **Customer Retention and Switching Costs.** ServiceNow maintains extremely high retention (98%) and strong net revenue retention (~125%), indicating customers expand spending over time. High switching costs—due to customization, retraining, and process changes—limit churn. If these switching costs remain stronger than expected, competitive pressure may erode more slowly, supporting higher valuation.
- **AI Monetization Beat.** ServiceNow’s Now Assist AI is outperforming expectations, trending toward \$1.5B ACV vs. \$1B guidance with rapid growth. If AI drives more pricing power than assumed, revenue and margins could exceed forecasts. Upcoming guidance updates may shift expectations.
- **Strong Recent Performance vs. Structural Outlook.** Recent results show strong growth and margins, while the bull case hinges on AI driving further acceleration. Consensus expects this to justify current valuation, but more conservative assumptions create a gap with lower valuation models. If AI adoption meets bullish expectations, the negative outlook could prove incorrect.

**Earnings Estimates**

Year	2023	2024	2025	2026E	2027E	2028E
EPS	\$1.7	\$1.38	\$1.69	\$1.73	\$1.79	\$1.45
HF est.				\$4.15	\$5.02	\$6.07
growth		-18.8%	22.5%	2.4%	3.5%	19%

**12 Month Performance**



**Company Description**

ServiceNow, Inc. is a software company that provides cloud-based platforms designed to help organizations manage and automate their internal operations. Its core offering, known as the Now Platform, allows businesses to replace manual processes and disconnected systems with unified digital workflows. These workflows are used across a wide range of functions, including information technology support, customer service operations, and human resources management.

The company’s products are primarily sold as subscription-based services, meaning customers pay recurring fees to access its software over time. ServiceNow’s solutions are typically used by large

enterprises, including many companies within the S&P 500, which rely on the platform to improve efficiency, reduce costs, and enhance employee productivity. In addition to its core workflow tools, the company offers advanced capabilities such as data analytics and artificial intelligence features that help automate decision-making and improve service outcomes.

ServiceNow operates globally, with customers across North America, Europe, and Asia-Pacific. While its software can be used across industries, it is most commonly adopted by large organizations with complex operational needs. The company also provides professional services to assist customers with implementation and ongoing support, although this represents a small portion of total revenue.

sustained double-digit growth through FY2028, which we believe overestimates ServiceNow's pricing power durability in an increasingly consolidated enterprise software market.

## Professional Services

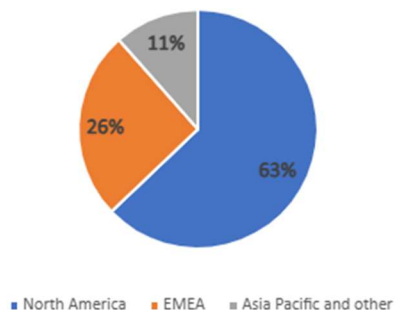
ServiceNow's professional services segment operates near breakeven, with costs running approximately 105% of segment revenue, implying a negative 5% margin. This reflects the company's use of professional services as a means to support customer implementation and drive long-term adoption. Professional services contributed approximately 3% of total revenue FY2025. We forecast modest growth to \$415 million (from 395M) in FY 2026, with near-flat growth thereafter representing the offloading of implementation work to its third-party ecosystem.

## ROIC & Value Creation Analysis

ServiceNow is a margin-driven business, with value creation primarily driven by improvements in operating profitability rather than capital efficiency. The company's NOPBT margin expanded from -10.9% in 2026 to 13.8% in 2025, reflecting strong operating leverage as revenue scaled from \$1.4 billion to \$13.3 billion over that period. Invested capital has remained volatile, as the company's acquisition strategy has periodically inflated the invested capital base without corresponding revenue increases.

ROIC followed this trajectory closely, remaining negative or near zero from 2016 through 2024 as the company prioritized growth over profitability. In 2025, ROIC surged to approximately 19.3%, but this figure is significantly distorted by the timing of invested

Revenue by Region



## Subscription Segment (Primary Driver)

The Subscription segment generated \$12.88 billion in FY2025, growing 21% year-over-year. Revenue is recognized ratably over contract terms, creating predictable cash flows. ServiceNow's primary subscription products span IT Service Management, Customer Service Management, HR Service Delivery, and the Now Assist AI suite. As of Q1 2026, the company had 2,109 customers with over \$1 million in Annual Contract Value (ACV), a cohort that has grown approximately 11% year-over-year.<sup>10</sup> The rate each customer is charged is custom quoted. Contracts vary from \$100 - \$300 per user per month, depending on the subscription tier. The most popular tier is the Pro tier for \$100 - 150.

We project subscription revenue of approximately \$16.8 billion in FY2026E, slightly with management's raised full-year guidance of \$15.735-\$15.775 billion factoring in their recent expansion into the Canadian public sector.<sup>10</sup> However, beyond 2026, we forecast a meaningful deceleration to approximately 7.5% growth in FY2027E and further to approximately 6.75% by FY2028E, driven by intensifying competitive pressure from Microsoft and Salesforce. This contrasts sharply with the Street consensus forecast of approximately 20% growth in FY2026 and

capital recognition. Beginning invested capital for 2025 does not reflect the full impact of acquisitions and capital expenditures completed during the year, making the 2025 ROIC figure an overstatement of underlying capital efficiency. Using average invested capital for 2025, ROIC was approximately 0.90, far more representative of underlying performance.<sup>11</sup>

Looking forward, we forecast ROIC to decline initially as the \$7.75 billion Armis acquisition (closed Q1 2026) inflates invested capital.<sup>2</sup> Subsequent ROIC recovery in our model is driven primarily by NOPLAT growth rather than capital efficiency improvement. We project ROIC increasing from approximately 0.50x in FY2026E to approximately 1.1x by FY2033E, though we caution that this trajectory assumes acquisitions are limited and that the company successfully converts AI investment into operating earnings. Against our estimated WACC of approximately 8.55%, ServiceNow currently earns a positive economic profit spread, but the spread is at risk of compression if our bear case margin and growth assumptions prove correct.<sup>11</sup>

Comparing ROIC to WACC: ServiceNow's ROIC crossed above WACC in 2025, creating positive economic profit for the first time in its history. However, the acquisition of Armis has reset the invested capital base, and we forecast economic profit to remain modest in FY2026–FY2027E before recovering. Growth creates value when ROIC exceeds WACC, but the margin of safety in ServiceNow's case is thin and highly sensitive to competitive pricing pressure.

## Cost Structure Analysis

ServiceNow's cost structure is dominated by three expense lines: Cost of Revenue (COGS), Sales & Marketing (S&M), and Research & Development (R&D). In FY2025, these consumed approximately 78% of revenue combined, reflecting the company's continued investment in growth over near-term profitability.

Sales & Marketing has declined as a percentage of revenue from 47% in 2016 to approximately 33% in FY2025, reflecting ServiceNow's maturation into an established enterprise platform. However, we believe this trend will reverse. As competition from Microsoft and Salesforce intensifies, ServiceNow will need to increase S&M investment to protect market share and acquire new logos. We forecast S&M rising to approximately 34–36% of revenue through our forecast period, as the company faces more aggressive competition in non-ITSM segments.

