

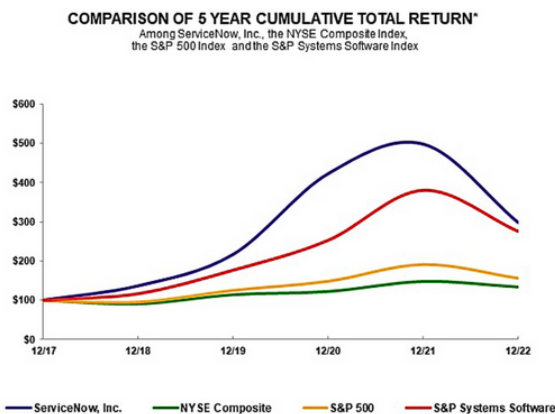
I initiate coverage on **ServiceNow** with a “**HOLD**” recommendation and a price target of **\$497.04**, an overvaluation of **27%**. I used the Discounted Cash Flow valuation approach to derive the implied share price. Despite trading at a premium, ServiceNow has the potential for growth as highlighted by my analysis.

**Prepared by:**

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Basic Information	
Date	1/2/2024
Stock Price	\$693.20
Market Cap	144bn (USD)
52 Week Range	\$353.62-\$720.68
Industry	Enterprise Software
P/E	91.39
P/S	17.09
P/B	20.17
EV/Sales	17.3
Recommendation	<b>HOLD</b>

Figure 1. 5 year Cumulative Returns



## FINANCIAL HIGHLIGHTS FOR 3Q2023

- Subscription revenue increased by 27% year-on-year to \$2.21 billion.
- Current Remaining Performance Obligation (cRPO) increased by 27% year-on-year to \$7.74 billion.
- RPO increased by 26% year-on-year to \$14.4 billion (See Fig 2).
- ServiceNow had 83 deals greater than \$1 million in net new Annual Contract Value (ACV), up from 69 a year ago, a 20% increase year-over-year.

## INVESTMENT THESIS

- Strong Financials Presenting a Competitive Moat:
  - ServiceNow’s global footprint and high customer retention rates (98% in FY 2022) directly contribute to its financial stability. Its adaptability to diverse business environments is underscored by key metrics like Annual Contract Value (ACV) and Committed Remaining Performance Obligations (cRPO). The company’s ACV and cRPO have seen a consistent upward trend, with ACV increasing by 23% and cRPO by 24% in the last fiscal year, indicating sustained and predictable future revenue streams. This subscription-based business model, coupled with customer retention rates, presents a ‘sticky’ revenue driver.
- Industry Tailwinds and Market Expansion:
  - ServiceNow is uniquely positioned in the booming \$610 billion enterprise software and cloud computing market, set for remarkable growth at a CAGR of 11.74%. Leading in ITSM, ITOM, and ITBM, the company capitalizes on emerging trends in AI and cloud technology, making it an attractive investment in a rapidly expanding industry.

## CATALYST

Generative AI: Revolutionising automation, redefining digital transformation, reimagining possibilities. The integration of GenAI positions ServiceNow at the forefront of transformative technologies. It is also well-received by the market, as evidenced by about 40% adoption of its PRO+ offering.

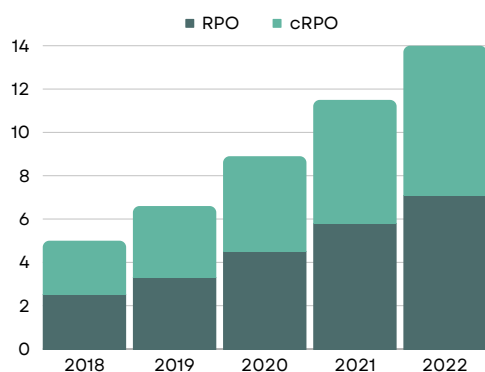
## KEY INVESTMENT RISKS

- **Market Competition:** ServiceNow operates in a highly competitive market, requiring ServiceNow to stand out constantly. To mitigate this, they could form strategic alliance to maintain its market position, as well as offer differentiated products through continuous innovation.
- **Customer Acquisitions and Retention:** With over 95% of revenue coming from subscriptions, having high customer acquisitions and retention rates is critical. They could mitigate this by exploring flexible pricing models, strengthening customer relationships and targeted marketing.
- **Regulatory Compliance:** ServiceNow operates globally and faces risks from diverse data privacy laws and cross-border regulations. To address this, they could employ a strong legal framework, and invest in employee training.

## FINANCIAL OVERVIEW

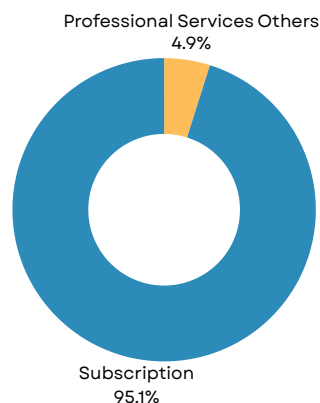
USDm	2022A	2023E	2024E	2025E
Revenue	7,245	9,129	11,621	14,825
Growth, %	26.0	27.3	27.6	28.1
EBIT	355	440	458	665
GPM, %	78.3	77.3	77.6	77.7

Figure 2. Remaining Performance Obligation (in USDb)



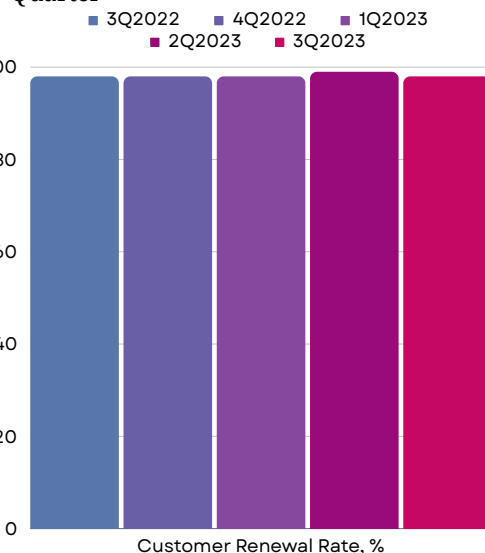
Source: Company Data

Figure 3. Revenue breakdown



Source: Company Data

Figure 4. Customer Renewal Rate, % by Quarter



Source: Company Data

## SUMMARY OF BUSINESS

ServiceNow specializes in cloud computing services, offering enterprise solutions that automate digital workflows through its Now Platform. Headquartered in Santa Clara, CA, the company focuses its product portfolio on Information Technology, Employee and Customer workflows, accelerating enterprise IT operations and enhancing productivity by streamlining system processes and allowing customers to design workflow applications.

### THE NOW PLATFORM

It provides a comprehensive and diverse solution for various departments within an enterprise, such as IT, human resources (HR), facilities, field service, marketing, customer service, security, legal, and finance. As companies continue to grow their businesses with the use of technology, their reliance on more apps, more data, and more systems continues to grow. However, none of these systems “talk” to each other. The platform breaks down these organizational silos by having a secure, customizable, extensible, low-code platform. Better workflows, better productivity.

#### What are workflows?

A workflow is a system for managing repetitive processes and tasks which occur in a particular order. They are the mechanism by which people and enterprises accomplish their work, whether manufacturing a product, providing a service, processing information or any other value-generating activity.

### BUSINESS SEGMENTS

ServiceNow operates on a global scale, and in 2022, total revenues came in at \$7.245 billion. ServiceNow derives revenues from two sources – subscriptions and professional services and others.

Over the past 3 quarters, ServiceNow has enjoyed a 98% subscription renewal rate. They have over 7700 global enterprise customers, and 85% are Fortune 500 companies. Its global reach includes the United States (61% of revenue in 2022), EMEA (25% of revenue), Asia Pacific (10% of revenue) and North America (4% of revenue)

### CLOUD-BASED SUBSCRIPTION OFFERINGS

This includes standard and enhanced support, updates (when available), multiple instances, hosting, data backup, disaster recovery services, and any future updates offered during the subscription term. The company typically invoices customers annually, either at the start of the contract or upon renewal.

### SELF-HOSTED OFFERINGS

In these cases, a substantial portion of the sales price is recognized upon delivery of the software. This can lead to more variability in subscription revenues and gross margins

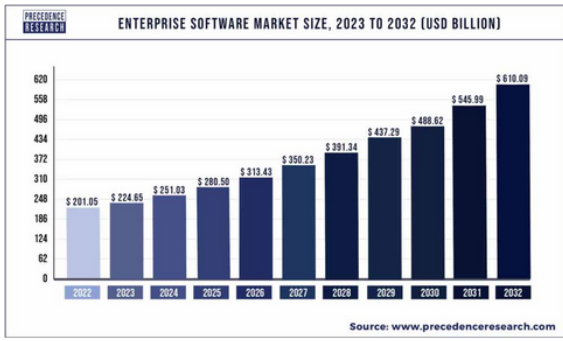
### DIGITAL WORKFLOW PRODUCTS

This includes a wide range of applications and platforms like the Now Platform, IT Service Management, Strategic Portfolio Management, IT Asset Management, Enterprise Management Security Operations, Integrated Risk Management, ESG Management, HR Service Delivery, Workplace Service Delivery, Legal Service Delivery, Customer Service Management, Field Service Management, Industry Solutions, App Engine, Automation Engine Platform, Privacy and Security, Procurement Operation Management, and Impact. These are generally priced on a per-user basis.

### IT OPERATIONS MANAGEMENT (ITOM) PRODUCTS

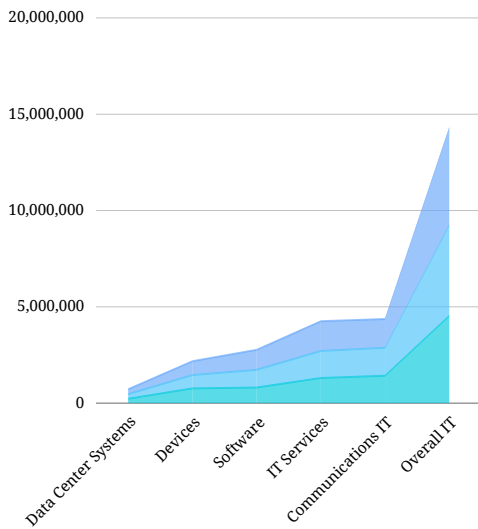
These products are priced on a subscription unit basis, allowing for the measurement of customers' management of various IT resources. The pricing is increasingly based on subscription units rather than a per-node (physical or virtual server) basis.

Figure 5. Enterprise market growth



Source: Precedence Research

Figure 6. Worldwide IT Spending Forecast



Source: Gartner

## INDUSTRY OVERVIEW

*Sector: Enterprise software & cloud computing services*

*Segments: ITSM, ITOM, ITBM, CSM, HRSD, SecOps, Custom Application Development*

The enterprise software market size was estimated at USD 201.05 billion in 2022 and is projected to reach around USD 610.09 billion by 2032, poised to grow at a CAGR of 11.74% during the forecast period from 2023 to 2032. The North American market has generated more than 41% of revenue in 2022, a testament to the region's rapid technological advancements and high adoption rates of enterprise solutions.

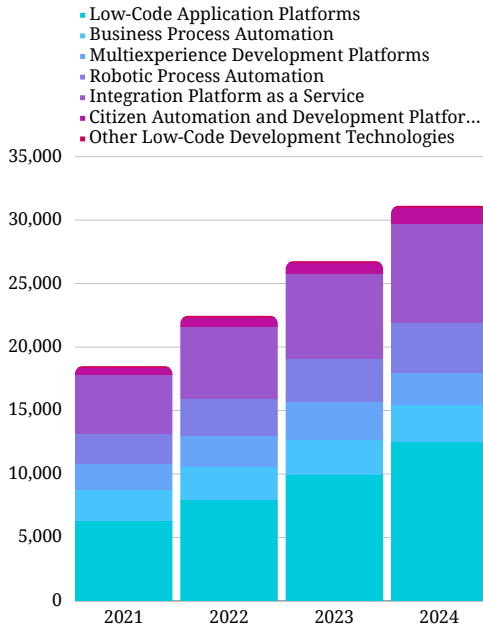
The enterprise software and cloud computing industry continues to experience robust growth, driven by advancements in technology and the increasing demand for efficient IT services. ServiceNow, a key player in this landscape, operates in the IT service management (ITSM), IT operations management (ITOM), and IT business management (ITBM) segments, delivering solutions that are essential for organizations looking to enhance operational efficiency and integrate IT services with business objectives.

Supporting this positive outlook, Gartner forecasts that worldwide IT spending is expected to grow 3.5% in 2023 and 8% in 2024, surpassing the 2.9% growth observed in 2022. This growth is indicative of an industry on the rebound, adapting to the post-pandemic demand for digital transformation and resilient IT infrastructures. Specifically, spending on IT services is expected to see a robust 10.4% improvement, reflecting the heightened need for services that can support remote work environments, cybersecurity, and cloud-based operations.

### INDUSTRY DEFINITION AND SEGMENTATION:

The enterprise software and cloud computing industry encompasses a range of services and solutions, with a specific emphasis on ITSM, ITOM, and ITBM. These segments are integral components of organizations' strategies to enhance operational efficiency, optimize IT asset utilization, and ensure that IT services are in alignment with business goals. The industry's growth is fueled by a combination of factors, including the shift towards cloud computing, the integration of AI and ML technologies, and an overall increase in IT investments as businesses evolve in the digital age.

Figure 7. Worldwide Low-Code Development



Source: Gartner

## KEY DRIVERS

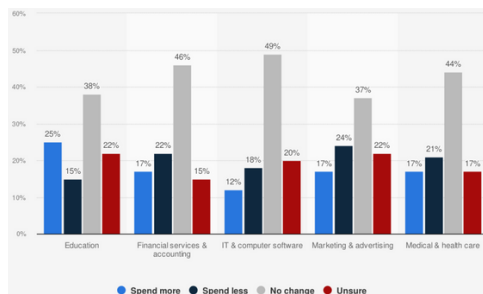
### RIDING ON THE WAVES OF AI

Many industries are modernizing their traditional ways of doing business by embracing digital technologies like cloud computing, the Internet of Things (IoT), artificial intelligence (AI), and analytics. This shift is particularly noticeable in emerging markets, especially in the Asia Pacific region, where internet access is expanding.

Machine Learning (ML) and Artificial Intelligence (AI) are gaining widespread attention across the globe. However, the considerable investment needed to implement these capabilities can be a challenge for some organizations. ServiceNow is actively integrating AI, ML, IoT, and low-code/no-code platforms into its services. This allows organizations to automate tasks, improve the accuracy of incident management, and extract valuable insights. The ServiceNow Cloud, a cloud-based solution, ensures easy accessibility and responsiveness from any device.

ServiceNow is poised to capitalize on the digital transformation wave, especially in emerging markets, by integrating AI, ML, IoT, and low-code/no-code platforms into its services. This strategic integration not only positions ServiceNow as a crucial enabler for businesses adopting advanced technologies with minimal investment but also expands its market reach by offering cloud-based solutions that are easily accessible and responsive across diverse and expanding internet-accessible regions.

Figure 8. Covid's Impact, by Industry



Source: Statista

### COVID HANGOVER

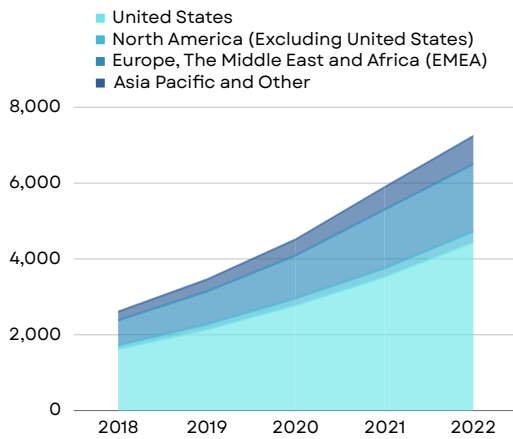
The growing trend of adopting a hybrid work environment, which combines remote and on-site work, is expected to contribute to the industry's continued growth. Businesses, in their digital transformation journey, are actively seeking solutions that seamlessly integrate on-premise and cloud infrastructures to provide flexibility and adaptability.