R&D has increased modestly as a percentage of revenue, from approximately 20% in 2016 to approximately 22% in FY2025. We forecast R&D rising to 25% of revenue as ServiceNow attempts to compete with Salesforce, which has spent over \$16 billion on R&D over the past three years, significantly outpacing ServiceNow's investment levels. The gap in R&D spending creates a structural innovation disadvantage that will likely require ServiceNow to increase internal development spending to maintain product competitiveness.<sup>1</sup>

The combined effect of higher S&M and R&D investment is margin compression over our forecast period. We forecast GAAP operating margin declining from approximately 15.6% in FY2025 to approximately 11–13% by FY2028E, driven primarily by the Armis acquisition integration costs, rising R&D, and increasing S&M. This contrasts with management guidance of approximately 31.5% non-GAAP operating margin for FY2026, though the GAAP–non-GAAP gap (driven by ~\$3B+ in annual stock-based compensation) is the primary source of disagreement between our model and consensus estimates.<sup>12</sup>

## Invested Capital Analysis

ServiceNow is an intangible-driven business. As of FY2025, intangible capital (\$3.6B of goodwill plus net acquired intangibles of approximately \$1.1 billion) exceeded total invested capital, which was partially offset by a large current deferred revenue balance. The \$7.75 Armis acquisition materially increased the goodwill and intangible asset base, contributing 125 basis points to FY2026 subscription revenue while creating near-term margin headwinds.<sup>2</sup>

ServiceNow's cloud software delivery model means it requires minimal incremental fixed capital to service additional customers. As a result, fixed capital represents a declining share of the capital structure, consistent with a SaaS model that leverages shared infrastructure. This model benefits FCF generation.

However, a negative working capital of approximately \$5.9 billion at FY2025 year-end, driven by high deferred revenue (\$8.3B), provides significant operating financing. This dynamic makes invested capital artificially low, which inflates ROIC relative to what it would be in a capital-intensive business. Incremental invested capital

requirements in our forecast are modest because ServiceNow can serve additional customers with near-zero marginal capital investment, and the company will focus more on internal R&D rather than acquisitions going forward. Though this assumption is the primary risk to our capital efficiency thesis, another large acquisition could reset the capital base again.

We note that ServiceNow's intangible-driven capital structure makes true capital efficiency difficult to assess from ROIC alone. The invested capital is largely allocated to goodwill from acquisitions that have mixed results in expanding market share. The Armis acquisition in particular represents a significant premium that is unlikely to be recovered quickly through subscription revenue.<sup>2</sup>

## MARKETS AND COMPETITION

ServiceNow operates in the enterprise digital workflow software market, where its Now Platform supports IT services (ITSM) and other IT operations, as well as customer and HR workflows. The firm holds a solid position in the ITSM market but a poor hold in the much larger CRM market. This is the central fact of the investment thesis. Subscription revenue of \$12.9B in FY2025 grew 21.0% organically and accounted for 97.0% of total revenue, showing that the existing ITSM business is healthy, but raises the question of what happens as the boundary between ITSM and the broader workflow market continues to dissolve.

Microsoft and Salesforce are ServiceNow's biggest competitors, and they compete with different economic models. Microsoft Power Automate is a similar workplace platform, and is much smaller compared to other pieces of Microsoft's business, giving them pricing power that ServiceNow cannot beat. Additionally, Microsoft has an advantage in that they can offer their regular Office 365 Suite in addition to its workplace automation service. Salesforce has a much larger client base and has generated profits much longer than ServiceNow has. Salesforce's gross margin (74.8%) is comparable to ServiceNow's (77.5%), but its operating margin (20.2%) is 4.6 points higher despite slower revenue growth. Historically, mature SaaS companies that achieve economies of scale have been winners over the long term, and ServiceNow has no equivalent scale compared to Salesforce and Microsoft.

This is a highly competitive industry that has been shifting towards price-based competition over time. Large players are continuing to scale, making it difficult for ServiceNow's margins and cash flows to catch up. Competition in the enterprise workflow software market is primarily driven by product quality and switching costs today but is increasingly moving toward scale and price competition as technology improves, making switching easier and cheaper over time. The basis of competition is therefore moving from product quality and switching costs (where ServiceNow is well-positioned) toward scale and price (where ServiceNow is structurally disadvantaged).

The industry is at a maturing stage of its lifecycle, and ServiceNow's customer base reflects that. ServiceNow added customers at >\$1M annual contract value at 11.2% YoY in FY2024, less than half the 23% rate three years prior, showing a deceleration trend since FY2019. Growth in the >\$5M cohort (20.1% YoY) now exceeds growth in the >\$1M cohort, showing that the customer base is shifting toward existing-account expansion. Existing-account expansion compounds at lower rates than new-logo acquisition, which is why the model forecasts subscription growth decelerating from 25% in FY2026 to 7.5% by FY2028 and turning negative by FY2031.

ServiceNow will lose its competitive advantage because the IT services industry is too similar to the enterprise workflow market, which is dominated by larger competitors. These dominant companies will inevitably take over ServiceNow's market share. ServiceNow does not have a path to fight against Microsoft's or Salesforce's markets, but Microsoft and Salesforce can actively eat away at ServiceNow. Margins will thin, and invested capital will decrease over time. The market price of \$96 implies the market is discounting these dynamics by approximately 4x relative to our projected value of \$20.53. RPO trajectory not captured in our growth assumptions, and Now Assist agentic AI revenue we have chosen not to forecast given the absence of stable run-rate data, may be able to explain this gap, but we hold that the cohort data is the strongest signal available.

### Key Competitors

Microsoft is the most formidable competitive threat. Microsoft's Power Automate offers workflow and automation capabilities at approximately \$105 per user

per month, comparable to ServiceNow's core pricing of \$100–\$150, but with the critical advantage of being bundled within the Microsoft 365 ecosystem already deployed across most enterprises. Microsoft's sheer scale \$281.7 billion in FY2025 revenue and \$128.5 billion in operating income, means it can sustain workflow automation profitability even if the product is effectively offered at zero incremental cost to existing Microsoft 365 customers.<sup>1</sup> Power Automate is a relatively small portion of Microsoft's revenue but growing rapidly, allowing Microsoft to invest heavily in the segment without pressure to be profitable in isolation. This ability to bundle, cross-subsidize, and effectively lower pricing creates a structural disadvantage for standalone workflow platforms like ServiceNow that we believe will progressively erode ServiceNow's pricing power as enterprise technology budgets consolidate around fewer vendors.

Salesforce represents a strategic threat from the CRM direction. Salesforce has a customer base approximately ten times larger than ServiceNow's (over 150,000 enterprise customers vs. ServiceNow's approximately 8,700 as of 2025), significantly more R&D investment (\$16+ billion over three years), and superior brand recognition in the broader enterprise software market.<sup>1</sup> Salesforce has explicitly expanded its workflow automation capabilities under the Agentforce umbrella and positioned against ServiceNow's IT and HR workflow dominance. Salesforce's FY2026 revenue of \$41.5 billion provides the scale to absorb pricing pressure that ServiceNow cannot sustain.