The COVID-19 pandemic prompted a shift in the way businesses operate, with increased reliance on web and digital services. ServiceNow emerged as a valuable tool, simplifying the use of digital technology for businesses. This goes beyond websites and mobile apps; there is a challenge to creating an excellent overall digital experience. The demand for ServiceNow's products surged during the pandemic as businesses aimed to accelerate their digital plans to enhance customer satisfaction and improve employee efficiency.

ServiceNow is responding to these shifts by developing new tools that cater to businesses' evolving needs. The focus is on delivering high-quality products and services, adapting to the use of multiple cloud services, and leveraging the growing trend of online content creation.

ServiceNow stands to benefit from the growing adoption of hybrid work models and the accelerated digital transformation post-COVID-19. Its platform, which seamlessly integrates on-premise and cloud infrastructures, caters to the needs of hybrid work environments. Additionally, the increased reliance on digital services during and after the pandemic has heightened the demand for ServiceNow's solutions that simplify digital operations, thereby providing opportunities for continued growth and market penetration.

Figure 9. Renewal Rate



Source: Company Data

## INVESTMENT THESIS

### COMPETITIVE MOAT

ServiceNow's robust competitive moat is underpinned by its subscription-based business model and high customer retention rates, which are key drivers of its stable and 'sticky' revenue streams. This model creates high switching costs for customers due to the significant time, expense, and effort involved in transitioning to different platforms. The company's proficiency in upselling and cross-selling within its existing customer base enhances the predictable nature of its revenue, ensuring financial stability and establishing an unshakable competitive advantage.

Additionally, ServiceNow's expansive global presence and high customer retention rates demonstrate the platform's adaptability across diverse business environments. Its strong international positioning establishes ServiceNow as a trusted partner for organizations in need of scalable and efficient IT service solutions (as evidenced by Fig 9, showing a strong foothold in various geographic regions). Critical business metrics like the Annual Contract Value (ACV) and Current Remaining Performance Obligation (cRPO) play significant roles in this regard. ACV, encompassing both new and renewed contracts, is crucial for tracking revenue growth and forecasting future revenue streams. ServiceNow achieved remarkable growth in 3Q2023, with 83 deals closing with net ACVs above \$1 million and a 24% year-over-year increase in cRPO. Furthermore, the average ACV for this customer group grew by 8% year-over-year. cRPO, indicating the volume of signed but not yet fulfilled contracts, provides valuable insights into future earnings potential, guiding management in planning for sustained growth.

### INDUSTRY TAILWINDS AND MARKET EXPANSION

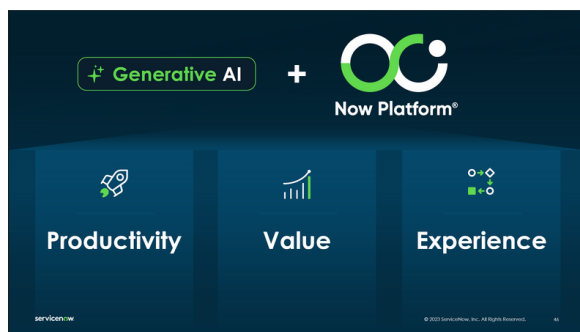
ServiceNow is strategically positioned in the rapidly expanding enterprise software and cloud computing market, projected to grow at a CAGR of 11.74%. Its expertise in IT service management (ITSM), IT operations management (ITOM), and IT business management (ITBM) aligns with the industry's move towards integrated IT services. In North America, where it has established a strong presence and which contributed over 41% of industry revenue in 2022, ServiceNow is well-poised to capitalize on technological advancements and high adoption rates of enterprise solutions.

The company's focus on cloud computing and the integration of AI and ML technologies distinguishes it in the market. As businesses navigate the digital age, the increasing IT investments, highlighted by Gartner's forecast of a 3.5% growth in IT spending in 2023 and 8% in 2024, present significant opportunities for ServiceNow. Its solutions are not only aligned with current industry trends but are also at the forefront of driving operational efficiency and optimizing IT asset utilization.

Post-pandemic, the demand for services that support remote work, cybersecurity, and cloud operations has surged, areas where ServiceNow excels. The company's innovative approach, especially in integrating cloud computing with AI and ML, positions it as a key driver of digital transformation. ServiceNow is not just responding to the market's evolution but is actively shaping the future of IT services and enterprise software, making it a crucial player in an industry gearing up for transformative growth.



Figure 10. Financial Analyst Day Slides



Source: Company Data

## CATALYST

ServiceNow has consistently remained at the forefront of innovation in the enterprise software space. The introduction of Generative AI into its platform marks a pivotal development in ServiceNow's growth trajectory. As a catalyst for digital workflows, Generative AI stands to revolutionize how organizations approach automation, incident management, and customer service.

### AI-DRIVEN SOLUTIONS: A COMPETITIVE EDGE

Generative AI within the ServiceNow ecosystem has led to significant enhancements across a multitude of digital workflows. By embedding AI and ML into its core offerings, ServiceNow is not just automating tasks but redefining them. The implementation of Generative AI enables a more intuitive interaction between the user and the platform, facilitating a seamless digital experience.

### MARKET'S RESPONSE AND ADOPTION

The market has positively received ServiceNow's AI-driven solutions, evidenced by approximately a 40% adoption rate in PRO+ offerings and a notable 25% Average Selling Price (ASP) uplift. This robust market response underscores the efficacy and readiness of ServiceNow's AI capabilities in meeting contemporary business needs.

### FORWARD-LOOKING STRATEGIES

ServiceNow's Generative AI strategy is centered around the optimization of customer data, accuracy enhancement, and upholding data privacy. The company's vision includes directly monetizing these capabilities across the majority of workflows and use cases. With an eye on the future, ServiceNow is developing new tools that cater to the shifting demands of businesses, focusing on delivering high-quality products that adapt to multiple cloud services and leverage the trend of online content creation.

### IMPACT OF GENERATIVE AI

Incorporation of Generative AI has led to higher deflection rates for IT incidents, quicker root cause analysis, and sophisticated post-incident summarization in natural language. These advances are just the beginning, with more transformative features set to roll out, including:

- Enhanced virtual agent interactions.
- Summarized and targeted search results.
- Accelerated ServiceNow configuration and extension with new Flow Assist and Code Assist.

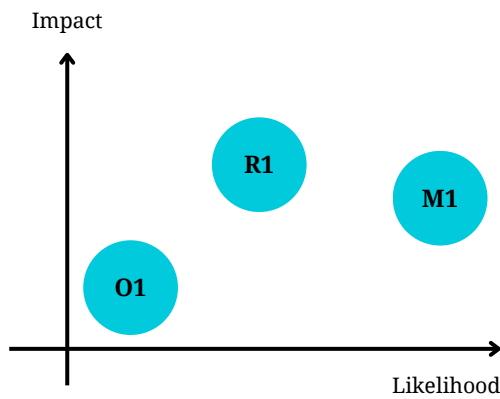
### THE ROAD AHEAD

Looking ahead, ServiceNow is poised to complete self-service capabilities and supercharge agent productivity through automated knowledge creation, case summarization, and insights. In addition to facilitating more efficient, cohesive, and simpler customer experiences, generative AI is also expected to benefit administrators and builders.

### CONCLUSION

ServiceNow's integration of Generative AI is a bold step into the future of digital workflows, positioning the company to harness the full potential of this transformative technology. With its commitment to continuous innovation and customer-focused solutions, ServiceNow is well-equipped to extend its market leadership and drive sustainable growth in the landscape of enterprise software.

Figure 11. Risk Matrix



Source: Analyst Estimates

## KEY RISKS

### MARKET COMPETITION (M1)

- The software industry, especially in the cloud computing and digital workflow sectors where ServiceNow operates, is characterized by rapid technological advancements and a continuous influx of new competitors. These competitors range from large, established tech companies to innovative startups. This intense competition requires ServiceNow to not only maintain its current service quality but also innovate continually to provide superior and differentiated offerings. The risk is further compounded by the potential for price wars, and the need for constant technological updates.
- Mitigation Measure: To mitigate this risk, ServiceNow can focus on differentiating its offerings through continuous innovation and R&D. Investing in emerging technologies like AI and machine learning can enhance its product capabilities. Additionally, building strong customer relationships through excellent service and support, along with creating a unique value proposition, can help retain existing customers and attract new ones. Strategic partnerships and collaborations can also open new markets and fortify ServiceNow's market position.

### CUSTOMER RETENTION AND ACQUISITION (O1)

- With a substantial portion of its revenue stemming from subscriptions, ServiceNow's growth and financial stability are heavily reliant on acquiring and retaining customers. The challenge lies in continuously attracting new clients in a competitive market while ensuring the satisfaction and loyalty of existing ones. High churn rates or difficulties in acquiring new customers can significantly impact the revenue stream and, consequently, the overall financial health of the company.
- Mitigation Measure: ServiceNow should invest in targeted marketing strategies to attract new customers, focusing on showcasing the unique benefits and efficiencies of its platform. Additionally, exploring flexible pricing models and tiered subscriptions can cater to a broader range of customers, aiding in both acquisition and retention. Since ServiceNow has a consistent 98% customer renewal rate, this does not pose a risk to ServiceNow in the near term.

### REGULATORY COMPLIANCE (R1)

- Operating globally exposes ServiceNow to a complex web of regulations, especially concerning data privacy and cross-border data transfers. Regulations such as GDPR in Europe and varying data protection laws across different jurisdictions present operational challenges. Non-compliance can lead to substantial fines, legal challenges, and reputational damage. The evolving nature of these regulations requires constant vigilance and adaptability.
- Mitigation Measure: To address this risk, ServiceNow needs to invest in a robust compliance framework. This includes hiring experienced legal and compliance teams, implementing comprehensive data protection policies, and ensuring regular training for employees on regulatory matters. Staying abreast of changes in laws and proactively adjusting business practices is crucial. Developing and maintaining a strong data governance framework that can adapt to different regional requirements will help ServiceNow navigate these regulatory challenges effectively. Collaboration with legal experts and regulatory bodies can also provide insights and guidance on compliance matters.

Figure 12. Peer Analysis

Company Name	EV/Sales
Snowflake Inc.	25.1x
Workday, Inc.	10.9x
Splunk Inc.	7.7x
Salesforce, Inc.	7.9x
Adobe Inc.	14.2x
Datadog, Inc.	20.3x
HubSpot, Inc.	14.6x
Palo Alto Networks, Inc.	13.2x
CrowdStrike Holdings, Inc.	27.7x
Zoom Video Communications, Inc.	4.9x
Oracle Corporation	6.1x
Sap SE	5.4x
<b>ServiceNow, Inc.</b>	<b>20.3x</b>

Source: Company Data

## COMPETITIVE ANALYSIS

### COMPREHENSIVE ITSM SOLUTIONS

ServiceNow's leadership in the ITSM sector is underpinned by its platform's ability to integrate a wide array of IT services into a single, cloud-based offering. ServiceNow's ITSM solutions are not merely tools but ecosystems that support complex IT operations, enable cross-departmental interaction, and leverage advanced analytics to drive continuous improvement.

### MARKET SHARE AND CUSTOMER BASE

With a commanding market share in the ITSM space, ServiceNow has become the preferred provider for Fortune 500 companies and various government entities. Its impressive customer retention rates and expanding clientele in emerging markets reflect its deep penetration and growing dominance.

### CONTINUOUS INNOVATION

ServiceNow has consistently expanded its ITSM capabilities with AI and machine learning enhancements, allowing for predictive analytics and smarter automation. This continuous innovation cycle keeps the platform at the forefront of the ITSM market, ensuring it meets the ever-evolving demands of the digital era.

### BRAND EQUITY

ServiceNow's brand is anchored in its track record of reliability and excellence. The company has been recognized in numerous industry awards, such as the Forbes Most Innovative Companies list, which bolsters its reputation. The strong brand equity translates into higher customer acquisition and a competitive advantage in negotiations.

### INTERNATIONAL FOOTPRINT

The company's international footprint extends to over 80 countries, facilitated by a network of global data centers that ensure compliance with local data sovereignty laws. This strategic global positioning allows ServiceNow to capture demand in both developed and high-growth markets.

### STRATEGIC PARTNERSHIPS AND ECOSYSTEM

ServiceNow's collaborations with leading consulting firms and IT providers amplify its global reach and implementation capabilities. Its vibrant partner ecosystem, which includes resellers, integrators, and app developers, further entrenches its market position by expanding its service offerings.

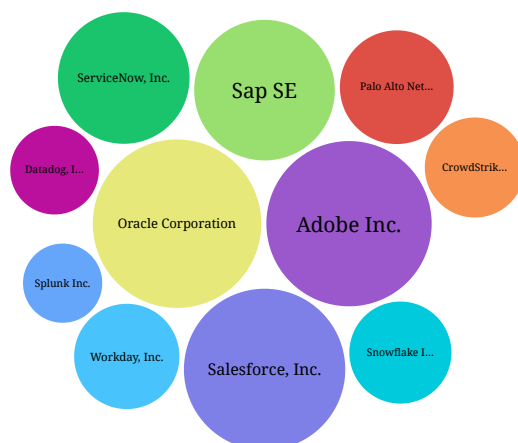


Figure 13. WACC

Valuation Date	12/15/2023
Share Price, USD	\$675.23
TGR	3%
EV/EBITDA	170.84x
Cost of Equity	9.08%
ERP	5.00%
Beta	1.05
Risk Free Rate	3.84%
Cost of Debt	1.56%
Tax rate	25.00%
Terminal Value	\$161.92m
Intrinsic Value	\$101.47m
Equity Value/Share	\$493.68
WACC	8.96%

Source: Analyst Estimates

Figure 14. Market Share, by EV



Source: Company Data, Analyst Estimates

## VALUATION

My method of valuation is the Discounted Cash Flow (DCF) model, which incorporates the company's cost of capital and forecasts for future cash flows. My analysis suggests a divergence between the intrinsic value and the current market price, indicating potential overvaluation at the current levels. (See Appendix for full model)

### VALUATION DATE AND ASSUMPTIONS

As of 15-Dec-23, the valuation incorporates a tax rate of 25%, a discount rate of 9%, and a perpetual growth rate of 3%. The EV/EBITDA multiple applied for terminal value calculation is 170.8x, for the fiscal year-end of 31/12/2022. The current share price stands at \$675.23, with 204 million diluted shares outstanding.

### WEIGHTED AVERAGE COST OF CAPITAL (WACC)

ServiceNow's WACC is calculated at 8.96%, derived from the cost of equity at 9.08% and a after tax cost of debt at 1.17%. The equity risk premium is set at 5.00%, and the beta is 1.05, indicating slightly higher volatility compared to the market. The risk-free rate is 3.84%, reflecting the yield on long-term government bonds.

### DISCOUNTED CASH FLOW ANALYSIS

The DCF analysis forecasts unlevered free cash flows (FCFF) escalating from \$218 million in 2023 to \$316 million in 2027. The terminal value, calculated using the perpetuity growth method, stands at \$161,927 million. The intrinsic enterprise value of ServiceNow is estimated at \$101,472 million, adding \$1,470 million of cash and subtracting \$2,232 million in debt, yielding an equity value of \$100,710 million. This translates to an intrinsic value per share of \$493.68.

### MARKET COMPARISON

The current market capitalization of ServiceNow is \$137,747 million, with a slight debt weighting of 1.59%, leading to an enterprise value of \$136,985 million. This valuation represents a significant premium to the intrinsic value calculated by the DCF model.

### DISCOUNTED CASH FLOW ANALYSIS

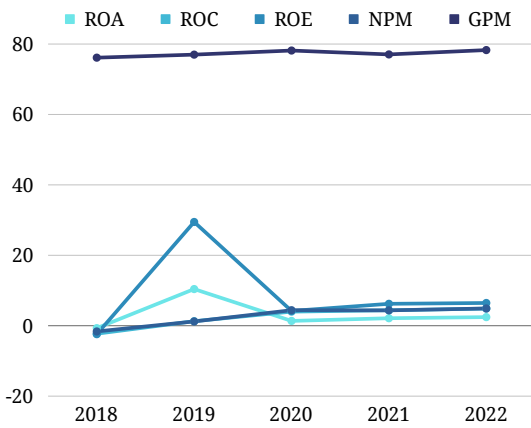
At the current price of \$675.23, my DCF model suggests that ServiceNow's stock is overvalued by approximately 27%, compared to the intrinsic value per share of \$493.68. The Internal Rate of Return (IRR) for the stock is calculated at 3%, which might not be compelling for risk-averse investors, given the equity's volatility and market risks.