Competition in the enterprise workflow market is shifting from product quality and switching-cost-based differentiation toward scale and price-based competition as AI capabilities improve. While ServiceNow benefits from embedded workflows and institutional knowledge in ITSM, the technological barrier to recreating this functionality is declining as AI-powered development tools lower implementation costs for competitive platforms.

## Peer Comparisons

ServiceNow's margins are worse than others due to their high Sales and Marketing costs. S&M spending of 33.0% of revenue (FY2025) drives an SG&A-to-sales ratio of 61.9%

which is the second highest in the peer group, well above Adobe (52.0%) and Intuit (50.8%). This is the fact in the peer comparison. ServiceNow's gross margin (77.5%) is comparable to Intuit's (77.0%), yet the operating margin gap between the two firms (15.6% vs. 26.2%) is 10.6 points and entirely driven by operating expense intensity, not product economics. R&D (22.3%) is in line with the peer set and G&A has already compressed to 8.5%; sales and marketing is the specific driver. We project their capital spend to be less aggressive overtime and more focused on R&D spend. On capital efficiency, CapEx-to-sales of 6.86% is roughly 5x Adobe (1.32%) and 10x Intuit (0.66%) — pure SaaS peers rely on hyperscaler infrastructure, while ServiceNow's owned data centers and Now Assist AI buildout drive the gap.

Reported ROIC of 12.9% (FY2025) reflects this underperformance on both margin and turnover, falling well below Adobe (38.8%) and Intuit (15.3%). Cash flow ROIC of 40.3% looks more competitive, but this is not a structural advantage, it reflects the deferred revenue tailwind from prepaid subscriptions, which compresses mechanically as growth decelerates. ServiceNow's true competitive advantage is their ability to scale within their IT Services, vertical integration, and their customer switching costs. What it lacks is capital efficiencies. Competitors build workflow automation raises a major disruption risk, and substitution risk increases every time that switching costs fall. Adobe is the best-positioned firm in the peer set. It has the highest margins, lowest CapEx intensity, highest ROIC, and its product portfolio is insulated from the platform-bundling threats ServiceNow faces. Salesforce is positioned to take share from ServiceNow rather than lose share to it. ServiceNow's strategic position deteriorates over the forecast period as the boundary between workflow automation and IT services dissolves, which is why which is why the model's intrinsic value of \$20.53 sits 78% below the current \$96 share price.

One area of genuine competitive advantage for ServiceNow is its niche domain expertise in ITSM, where deeply embedded workflows and institutional knowledge create high switching costs for existing customers. Research suggests enterprise software switching costs in ITSM can run \$500,000 to \$2 million per migration, including training, customization, and productivity loss, a meaningful barrier that helps explain the 98% renewal rate.<sup>9</sup> However, as AI-powered development tools lower implementation costs, this moat will erode over time.

Microsoft, with its enterprise relationships and broad ecosystem, is best positioned to capitalize on this transition.

Metric	Co.	2021	2022	2023	2024	2025
<b>Gross Margin (%)</b>	NOW	77.1	78.3	78.6	79.2	77.5
	MSFT	68.9	68.4	68.9	69.8	68.8
	CRM	72.3	70.7	75.3	75.3	75.3
<b>Operating Margin (%)</b>	NOW	4.4	4.9	8.5	12.4	15.6
	MSFT	41.6	42.1	41.8	44.6	44.7
	CRM	2.1	2.1	5.9	17.2	21.5
<b>Net Profit Margin (%)</b>	NOW	3.9	5.9	19.3	13.0	13.2
	MSFT	36.5	36.7	34.1	35.5	35.0
	CRM	0.8	0.5	6.4	16.3	18.0

ServiceNow’s margins are worse than others due to their large high Sales and Marketing cost as a % of revenue (insert fact) that is needed to grow their market share. We project their capital spending to get less aggressive over time, focused more on internal R&D over acquisitions.

ServiceNow can charge a premium for their knowledge gained from their prior customers’ experiences. If they have already served a niche customer, another similarly niche customer will pay a premium for their services. However, it will be very easy for competitors to recreate this competitive advantage as data interpretation and implementation becomes easier every year.

## RECENT DEVELOPMENTS

### Recent Earnings Announcement – Q1 2026

ServiceNow reported Q1 2026 results on April 22, 2026, beating guidance on all major metrics while the stock fell approximately 17.7% in subsequent trading. Subscription revenues reached \$3.671 billion, representing 22% year-over year growth, slightly ahead of the \$3.650 - 3.655 billion guidance range. Total revenues reached \$3.770 billion, also up 22%. Non-GAAP EPS came in at \$.97, in line with the consensus. Non-GAAP operating margin was 32%, approximately 50 basis points above guidance. <sup>10</sup>

Current remaining performance obligations (cRPO) reached \$12.64 billion, representing 22.5% year-over-year growth, roughly 100 basis points above guidance. Total RPO reached \$27.7 billion, up 25% year-over-year. These metrics suggest strong near-term revenue visibility and are the primary reason analysts maintain bullish ratings despite the stock’s decline. <sup>10</sup>

Management raised full-year 2026 subscription revenue guidance by \$205 million, The raise includes approximately 125 basis points of contribution from the Armis acquisition (closed Q1 2026) and approximately \$44 million from favorable currency movements. Management guided to a full-year non-GAAP operating margin of 31.5% and FCF margin of 35%.

Where our forecast differs from guidance: Management’s 31.5% non-GAAP operating margin guidance significantly exceeds our GAAP operating margin forecast of about 11-13% for FY2026-2028. The primary driver of this gap is the GAAP treatment of stock-based compensation (~3B+ annually) and acquisition related amortization, which management excludes from non-GAAP results. Our model focuses on GAAP economics, which we believe provide a more accurate picture for long term earnings power. The market reacted negatively to the Q1 results because Q2 2026 cRPO guidance implied only 19% growth versus the 21-22% growth most analysts expected and that the Armis integration was supposed to create a 125 basis point headwind for Q2, raising concerns about medium-term margin trajectory.

### Recent Development #1 – Armis Acquisition

ServiceNow acquired Armis, a cybersecurity and asset intelligence company for 7.75 billion in Q1 2026. Armis provides visibility and protection for IT and others across enterprise environments, expanding ServiceNow’s addressable market into cybersecurity and risk management. Management expects Armis to contribute 125 basis points to subscription revenue in FY2026 while creating a 75-basis point headwind to full-year operating margins and a 125-basis point headwind for Q2 2026. <sup>2</sup>

We view this acquisition with skepticism. At \$7.75 billion, Armis was acquired at a substantial premium relative to its revenue contribution (~163M in estimated annual recurring revenue at time of acquisition), implying a very high revenue multiple. This acquisition follows a pattern of ServiceNow paying elevated premiums for

complementary software companies that have limited success in expanding total revenue capacity. The acquisition further inflates invested capital and suppresses near-term ROIC, constant with our bear thesis that acquisition-heavy growth is dilutive to capital efficiency.