### RELATIVE VALUATION

In the comparative valuation (see appendix), ServiceNow, Inc. (NYSE: NOW) is priced at a premium relative to industry peers, with a market capitalization of approximately \$144.5 billion and robust sales figures. Its valuation multiples, including an EV/Sales of 20.3x and an EV/EBITDA of 170.8x, exceed industry medians, suggesting high market expectations for future growth and profitability. The P/E ratio at 91.5x further reflects these anticipations.

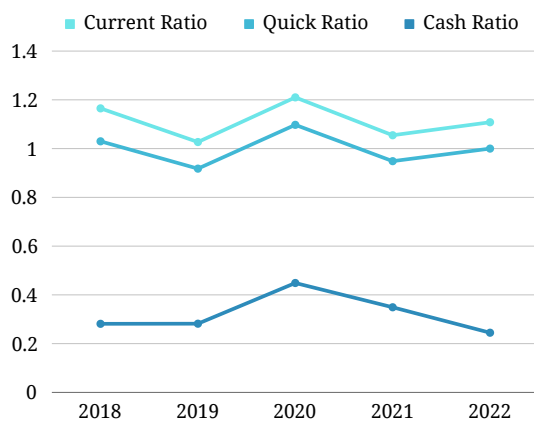
ServiceNow's trading price closely aligns with its estimated fair value, reflecting a modest upside of 3%. This suggests a market consensus on the company's valuation, incorporating its anticipated performance. Nonetheless, a greater emphasis on discounted cash flow (DCF) analysis, which prioritizes fundamental analysis for long-term valuation, indicates a potential overvaluation. Consequently, my recommendation is to maintain a "HOLD" stance on the stock.

Figure 15. Profitability Forecasts



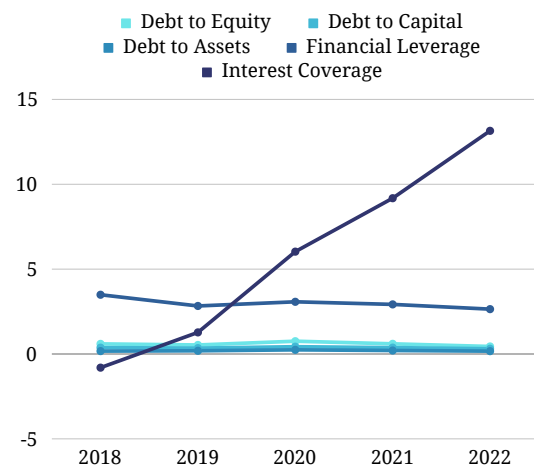
Source: Company Data, Analyst Estimates

Figure 16. Liquidity Ratio Forecasts



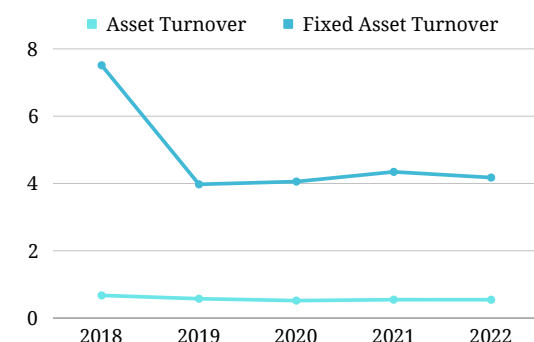
Source: Company Data, Analyst Estimates

Figure 17. Solvency Ratio Forecasts



Source: Company Data, Analyst Estimates

Figure 18. Operating Performance Forecasts



Source: Company Data, Analyst Estimates

## FINANCIAL ANALYSIS

ServiceNow has exhibited a robust financial trajectory over the past years, with significant improvements across profitability, liquidity, solvency, and operating performance measures. My forecast anticipates continued growth in these key areas, suggesting that ServiceNow is positioned to maintain its competitive advantage and shareholder value generation.

### PROFITABILITY

ServiceNow has demonstrated a remarkable turnaround in profitability. After negative returns in 2018, the company has shown progressive improvement with ROA increasing to 2.44% and ROE to 6.46% by 2022. This reflects more efficient use of assets and better value generation for shareholders. The Net Income Margin improved from a negative in 2018 to a positive 4.90% in 2022, indicating improved operational efficiency and profitability. Gross Profit Margins have been consistently high, slightly increasing from 76.13% in 2018 to 78.29% in 2022, suggesting strong cost management and pricing strategies.

### LIQUIDITY

The Current Ratio and Quick Ratio have shown fluctuations but generally indicate a stable liquidity position, with the company maintaining ratios above 1, suggesting it can cover its short-term liabilities with its short-term assets. The Cash Ratio has varied, with a decrease from 0.28 in 2018 to 0.24 in 2022, which may suggest tighter cash management or investment in growth opportunities.

### SOLVENCY

ServiceNow has experienced an increase in its Debt to Equity ratio from 0.60 in 2018 to 0.44 in 2022, reflecting a decrease in leverage and a potentially healthier balance sheet. The company's Debt to Capital ratio has seen a slight increase, which, coupled with a decreasing Debt to Equity ratio, could indicate a shift in the company's capital structure. The Financial Leverage ratio decreased over the period, and the Interest Coverage ratio improved significantly from -0.80 in 2018 to 13.15 in 2022, suggesting that the company is generating more than enough earnings to cover its interest expenses, a sign of financial robustness.

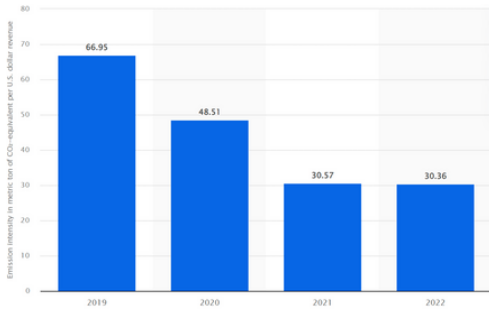
### OPERATING PERFORMANCE

Total Asset Turnover decreased from 0.67 in 2018 to 0.54 in 2022, indicating a slower rate of revenue generation from its asset base. The Fixed Asset Turnover ratio decreased from 7.51 in 2018 to 4.18 in 2022, suggesting that the company's fixed assets are generating less revenue over time.

### INVESTMENT IMPLICATION

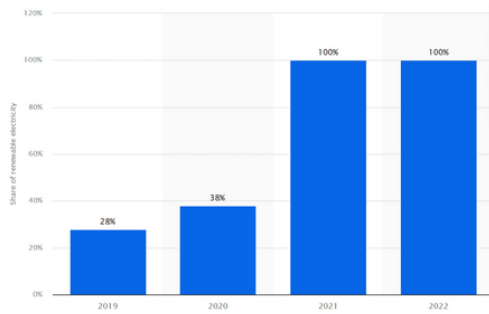
ServiceNow's historical financial performance indicates a company on the rise, with strong profitability metrics and a robust solvency position. The potential concern lies in its asset turnover ratios, which could imply a future need to optimize or rationalize its asset base for improved efficiency. For investors, ServiceNow presents a compelling case as a resilient company with a strong profit margin and a proven track record of improving financial health. However, careful monitoring of its operational efficiency and liquidity management would be prudent.

Figure 19. Emission Intensity



Source: Company Data, Statista

Figure 20. Renewable Electricity used



Source: Company Data, Statista

## ESG

### ENVIRONMENTAL: SUSTAINING OUR PLANET

ServiceNow has taken significant steps to address climate change and environmental sustainability. The company has made on-track progress against its Science Based Targets initiative (SBTi) and achieved 100% renewable electricity. It has expanded its carbon-neutrality boundary to offer customers a carbon-neutral cloud, initiated a water risk assessment, and maintained responsible procurement practices to reduce waste and conserve water.

### SOCIAL: CREATING EQUITABLE OPPORTUNITY

In the social sphere, ServiceNow is committed to creating equitable opportunities by fostering a diverse, inclusive, and engaging workplace. Investments in learning, leadership training, and development planning have been increased to empower the workforce. The company has improved representation of underrepresented groups (URGs), women, and women in leadership roles. It has implemented an occupational health and safety (OH&S) management system aligned with ISO standards and recorded an 83% year-over-year increase in volunteer hours logged.

### GOVERNANCE: ACTING WITH INTEGRITY

ServiceNow's governance efforts focus on maintaining the highest standards of security, data privacy, and ethical conduct. The company has exceeded benchmarks in independent cyber audits against the NIST Cybersecurity Framework and launched policies for Corporate Political Contributions, Industry Associations, and Human Rights training. It has also established a Responsible AI Working Group and seen increased ESG ratings from CDP, EcoVadis, and S&P Global.

Figure 21. SWOT Table

Strengths	Weakness
<ul style="list-style-type: none"> <li>Service Management</li> <li>Automation</li> <li>Scalability</li> </ul>	<ul style="list-style-type: none"> <li>Complexity</li> <li>Dependency on Large Enterprises</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>AI and ML</li> <li>Global Trends</li> </ul>	<ul style="list-style-type: none"> <li>Competition</li> <li>Regulations</li> </ul>

Source: Analyst Estimates

## SWOT ANALYSIS

### STRENGTHS

- **Comprehensive Service Management:** ServiceNow's biggest strength lies in its ability to offer a unified platform for managing a vast range of services. This capability enhances organizational efficiency by integrating disparate processes into a streamlined workflow. The platform's versatility extends across various domains such as IT, human resources, and customer service, making it a central hub for enterprise operations.
- **Automation and Workflow Efficiency:** The platform excels in automating routine tasks and optimizing complex workflows. This not only reduces the scope for human error but also frees up valuable resources, allowing employees to focus on more strategic tasks. Automation, combined with intelligent workflow design, significantly boosts productivity and operational efficiency.
- **Scalable Cloud-Based Model:** ServiceNow's cloud-based infrastructure offers unparalleled scalability and flexibility, which is essential for businesses with fluctuating demands. This model allows organizations to scale their operations up or down without the need for significant investments in on-premises infrastructure, thereby providing cost-effective and agile IT solutions.

### WEAKNESSES

- **Complex Implementation and Customization:** While ServiceNow's platform is powerful, its implementation and customization can be complex and time-consuming, especially for large organizations with intricate processes. This complexity can pose a significant barrier to adoption, as it requires substantial investment in terms of time and resources to align the platform with specific organizational needs.
- **Dependency on IT and Large Enterprises:** ServiceNow's primary focus on IT solutions and large enterprises could limit its market penetration. Small and medium-sized businesses may find the platform too complex or expensive, which restricts ServiceNow's ability to tap into this significant market segment.

### OPPORTUNITIES

- **AI and Machine Learning Integration:** The integration of AI and machine learning technologies presents a significant opportunity for ServiceNow to enhance its platform's predictive capabilities and efficiency. AI-driven analytics and intelligent automation can enable organizations to gain deeper insights into their operations and make more informed decisions.
- **Global Digital Transformation Trends:** The ongoing global shift towards digital transformation, accelerated by the COVID-19 pandemic, presents a substantial opportunity for ServiceNow. As organizations across various industries seek to digitize their operations and embrace remote working models, the demand for digital workflow solutions like those offered by ServiceNow is expected to grow.

### THREATS

- **Intense Competition:** The enterprise software and cloud computing sector is fiercely competitive, with several established players, such as IBM and Palo Alto vying for market share. This competition puts pressure on ServiceNow to continuously innovate and differentiate its offerings to maintain its market position.
- **Regulatory and Compliance Changes:** As a provider of cloud-based solutions, ServiceNow must navigate a complex and evolving landscape of data privacy and compliance regulations across different regions. Failure to comply with these regulations could lead to legal issues, fines, and a loss of customer trust.

## CONCLUSION

ServiceNow's comprehensive strengths in offering automation, scalability, and innovation are balanced by challenges related to complexity, cost, and user adoption. Successfully navigating these complexities while capitalizing on opportunities will be essential for ServiceNow to maintain its leadership position in the dynamic enterprise software landscape.

## PORTER 5 FORCES

One of the key strengths of ServiceNow is its ability to integrate and orchestrate processes across different departments within an organization. It uses a single data model and a common interface, making it easier for various teams to collaborate and share information. ServiceNow is widely used in enterprises across various industries to improve service delivery, automate workflows, and enhance overall business operations.

### BARGAINING POWER OF BUYERS (HIGH)

- Customers have high bargaining power due to the availability of alternative solutions in the enterprise software market.
- However, ServiceNow's established reputation for reliability and a comprehensive suite of services provide a degree of differentiation, mitigating some of the buyer's power. Additionally, ServiceNow has high customer satisfaction, competitive pricing, and continuous innovation to outpace competitors. Demonstrating the unique value of its platform and addressing the specific needs of its diverse customer base are pivotal aspects of managing buyer bargaining power.
- High switching costs: Buyers have less bargaining power as it is costly to switch to alternatives. Moreover, switching to other software will result in a loss of productivity since users will have to learn the new software. ServiceNow's focus on a customer-centric approach can be illustrated by its Customer Success Program. It provides 24/7 customer support, training, and certifications for its customers.

### BARGAINING POWER OF SUPPLIERS (LOW)

- ServiceNow relies on various technology and service providers, but the sheer number of potential suppliers and the importance of the company to their businesses reduce supplier bargaining power. The availability of alternative suppliers further limits their influence.

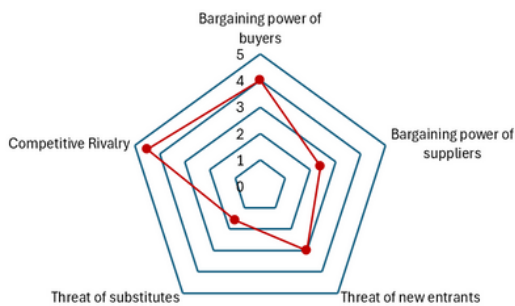
### THREAT OF NEW ENTRANTS (MODERATE)

- The threat of new entrants is moderated by the high capital requirements, the need for technological expertise, and the strong brand loyalty enjoyed by established players.
- To add on, the industry is technologically and regulatoryly complex. ServiceNow's platform is already tailored to various industries and requires substantial R&D investment for new entrants to match its features.
- However, disruptive technologies and innovative start-ups pose a moderate threat, necessitating continuous innovation from ServiceNow.

### THREAT OF SUBSTITUTES (LOW)

- The threat of new entrants is moderated by the high capital requirements, the need for technological expertise, and the strong brand loyalty enjoyed by established players.
- To add on, the industry is technologically and regulatoryly complex. ServiceNow's platform is already tailored to various industries and requires substantial R&D investment for new entrants to match its features.
- However, disruptive technologies and innovative start-ups pose a moderate threat, necessitating continuous innovation from ServiceNow.

Figure 22. Radar Chart, Porter 5 Forces



Source: Analyst Estimates

- ServiceNow's extensive capabilities make it difficult for less comprehensive alternatives to fully substitute for its integrated approach. The platform's high customizability to various industries reduces the likelihood of easily replaceable substitutes.

### COMPETITIVE RIVALRY (HIGH)

- Intense competition characterizes the enterprise software market, with several major players vying for market share. Some of these include IBM, Atlassian, and Salesforce, among others.
- Global presence increases competition, and expansion into different areas requires it to contend with both global and local rivals.
- Strategic partnerships are common in the industry, influencing companies' competitive positioning by enhancing their offerings. The ability to establish and leverage such partnerships is crucial for industry players.
- Low barriers to entry into the software industry allow new companies to enter and compete.
- ServiceNow's continuous innovation and strategic partnerships enhance its competitive advantage, but the intense rivalry requires ongoing efforts to stay ahead. Furthermore, ServiceNow's focus on customer satisfaction has helped it stay a leader in the industry.