## Recent Development #2 – AI Platform Consolidation

ServiceNow repositioned its AI strategy in 2025–2026 around the 'Now Assist' brand, offering AI-powered workflow automation across ITSM, customer service, and HR functions. In Q1 2026, the largest new logo deal in company history was closed, and EmployeeWorks (combining Moveworks' conversational AI with ServiceNow's employee portal) grew 5x year-over-year.<sup>10</sup> These are positive AI adoption signals. However, ServiceNow's AI differentiation faces increasing pressure as Microsoft integrates Copilot across its ecosystem and Salesforce scales Agentforce, both at zero incremental cost to existing customers. The competitive timing is critical: ServiceNow's window to convert AI traction into durable pricing power before Microsoft and Salesforce fully commoditize AI workflows may be narrower than management's tone suggests.

## RISKS

### Customer Retention and Switching Costs

ServiceNow has demonstrated extraordinary customer retention, with a 98% renewal rate maintained consistently across five consecutive quarters through Q4 2025.<sup>9</sup> Net revenue retention of approximately 125% means existing customers are expanding their ServiceNow spend materially each year.<sup>9</sup> This level of retention reflects genuinely high switching costs, enterprise ITSM platform migrations involve extensive customization, retraining, and process redesign that creates meaningful friction against customer defection. If ServiceNow's switching costs prove more durable than our model assumes as AI improves, the competitive erosion we forecast would occur more slowly, potentially supporting a higher intrinsic value.

### AI Monetization Beat

ServiceNow's Now Assist AI suite is tracking toward \$1.5 billion in ACV for FY2026, ahead of prior guidance of \$1 billion, with over 130% year-over-year growth in high-

value Now Assist customers.<sup>10</sup> If AI monetization accelerates beyond our conservative assumptions, where we model AI contribution as a modest tailwind to subscription growth rather than a step-change in pricing power, revenue and margin upside could exceed our forecast. The May 2026 Analyst Day is a near-term catalyst where management may provide updated AI monetization visibility that could materially change consensus estimates.<sup>13</sup>

### Strong Recent Performance vs. Structural Outlook

ServiceNow's Q1 2026 results were genuinely strong, 22% subscription revenue growth, cRPO growing 22.5%, and non-GAAP operating margin of 32% above guidance.<sup>10</sup> The bull case, as reflected in Street consensus (43+ analysts rating NOW as Strong Buy with price targets averaging \$165–\$185<sup>4</sup>), rests on the view that AI monetization will drive a reacceleration in growth that justifies the current valuation even at a forward multiple of approximately 24x earnings. Our model's GAAP-focused view and more conservative long-term growth assumptions explain the disconnect between our \$20.53 DCF target and the Street's \$165–\$185 consensus range. The risk is that if AI adoption proves the bull case correct, our SELL recommendation would be incorrect.<sup>11</sup>

### Additional Bear Risks

Geopolitical deal-timing risk: Management noted a ~75 basis point subscription headwind from delayed large on-premise deals in the Middle East in Q1 2026, reflecting conflict in the region. Sustained geopolitical disruption could defer large

### Debt Maturity Analysis

ServiceNow ended FY2025 with a relatively conservative debt structure, approximately \$1.5 billion in total long-term debt prior to the Armis Acquisition.

**Five-Year Debt Maturity Schedule**

Fiscal Year	Coupon (%)	Payment (\$mil)
2026		0
2027		0
2028		0
2029		0
2030	1.4%	1500
Thereafter		0

Total	\$1500
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Factset

ServiceNow’s debt maturity structure represents minimal near-term financial risk. The \$1.5 billion due in 2030 is well within the company’s free cash flow capacity (FY2025 free cash was roughly \$4.6 billion). The 1.4% coupon is exceptionally favorable and reflects investment grade credit environment at issuance.

The more significant debt consideration relates to the Armis acquisition financing. The \$7.75 billion acquisition was funded through a combination of cash on hand and presumably additional debt or equity issuance, the full capital implications of the acquisition were not reflected in the debt maturity schedule from Factset. Even with additional acquisition related debt, ServiceNow’s free cash flow generation provides substantial capacity to service its obligations, and the company’s investment grade rating should allow it to refinance at competitive rates.

## VALUATION

### Revenue Growth Assumptions

Our near-term revenue forecast is more conservative than Street consensus. We project subscription revenue growing approximately 25% in FY2026E (supported by management’s raised guidance), decelerating sharply to approximately 7.5% in FY2027E and approximately 6.75% in FY2028E. This deceleration reflects our expectation that competitive pressure from Microsoft and Salesforce will erode ServiceNow’s pricing power and new logo acquisition velocity at a faster rate than consensus projects.

Street consensus forecasts subscription revenue of approximately \$16.9 billion in FY2026E, \$19.9 billion in FY2027E, and \$23.8 billion in FY2028E, implying sustained 20%+ growth rates.<sup>4</sup> Our model projects significantly lower revenue: approximately \$14.8–15.8 billion in FY2026E, approximately \$16.3 billion in FY2027E, and approximately \$17.5 billion in FY2028E. The difference is our assessment of competitive disruption impact, which we believe the Street is underweighting.

Why do our projections differ from expert consensus? The Street’s bull case rests on AI monetization accelerating ServiceNow’s growth, particularly Now Assist ACV expanding from \$1.5 billion toward \$3–4 billion by 2028. Our model is more skeptical about AI monetization

sustaining double-digit growth as Microsoft bundles comparable AI capabilities into its existing enterprise relationships. We also model more aggressive S&M and R&D spending requirements that compress NOPLAT margin, driving our lower DCF intrinsic value.

### Cost Structure and Margin Forecasts

We project COGS rising from approximately 22.5% of revenue in FY2025 to approximately 24–26.5% through FY2028E, driven by Armis integration costs, higher AI infrastructure investment, and amortization of acquired intangibles. Sales & Marketing is forecast to increase from approximately 33% of revenue in FY2025 to approximately 34–36% as competitive pressure requires more sales investment. R&D is forecast to increase from approximately 22% to approximately 25% of revenue as the company attempts to narrow the innovation gap versus Microsoft and Salesforce. These assumptions drive meaningful margin compression versus both management guidance and Street estimates.

### Capital Expenditure Assumptions

We model CapEx at approximately 2–3% of revenue through our forecast period, consistent with a SaaS platform model that requires meaningful but not capital-intensive infrastructure investment to support AI inference capacity. This is above FY2025 actuals of approximately 1.7% of revenue, reflecting our expectation that AI capabilities will require increased data center investment.

### Capital Structure

We model share repurchases declining as a percentage of net income from approximately 120% in FY2026E (reflecting recent aggressive repurchase activity) to approximately 20–50% in the outer years, as the company prioritizes balance sheet flexibility following the Armis acquisition. ServiceNow pays no dividend, and we forecast no dividend initiation during our forecast period.<sup>11</sup>

### Earnings Estimates vs. Consensus

Our GAAP EPS estimates are significantly below the Street’s non-GAAP consensus. For FY2026E, we project GAAP EPS of approximately \$1.73 versus Street non-GAAP consensus of approximately \$4.15, a gap driven almost entirely by the GAAP/non-GAAP treatment of stock-based compensation (\$3B+ annually) and acquired intangible amortization. Consensus non-GAAP EPS for FY2027E is approximately \$5.07 and FY2028E approximately \$6.14, while our GAAP estimates are approximately \$1.79 and \$1.45 respectively. This reflects our more conservative GAAP-based modeling approach rather than

economic disagreement on the cash generation capacity of the business.