### PESTLE

#### POLITICAL

- Regulatory Compliance: ServiceNow operates in a regulatory environment, and changes in data protection and cybersecurity regulations may impact the company's operations and client requirements.
- Government Contracts: The company's engagement with government entities may be influenced by political decisions and budget allocations.

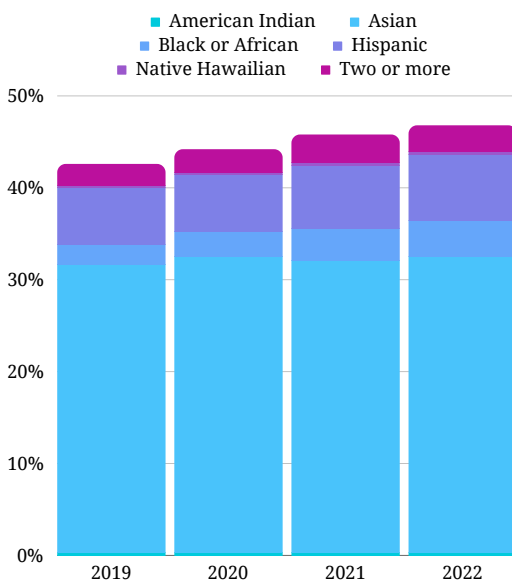
#### ECONOMICAL

- Global Economic Conditions: Economic downturns or fluctuations can affect IT spending, potentially impacting ServiceNow's revenue. The growth of ServiceNow over the past two decades can be attributed to increasing globalization and catering to the global market.
- Foreign Exchange Rates: As a global company, fluctuations in currency exchange rates may impact the company's financial results.
- Interest rates: A high interest rate will increase the cost of borrowing, making it difficult for companies to expand, especially a technology-based company.

#### SOCIAL

- Digital Transformation: Increasing emphasis on digitalization and the adoption of cloud-based solutions align with ServiceNow's offerings, presenting growth opportunities.
- Workforce Trends: Changes in workforce dynamics, such as remote work trends, may impact the demand for ServiceNow's human resources and workflow solutions.
- Importance of Corporate Social Responsibility: Consumers are becoming more conscious of how a company impacts the environment and society. ServiceNow has committed to achieving net zero by 2030. In partnership with the GivePower foundation, ServiceNow has invested in desalination solar water farms to give access to communities that need it the most, such as Kenya.

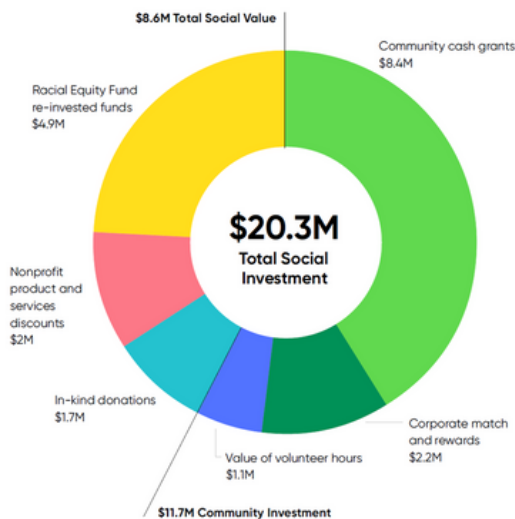
Figure 23. Ethnicity Diversity, US



Source: Company Data



Figure 24. Social Investment



Source: Company Data

## TECHNOLOGICAL

- Innovation and Technological Disruption: Rapid technological advancements and disruptive innovations in the IT industry may create opportunities or challenges for ServiceNow.
- Cybersecurity Threats: As a provider of cloud-based services, ServiceNow needs to continuously invest in cybersecurity measures to address evolving threats.

## LEGAL

- Data Privacy Laws: Compliance with data protection and privacy laws, such as the General Data Protection Regulation (GDPR) is crucial for ServiceNow's operations, particularly given the sensitivity of client data. In addition, the industries in which ServiceNow operates are heavily regulated; consequently, the company must pay close attention to these legal regulations.
- Intellectual Property Protection: Legal challenges related to intellectual property rights and software patents may affect the company's competitive position.

## ENVIRONMENTAL

- Sustainability Practices: Growing emphasis on corporate social responsibility and sustainability may influence ServiceNow's business practices and client expectations.
- Energy Consumption: The environmental impact of data centers and the energy consumption associated with cloud services may be a consideration for stakeholders.

# Appendix

## Income Statement

Income Statement	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Revenue	2,609	3,460	4,519	5,896	7,245	9,129	11,621	14,825	18,995	24,497
Cost of Revenue	623	796	987	1,353	1,573	2,070	2,607	3,309	4,258	5,466
<b>Gross Profit</b>	<b>1,986</b>	<b>2,664</b>	<b>3,532</b>	<b>4,543</b>	<b>5,672</b>	<b>7,059</b>	<b>9,014</b>	<b>11,516</b>	<b>14,736</b>	<b>19,031</b>
Research and Development	530	749	1,024	1,397	1,768	1,917	2,440	3,113	3,989	5,144
SG&A	1,499	1,873	2,309	2,889	3,549	4,199	5,346	6,820	8,737	11,269
Other income/expenses net	56	58	(16)	20	71	88	111	142	182	235
Total Operating Expenses	2,029	2,622	3,333	4,286	5,317	6,618	8,556	10,851	13,881	17,921
<b>Operating Income</b>	<b>(42)</b>	<b>42</b>	<b>199</b>	<b>257</b>	<b>355</b>	<b>440</b>	<b>458</b>	<b>665</b>	<b>855</b>	<b>1,110</b>
Interest Expense	(53)	(33)	(33)	(28)	(27)	(23)	(23)	(23)	(23)	(23)
<b>Pretax Income</b>	<b>(39)</b>	<b>67</b>	<b>150</b>	<b>249</b>	<b>399</b>	<b>505</b>	<b>546</b>	<b>784</b>	<b>1,014</b>	<b>1,322</b>
Tax Expense	12	560	(31)	(19)	(74)	79	86	123	159	207
<b>Net Income</b>	<b>(27)</b>	<b>627</b>	<b>119</b>	<b>230</b>	<b>325</b>	<b>584</b>	<b>632</b>	<b>907</b>	<b>1,173</b>	<b>1,529</b>