### Valuation Model Results and Explanation of Bear Case

Our DCF model produces an intrinsic value of approximately \$20.53 per share, representing significant downside from the current price of approximately \$90. The EP model produces a somewhat higher value. These results diverge dramatically from analyst consensus of \$143–\$185 primarily because:

(1) Our revenue deceleration assumptions are far more aggressive than consensus, we forecast total revenues declining from approximately \$19.7 billion in FY2026E to approximately \$14.3 billion by FY2035E, as competitive pressure not only slows growth but eventually causes revenue contraction in our model as Microsoft and Salesforce capture market share.

(2) Our NOPLAT margin forecasts of approximately 4–6% are well below the 15–20% levels implied by consensus non-GAAP estimates, reflecting our GAAP-based approach that includes full stock-based compensation costs.

(3) Our WACC of approximately 8.55% is broadly consistent with consensus, so discount rate differences are not the primary driver of the valuation gap.

The sensitivity analysis in Appendix H demonstrates that our DCF value ranges from approximately \$12 to \$33 under various WACC (7%–13%) and revenue growth deceleration (0.025–0.175 acceleration rate) scenarios, all of which remain well below the current market price. This suggests that even under optimistic assumptions, the stock appears fully valued or overvalued under our framework.<sup>11</sup>

We acknowledge the disconnect between our model and expert consensus is large. The bull case is real, ServiceNow's AI monetization, retention metrics, and execution quality are genuinely impressive. Our model is a bet that competitive pressures from Microsoft and Salesforce will prove more structurally damaging to ServiceNow's growth trajectory than the current consensus expects. We recommend investors who disagree with our competitive analysis use our sensitivity tables to find an intrinsic value consistent with their growth assumptions.

### KEYS TO MONITOR

1. CRPO growth versus 20%+ consensus expectations, sustained shortfalls would validate the bear thesis
2. Non-GAAP operating margin trajectory: any substantial decline below 30% would signal that competitive pressures are intensifying faster than management has guided

3. Now Assist ACV tracking versus the updated \$1.5 billion target: a miss would indicate AI monetization is not scaling as expected
4. Microsoft Power Automate adoption rates: increasing MSFT adoption would be a clear indicator that ServiceNow's competitive advantage is eroding
5. S&M as a % of revenue: An increase over time would confirm our forecast of margin compression driven by competitive dynamics

The bull case for ServiceNow is that AI monetization through Now Assist will drive sustained 20%+ subscription revenue growth, operating margins will expand toward 30%+ (non-GAAP), and customer retention will remain near 98% despite competitive pressure from Microsoft and Salesforce. If these outcomes materialize, our SELL rating would be incorrect, and the current stock price could represent a compelling buying opportunity given the 51% decline from highs. We would reconsider our rating if Now Assist ACV tracking toward \$3+ billion by FY2027E and cRPO consistently beating consensus by more than 200 basis points.

The bear case, our base case, is that Microsoft's bundling strategy and Salesforce's scale will progressively erode ServiceNow's pricing power and new logo acquisition momentum. Margin compression from higher R&D and S&M spending, combined with acquisition integration costs, will prevent the earnings growth that would justify the current valuation. Revenue will decelerate more rapidly than consensus expects as AI commoditizes workflow automation differentiation.

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### ServiceNow Income Statement

Fiscal Years Ending Dec. 31	2024	2025	2026E	2027E	2028E
<b>Total revenues</b>	<b>\$ 10,984</b>	<b>\$ 13,278</b>	\$ 16,519	\$ 19,743	\$ 21,184
Subscription	\$ 10,646	\$ 12,883	\$ 16,104	\$ 19,325	\$ 20,774
Professional services and other	\$ 338	\$ 395	\$ 415	\$ 419	\$ 411
<b>Total cost of revenues</b>	<b>\$ (2,287)</b>	<b>\$ (2,983)</b>	\$(3,962)	\$(4,884)	\$(5,625)
Subscription	\$ (1,942)	\$ (2,569)	\$(3,543)	\$(4,445)	\$(5,193)
Professional services and other	\$ (345)	\$ (414)	\$(419)	\$(440)	\$(431)
<b>Gross profit</b>	<b>\$ 8,697</b>	<b>\$ 10,295</b>	\$ 12,557	\$ 14,859	\$ 15,560
<b>Total operating expenses</b>	<b>\$ (7,333)</b>	<b>\$ (8,471)</b>	\$(10,737)	\$(13,031)	\$(14,194)
Sales and marketing	\$ (3,854)	\$ (4,388)	\$(5,451)	\$(6,713)	\$(7,415)
Research and development	\$ (2,543)	\$ (2,960)	\$(4,130)	\$(4,936)	\$(5,296)
General and administrative	\$ (936)	\$ (1,123)	\$(1,156)	\$(1,382)	\$(1,483)
Legal settlement					
<b>Loss / income from operations</b>	<b>\$ 1,364</b>	<b>\$ 1,824</b>	\$ 1,820	\$ 1,828	\$ 1,366
<b>Interest income and other income / expense, net</b>	<b>\$ 374</b>	<b>\$ 437</b>			
Interest expense					
<b>Interest income and other income / expense, net excluding interest expense</b>	<b>\$ 374</b>	<b>\$ 437</b>			
Interest income	\$ 419	\$ 451	\$ 428	\$ 468	\$ 485
Other expense, net	\$ (45)	\$ (14)			
<b>Loss / income before provision for income taxes</b>	<b>\$ 1,738</b>	<b>\$ 2,261</b>	\$ 2,248	\$ 2,296	\$ 1,851
Provision for / benefit from income taxes	\$ (313)	\$ (515)	\$(494.57)	\$(505.10)	\$(407.31)
<b>Net loss / income</b>	<b>\$ 1,425</b>	<b>\$ 1,746</b>	\$ 1,753	\$ 1,791	\$ 1,444
<b>Per share</b>					
Basic	\$ 1.38	\$ 1.69	\$ 1.73	\$ 1.79	\$ 1.45
Diluted	\$ 1.37	\$ 1.67			
<b>Weighted average shares</b>					
Basic	1,029.2	1,036.7	1,016	1,003	997
Diluted	1,042.1	1,046.7			

All figures in millions of U.S. Dollar except per share items.

## Appendix A: Income Statement

Fiscal Years Ending Dec. 31	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Total current assets</b>	\$ 1,343	\$ 2,422	\$ 2,345	\$ 2,827	\$ 4,522	\$ 5,220	\$ 6,654	\$ 7,777	\$ 9,187	\$ 10,471		
Cash and cash equivalents	\$ 401	\$ 726	\$ 566	\$ 776	\$ 1,677	\$ 1,728	\$ 1,470	\$ 1,897	\$ 2,804	\$ 3,726		
<b>Other assets</b>												
Restricted cash	\$ 498	\$ 1,058	\$ 932	\$ 915	\$ 1,415	\$ 1,576	\$ 2,810	\$ 2,980	\$ 3,458	\$ 2,508		
Short-term investments	\$ 322	\$ 437	\$ 575	\$ 835	\$ 1,000	\$ 1,390	\$ 1,725	\$ 2,096	\$ 2,240	\$ 2,467		
Accounts receivable, net	\$ 77	\$ 130	\$ 140	\$ 115	\$ 220	\$ 308	\$ 369	\$ 441	\$ 517	\$ 590		
Current portion of deferred commissions	\$ 44	\$ 56	\$ 132	\$ 125	\$ 152	\$ 223	\$ 280	\$ 408	\$ 668	\$ 930		
Prepaid expenses and other current assets												
<b>Prepaid expenses and other current assets excluding current portion of deferred tax assets</b>												
Current portion of deferred tax assets	\$ 82	\$ 224	\$ 282	\$ 333	\$ 444	\$ 623	\$ 742	\$ 919	\$ 999	\$ 1,134		
Deferred commissions, less current portion	\$ 263	\$ 391	\$ 582	\$ 1,013	\$ 1,468	\$ 1,830	\$ 2,117	\$ 2,201	\$ 4,111	\$ 3,773		
Long-term investments	\$ 189	\$ 176	\$ 821	\$ 708	\$ 1,191	\$ 1,227	\$ 1,348	\$ 2,197	\$ 4,009	\$ 4,009		
Other assets	\$ 37	\$ 52	\$ 73	\$ 678	\$ 773	\$ 904	\$ 995	\$ 3,960	\$ 2,148	\$ 2,888		
Other assets excluding intangible assets, net	\$ 53	\$ 78	\$ 100	\$ 212	\$ 359	\$ 452	\$ 763	\$ 1,812	\$ 472	\$ 1,542		
Strategic investments									\$ 291	\$ 290		
Other assets excluding strategic investments												
Deferred tax assets	\$ 21	\$ 600	\$ 673	\$ 692	\$ 636	\$ 1,508	\$ 1,585	\$ 1,056				
Intangible assets, net	\$ 66	\$ 87	\$ 101	\$ 144	\$ 351	\$ 287	\$ 232	\$ 224	\$ 209	\$ 1,121		
Property and equipment, net	\$ 182	\$ 245	\$ 347	\$ 463	\$ 660	\$ 786	\$ 1,053	\$ 1,356	\$ 1,763	\$ 2,289		
Operating lease right-of-use assets	\$ -	\$ -	\$ 402	\$ 454	\$ 591	\$ 682	\$ 715	\$ 693	\$ 808	\$ 808		
Goodwill	\$ 83	\$ 329	\$ 149	\$ 157	\$ 241	\$ 777	\$ 824	\$ 1,231	\$ 1,273	\$ 3,378		
<b>Total liabilities and stockholders' equity / deficit</b>	\$ 2,034	\$ 3,560	\$ 3,879	\$ 6,022	\$ 8,715	\$ 10,798	\$ 13,279	\$ 17,387	\$ 20,583	\$ 26,038		
<b>Total liabilities</b>	\$ 1,847	\$ 2,772	\$ 2,768	\$ 3,894	\$ 5,885	\$ 7,330	\$ 8,267	\$ 9,750	\$ 10,774	\$ 11,014		
<b>Total current liabilities</b>	\$ 1,071	\$ 2,039	\$ 2,013	\$ 2,753	\$ 3,737	\$ 4,949	\$ 6,005	\$ 7,365	\$ 8,358	\$ 10,443		
<b>Short-term debt</b>	\$ 38	\$ 32	\$ 31	\$ 53	\$ 34	\$ 89	\$ 274	\$ 126	\$ 48	\$ 204		
Accounts payable	\$ 172	\$ 253	\$ 330	\$ 461	\$ 666	\$ 850	\$ 975	\$ 1,365	\$ 1,360	\$ 1,813		
Accrued expenses and other current liabilities												
<b>Accrued expenses and other current liabilities excluding current portion of deferred rent</b>												
Current portion of deferred rent	\$ 862	\$ 1,211	\$ 1,652	\$ 2,186	\$ 2,963	\$ 3,836	\$ 4,660	\$ 5,765	\$ 6,819	\$ 8,134		
Current portion of deferred revenue	\$ -	\$ 543	\$ -	\$ 53	\$ 72	\$ 82	\$ 96	\$ 89	\$ 102	\$ 112		
Current portion of convertible senior notes, net												
<b>Current debt, net</b>	\$ 33	\$ 36	\$ 39	\$ 40	\$ 45	\$ 48	\$ 70	\$ 81	\$ 95	\$ 120		
Deferred revenue, less current portion	\$ -	\$ -	\$ -	\$ 383	\$ 423	\$ 596	\$ 650	\$ 707	\$ 767	\$ 800		
Operating lease liabilities, less current portion												
<b>Convertible senior notes, net</b>	\$ 508	\$ 630	\$ 662	\$ 695	\$ 1,840	\$ 1,484	\$ 1,486	\$ 1,488	\$ 1,489	\$ 1,493		
Other long-term liabilities	\$ 34	\$ 66	\$ 55	\$ 23	\$ 36	\$ 51	\$ 56	\$ 118	\$ 145	\$ 220		
Deferred rent, less current portion												
Other long-term liabilities excluding deferred rent, less current portion												
Convertible preferred stock	\$ 387	\$ 779	\$ 1,111	\$ 2,128	\$ 2,834	\$ 3,605	\$ 5,012	\$ 7,628	\$ 9,809	\$ 12,984		
Total stockholders' equity / deficit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Preferred stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		
Common stock	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		
Treasury stock, at cost	\$ 1,405	\$ 1,731	\$ 2,094	\$ 2,455	\$ 2,074	\$ 3,665	\$ 4,796	\$ 6,133	\$ 7,401	\$ 10,347		
Additional paid-in capital	\$ (21)	\$ 6	\$ (4)	\$ 25	\$ 94	\$ 34	\$ (102)	\$ (137)	\$ (88)	\$ 19		
Accumulated other comprehensive loss / income	\$ (977)	\$ (598)	\$ (979)	\$ (552)	\$ (234)	\$ (4)	\$ 338	\$ 2,069	\$ 3,494	\$ 5,242		
Retained earnings / accumulated deficit												

## Appendix B: Balance Sheet

Fiscal Years Ending Dec. 31	2004	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
<b>Total assets</b>	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Total current assets</b>	45.07%	40.21%	39.10%	41.90%	46.69%	50.37%	52.31%	54.23%	55.98%	57.66%	59.17%	60.00%
Cash and cash equivalents	11.30%	14.31%	14.36%	14.98%	14.35%	13.88%	13.79%	13.62%	13.44%	13.24%	13.04%	12.85%
Cash equivalents	0.00%	0.00%	0.00%	1.85%	8.88%	14.39%	16.78%	19.32%	21.69%	23.98%	26.11%	28.00%
Restricted cash	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Short term investments	16.97%	9.82%	8.34%	7.42%	6.76%	6.25%	5.98%	5.72%	5.49%	5.29%	5.11%	4.94%
Accounts receivable, net	10.99%	10.09%	10.26%	10.70%	10.25%	9.91%	9.85%	9.73%	9.60%	9.46%	9.32%	9.19%
Current portion of deferred comm	2.54%	2.27%	2.05%	2.14%	2.05%	1.49%	1.48%	1.46%	1.44%	1.42%	1.40%	1.38%
Prepaid expenses and other current	3.28%	3.73%	4.10%	4.81%	4.61%	4.46%	4.43%	4.38%	4.32%	4.26%	4.19%	4.14%
Prepaid expenses and other current	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current portion of deferred tax assets	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred commissions, less current	4.90%	4.28%	4.10%	4.28%	4.10%	3.96%	3.94%	3.89%	3.84%	3.78%	3.73%	3.68%
Long term investments	20.17%	14.48%	12.29%	10.94%	9.77%	8.86%	8.31%	7.79%	7.33%	6.92%	6.56%	6.24%
Other assets	11.56%	15.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other assets excluding intangible assets, net	10.54%	11.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other assets excluding deferred tax assets	3.74%	7.04%	11.37%	10.92%	9.85%	9.02%	8.54%	8.09%	7.69%	7.34%	7.02%	6.72%
Strategic investments	2.32%	5.92%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other assets excluding strategic investments	1.43%	1.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred tax assets	6.79%	4.66%	2.62%	2.17%	1.96%	1.80%	1.70%	1.61%	1.53%	1.37%	1.24%	1.14%
Intangible assets, net	1.03%	4.21%	4.16%	3.71%	3.34%	3.06%	2.90%	2.75%	2.61%	2.49%	2.38%	2.28%
Property and equipment, net	8.65%	8.79%	9.23%	10.16%	9.74%	9.42%	9.36%	9.25%	9.12%	8.99%	8.85%	8.73%
Operating lease right-of-use assets	3.40%	3.10%	3.23%	3.56%	3.41%	3.30%	3.27%	3.24%	3.19%	3.15%	3.10%	3.06%
Goodwill	6.25%	13.74%	13.88%	12.36%	11.14%	10.21%	9.67%	9.16%	8.70%	8.30%	7.95%	7.64%
Total liabilities and stockholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<b>Total liabilities</b>	52.86%	50.21%	53.06%	50.52%	48.09%	46.26%	45.75%	45.03%	44.27%	43.51%	42.74%	42.00%
<b>Total current liabilities</b>	41.00%	40.11%	43.68%	41.47%	39.71%	38.39%	38.14%	37.68%	37.16%	36.61%	36.05%	35.50%
Accounts payable	0.33%	0.78%	1.03%	1.07%	1.02%	0.99%	0.98%	0.97%	0.96%	0.95%	0.93%	0.91%
Accrued expenses and other current	6.72%	6.96%	6.67%	6.95%	6.66%	6.44%	6.40%	6.33%	6.24%	6.15%	6.06%	5.97%
Accrued expenses and other current	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current portion of deferred rent	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Current portion of deferred revenue	33.45%	31.93%	31.79%	33.16%	31.77%	30.73%	30.53%	30.17%	29.76%	29.33%	28.88%	28.44%
Current portion of convertible securities	0.50%	0.43%	0.33%	0.29%	0.26%	0.23%	0.22%	0.21%	0.20%	0.19%	0.18%	0.17%
Current debt, net	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred revenue, less current portion	0.47%	0.46%	0.51%	0.53%	0.51%	0.50%	0.49%	0.49%	0.48%	0.47%	0.47%	0.46%
Operating lease liabilities, less current portion	3.37%	3.07%	3.20%	3.52%	3.37%	3.26%	3.24%	3.20%	3.16%	3.11%	3.07%	3.03%
Convertible securities, net	7.31%	5.73%	4.65%	4.08%	3.66%	3.34%	3.14%	2.96%	2.80%	2.66%	2.53%	2.41%
Other long term liabilities	0.71%	0.84%	1.02%	0.91%	0.83%	0.77%	0.74%	0.70%	0.68%	0.65%	0.62%	0.60%
Deferred rent, less current portion	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other long term liabilities excluding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Convertible preferred stock	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 stockholders' equity / deficit	47.14%	49.79%	46.94%	49.48%	51.91%	53.74%	54.25%	54.97%	55.73%	56.49%	57.26%	58.00%
Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Common stock	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	-5.98%	-11.69%	-16.54%	-18.04%	-17.72%	-17.68%	-18.24%	-18.81%	-19.47%	-20.23%	-21.09%	-21.95%
Additional paid in capital	36.31%	41.27%	41.70%	43.67%	44.84%	45.55%	44.85%	44.15%	43.63%	43.27%	43.05%	42.83%
Accumulated other comprehensive income	-0.33%	-0.07%	0.06%	0.05%	0.05%	0.04%	0.04%	0.04%	0.03%	0.03%	0.03%	0.03%
Retained earnings / accumulated deficit	17.14%	20.13%	21.71%	23.80%	24.74%	25.83%	27.59%	29.59%	31.53%	33.42%	35.26%	37.11%

**Appendix C: Common Size Balance Sheet**

ServiceNow  
Common Size Income Statement

Fiscal Years Ending Dec. 31	2024	2025	2026	2027E	2028E	2029E	2030E
Total revenues	100	100	100.00%	100.00%	100.00%	100.00%	100.00%
Subscription	96.92	97.03	97.49%	97.88%	98.06%	98.16%	98.27%
Professional services and other	3.08	2.97	2.51%	2.12%	1.94%	1.84%	1.73%
Total cost of revenues	-20.82	-22.47	-23.98%	-24.74%	-26.55%	-26.47%	-26.39%
Subscription	-17.68	-19.35	-21.45%	-22.51%	-24.52%	-24.54%	-24.57%
Professional services and other	-3.14	-3.12	-2.54%	-2.23%	-2.03%	-1.93%	-1.82%
Gross profit	79.18	77.53	76.02%	75.26%	73.45%	73.53%	73.61%
Total operating expenses	-66.76	-63.8	-65.00%	-66.00%	-67.00%	-67.00%	-67.00%
Sales and marketing	-35.09	-33.05	-33.00%	-34.00%	-35.00%	-36.00%	-36.00%
Research and development	-23.15	-22.29	-25.00%	-25.00%	-25.00%	-25.00%	-25.00%
General and administrative	-8.52	-8.46	-7.00%	-7.00%	-7.00%	-6.00%	-6.00%
Legal settlement	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Loss / income from operations	12.42	13.74	11.02%	9.26%	6.45%	6.53%	6.61%
Interest income and other income	3.4	3.29	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense	-	-	0.00%	0.00%	0.00%	0.00%	0.00%
Interest income and other income	3.4	3.29	0.00%	0.00%	0.00%	0.00%	0.00%
Interest income	3.81	3.4	2.59%	2.37%	2.29%	2.22%	2.17%
Other expense, net	-0.41	-0.11	0.00%	0.00%	0.00%	0.00%	0.00%
Loss / income before provision for	15.82	17.03	13.61%	11.63%	8.74%	8.75%	8.78%
Provision for / benefit from income	-2.85	-3.86	-2.99%	-2.56%	-1.92%	-1.93%	-1.93%
Net loss / income	12.97	13.16	10.62%	9.07%	6.82%	6.83%	6.85%

Appendix D: Common Size Income Statement

ServiceNow

Relative Valuation Models

Ticker	Company	Price	EPS 2025E	EPS 2026E	P/E 25	P/E 26	Est. Svr	PEG 25	PEG 26
CRM	Salesforce	\$177.60	\$13.13	\$14.69	13.53	12.09	14.2	0.95	0.85
ORCL	Oracle	\$169.81	\$7.45	\$7.95	22.79	21.36	17.2	1.33	1.24
INTU	Intuit	\$389.72	\$23.15	\$26.57	16.83	14.67	14.3	1.18	1.03
			Average		17.72	16.04		1.15	1.04
NOW	ServiceNow	\$96.00	\$1.69	\$1.20	56.8	80.0	10.0	5.7	8.0

Implied Relative Value:

P/E (EPS25)	\$ 29.94
P/E (EPS26)	\$ 19.25
PEG (EPS25)	\$ 19.46
PEG (EPS26)	\$ 12.48
P/B	\$209.32
P/Tangible BV	#####

Appendix E: Relative Valuation

Cost of Equity:	ASSUMPTIONS:
Risk-Free Rate	4.30% 10-year Treasury bond
Beta	1.00 5y Monthly Average
Equity Risk Premium	4.77% Type ERP assumption here (example: "1928-2020 geometric average over 10-year Treasury")
Cost of Equity	9.07%
Cost of Debt:	
Risk-Free Rate	4.30%
Implied Default Premium	0.70%
Pre-Tax Cost of Debt	5.00% based on A rating from S&P
Marginal Tax Rate	22%
After-Tax Cost of Debt	3.90%
Market Value of Common Equity:	MV Weights
Total Shares Outstanding	1046322917
Current Stock Price	\$96.00
MV of Equity	100,447,000,000.00 89.98%
Market Value of Debt:	
Short-Term Debt	1246301382
Current Portion of LTD	104891850
Long-Term Debt	1828825000
PV of Operating Leases	800000000
MV of Total Debt	11,179,918,231.80 10.02%
Market Value of the Firm	111,626,918,231.80 100.00%
Estimated WACC	8.55%

Appendix F: WACC Estimation

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E
<b>DCF Model:</b>						
Free Cash Flow (FCF)	-1929.0	2558.7	1388.2	1127.3	1428.3	1286.0
Continuing Value (CV)						
PV of FCF	-1777.0	2171.4	1085.3	811.9	947.6	785.9
Value of Operating Assets:	19792.6					
Non-Operating Adjustments						
Excess cash	<b>3460.4</b>					
short-term investments	<b>2558.0</b>					
<b>Less total debt &amp; leases</b>	<b>-2715.0</b>					
Value of Equity	23096.0					
Shares Outstanding	1046.3					
Intrinsic Value of Last FYE	\$ 22.07					
<b>Implied Price as of Today</b>	<b>\$ 20.53</b>					

## Appendix G: DCF Valuation

<b>ServiceNow</b>						
Forecasted Cash Flow Statement						
Fiscal Years Ending Dec. 31	2026	2027E	2028E	2029E	2030E	2031E
Net cash provided by operating activities						
Net Income including noncontrolling interests	\$ 1,753	\$ 1,791	\$ 1,444	\$ 1,543	\$ 1,640	\$ 1,927
Depreciation and amortization	\$ 914	\$ 1,003	\$ 1,255	\$ 1,317	\$ 1,342	\$ 1,330
Change in Receivables, net	\$ (677)	\$ (645)	\$ (288)	\$ (281)	\$ (269)	\$ (258)
Change in prepaid expenses and other current assets	\$ (351)	\$ (455)	\$ (130)	\$ (127)	\$ (121)	\$ (116)
Change in operating ROU asset, net	\$ (235)	\$ (272)	\$ (96)	\$ (94)	\$ (90)	\$ (86)
Change in Accounts Payable	\$ 126	\$ 64	\$ 29	\$ 28	\$ 27	\$ 26
Change in current portion of deferred revenue	\$ 1,927	\$ 1,999	\$ 893	\$ 872	\$ 835	\$ 800
Change in Operating Lease Liabilities, less current	\$ 230	\$ 270	\$ 95	\$ 93	\$ 89	\$ 85
Change in other	\$ (8)	\$ 36	\$ 1,093	\$ 581	\$ (901)	\$ (863)
Cash from operating activities	\$ 3,680	\$ 3,791	\$ 4,295	\$ 3,931	\$ 2,551	\$ 2,844
Net cash used in investing activities						
capital expenditures-property and equipment	\$ (684)	\$ (778)	\$ (274)	\$ (267)	\$ (256)	\$ (245)
cash from investing activities	\$ (684)	\$ (778)	\$ (274)	\$ (267)	\$ (256)	\$ (245)
net cash used in / provided by financing activities						
Change in debt	\$ 7.45	\$ 7.49	\$ 7.53	\$ 7.57	\$ 7.61	\$ 7.64
Dividends paid	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Share repurchases	\$ (2,104)	\$ (1,433)	\$ (722)	\$ (309)	\$ (328)	\$ (385)
Cash from financing activities	\$ (2,097)	\$ (1,425)	\$ (715)	\$ (301)	\$ (320)	\$ (378)
Change in cash	\$ 899	\$ 1,588	\$ 3,307	\$ 3,363	\$ 1,975	\$ 2,221
Beginning cash	\$ 3,726	\$ 4,625	\$ 6,213	\$ 9,520	\$ 12,883	\$ 14,858
Ending cash	\$ 4,625	\$ 6,213	\$ 9,520	\$ 12,883	\$ 14,858	\$ 17,079

## Appendix H: Forecasted Cash Flow

Notes	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1. Cash and cash equivalents	1,411	1,216	1,188	1,188	1,215	1,215	1,215	1,215	1,215	1,215
2. Net assets	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
3. Investments	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
4. Accounts receivable	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
5. Prepaid expenses	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
6. Other assets	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
7. Accounts payable	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
8. Accrued expenses	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
9. Other liabilities	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145
10. Total	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145	1,145

### Appendix I: Historical Cash Flow

WACC

	20.53	7.00%	8.00%	9.00%	10.00%	11.00%	12.00%
2.50%		27.29	22.50	19.18	16.75	14.90	13.10
5.00%		27.29	22.50	19.18	16.75	14.90	13.10
7.50%		27.29	22.50	19.18	16.75	14.90	13.10
10.00%		27.29	22.50	19.18	16.75	14.90	13.10
12.50%		27.29	22.50	19.18	16.75	14.90	13.10
15.00%		27.29	22.50	19.18	16.75	14.90	13.10
17.50%		27.29	22.50	19.18	16.75	14.90	13.10

### Appendix J: WACC and CV Year ROIC