## Balance Sheet

Balance Sheet	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<b>Assets</b>										
<b>Current Assets:</b>										
Cash and Equivalents	566	776	1,677	1,728	1,470	2,694	3,408	3,924	4,633	5,634
Short-term Investments	932	915	1,415	1,576	2,810	1,934	2,107	2,283	2,108	2,166
Accounts Receivable (Net)	575	835	1,009	1,390	1,725	2,116	2,801	3,716	4,952	6,642
Current Deferred Commissions	140	175	229	303	369	470	604	782	1,026	1,343
Prepaid Expenses and Other Current Assets	132	125	192	223	280	353	445	560	706	889
<b>Total Current Assets</b>	<b>2,345</b>	<b>2,827</b>	<b>4,522</b>	<b>5,220</b>	<b>6,654</b>	<b>7,566</b>	<b>9,364</b>	<b>11,266</b>	<b>13,425</b>	<b>16,674</b>
<b>Non-Current Assets:</b>										
Deferred Commissions (Less Current Portion)	282	333	444	623	742	935	1,178	1,484	1,870	2,356
Long-term Investments	582	1,013	1,468	1,630	2,117	1,738	1,828	1,895	1,820	1,848
Property and Equipment (Net)	347	468	660	766	1,053	1,084	1,122	1,051	991	851
Operating Lease Right-of-use Assets	0	402	454	591	682	576	616	625	606	615
Intangible Assets (Net)	101	144	153	287	232	255	282	312	371	426
Goodwill	149	157	241	777	824	824	824	824	824	824
Deferred Tax Assets	21	600	673	692	636	977	1,281	1,684	2,222	2,952
Other Assets	53	78	100	212	359	224	265	283	257	268
<b>Total Assets</b>	<b>3,879</b>	<b>6,022</b>	<b>8,715</b>	<b>10,798</b>	<b>13,299</b>	<b>14,179</b>	<b>16,761</b>	<b>19,422</b>	<b>22,386</b>	<b>26,815</b>
<b>Liabilities</b>										
<b>Current Liabilities:</b>										
Accounts Payable	31	53	34	89	274	162	224	313	442	625
Accrued Expenses and Other Current Liabilities	330	461	668	942	975	1,139	1,538	2,079	2,824	3,860
Current Deferred Revenue	1,652	2,186	2,963	3,836	4,660	5,868	7,545	9,722	12,581	16,387
Current Operating Lease Liabilities	0	53	72	82	96	99	103	106	110	114
<b>Total Current Liabilities</b>	<b>2,013</b>	<b>2,753</b>	<b>3,737</b>	<b>4,949</b>	<b>6,005</b>	<b>7,269</b>	<b>9,410</b>	<b>12,220</b>	<b>15,957</b>	<b>20,986</b>
<b>Non-current Liabilities:</b>										
Deferred Revenue (Less Current Portion)	39	40	45	63	70	59	64	64	63	64
Operating Lease Liabilities (Less Current Portion)	0	383	423	556	650	673	696	721	746	772
Long Term Debt (Net)	662	695	1,640	1,484	1,486	1,509	1,553	1,597	1,641	1,685
Other Long-term Liabilities	55	23	36	51	56	48	52	52	50	51
<b>Total Liabilities</b>	<b>2,768</b>	<b>3,894</b>	<b>5,881</b>	<b>7,103</b>	<b>8,267</b>	<b>9,558</b>	<b>11,774</b>	<b>14,654</b>	<b>18,457</b>	<b>23,558</b>
<b>Equity:</b>										
<b>Stockholders' Equity:</b>										
Additional Paid-in Capital	2,094	2,455	2,974	3,665	4,796	4,796	4,796	4,796	4,796	4,796
Accumulated Other Comprehensive Income (Loss)	(4)	25	94	34	(102)	(102)	(102)	(102)	(102)	(102)
Accumulated Deficit	(979)	(352)	(234)	(4)	338	(72)	293	74	(765)	(1,438)
<b>Total Stockholders' Equity</b>	<b>1,111</b>	<b>2,128</b>	<b>2,834</b>	<b>3,695</b>	<b>5,032</b>	<b>4,622</b>	<b>4,987</b>	<b>4,768</b>	<b>3,929</b>	<b>3,256</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>3,879</b>	<b>6,022</b>	<b>8,715</b>	<b>10,798</b>	<b>13,299</b>	<b>14,179</b>	<b>16,761</b>	<b>19,422</b>	<b>22,386</b>	<b>26,815</b>

# Appendix

## Income Statement, Assumptions

<b>Operating Statistics/Margins</b>										
Revenue Growth Rate		33%	31%	30%	23%	26%	27%	28%	28%	29%
Gross Profit Margin	76%	77%	78%	77%	78%	77%	78%	78%	78%	78%
Operating Expenses, % of Revenue	78%	76%	74%	73%	73%	73%	74%	73%	73%	73%
Tax Rate, % of EBT	32%	0%	21%	8%	19%	16%	16%	16%	16%	16%
<b>Assumptions</b>										
Research and Development, % of Revenue	20%	22%	23%	24%	24%	21%	23%	23%	23%	23%
SG&A, % of Revenue	57%	54%	51%	49%	49%	46%	50%	49%	49%	48%
Other income/expenses net	2%	2%	0%	0%	1%	1%	1%	1%	1%	1%
<b>Select Scenario</b>	<b>Base Case</b>									
<b>Revenue Growth Rate</b>										
Best Case						29%	28%	28%	27%	28%
Base Case		33%	31%	30%	23%	26%	27%	28%	28%	29%
Bear Case						15%	15%	14%	14%	13%
<b>Gross Profit Margin</b>										
Best Case						78%	79%	79%	80%	80%
Base Case	76%	77%	78%	77%	78%	77%	78%	78%	78%	78%
Bear Case						76%	75%	74%	73%	72%
<b>Operating Expenses</b>										
Best Case						72%	71%	70%	69%	68%
Base Case	78%	76%	74%	73%	73%	73%	74%	73%	73%	73%
Bear Case						74%	75%	76%	77%	78%
<b>Tax Rate</b>										
Best Case						11%	11%	11%	11%	11%
Base Case	32%	0%	21%	8%	19%	16%	16%	16%	16%	16%
Bear Case						26%	26%	26%	26%	26%
<b>Research and Development</b>										
Best Case						20%	20%	19%	19%	18%
Base Case	20%	22%	23%	24%	24%	21%	23%	23%	23%	23%
Bear Case						22%	22%	22%	23%	23%
<b>SG&amp;A</b>										
Best Case						45%	45%	44%	44%	43%
Base Case	57%	54%	51%	49%	49%	46%	50%	49%	49%	48%
Bear Case						47%	47%	47%	48%	48%
<b>Other</b>										
Best Case						1%	1%	1%	2%	2%
Base Case	2%	2%	0%	0%	1%	1%	1%	1%	1%	1%
Bear Case						-1%	-1%	-2%	-2%	-3%

# Appendix

## Balance Sheet Supporting Schedules

Assumptions										
<b>Working Capital Schedule</b>										
Net Revenue	2,609	3,460	4,519	5,896	7,245	9,129	11,621	14,825	18,995	24,497
COGS	623	796	987	1,353	1,573	2,070	2,607	3,309	4,258	5,466
SG&A	1,499	1,873	2,309	2,889	3,549	4,199	5,346	6,820	8,737	11,269
Accounts Receivable, % of Revenue	22%	24%	22%	24%	24%	23%	24%	25%	26%	27%
Accounts Payable, % of COGS	5%	7%	3%	7%	17%	8%	9%	9%	10%	11%
Current Deferred Commissions, % COGS	22%	22%	23%	22%	23%	23%	23%	24%	24%	25%
Deferred Revenue, % of Revenue	63%	63%	66%	65%	64%	64%	65%	66%	66%	67%
Deferred Tax Assets, % of Revenue	1%	17%	15%	12%	9%	11%	11%	11%	12%	12%
Accrued Expenses, % of SG&A	22%	25%	29%	33%	27%	27%	29%	30%	32%	34%
Amortization Expense	25	35	46	76	81	47	63	63	85	86
% of Capex	10%	10%	11%	19%	15%	13%	14%	14%	15%	14%
<b>Net Working Capital</b>										
Accounts Receivable					(335)	(391)	(685)	(915)	(1,236)	(1,690)
Current Deferred Commissions					(66)	(101)	(134)	(178)	(244)	(317)
Prepaid Expenses and Other Current Assets					(57)	(73)	(92)	(116)	(146)	(183)
Accounts Payable					185	(112)	62	89	130	182
Current Deferred Revenue					824	1,208	1,677	2,177	2,859	3,807
Accrued Expenses and Other Liabilities					33	164	398	542	745	1,036
<b>Net Working Capital</b>					<b>584</b>	<b>696</b>	<b>1,226</b>	<b>1,598</b>	<b>2,108</b>	<b>2,835</b>
Changes in NWC						112	530	372	509	727
<b>Property and Equipment</b>										
	Weighted Average Useful Life									
Computer Equipment										
Computer Software	5									
Furniture and Fixtures										
<b>Depreciation Schedule</b>										
PPE Opening	245	347	468	660	766	1,053	1,084	1,122	1,051	991
Capex	249	338	432	399	550	365	465	445	570	612
% of Revenue	10%	10%	10%	7%	8%	4%	4%	3%	3%	3%
Additions/Disposal	(270)	(385)	(465)	(605)	(524)	-	-	-	-	-
Less: Depreciation Expense	123	168	225	312	261	334	427	516	630	752
PPE Closing	347	468	660	766	1,053	1,084	1,122	1,051	991	851
Depreciation from FY 2022A										
FY 2023E					261	261	261	261	261	261
FY 2024E						73	73	73	73	73
FY 2025E							93	93	93	93
FY 2026E								89	89	89
FY 2027E									114	114
Total Depreciation					261	334	427	516	630	752
Weighted Average Lease Term (Years)	10									
Weighted Average Discount Rate	3.50%									
<b>Investments in PPE/Capex</b>										
Purchases in Intangibles	(24)	(73)	(13)	(7)	0	0	0	0	0	0
Purchases in PPE	(224)	(265)	(419)	(392)	(550)	0	0	0	0	0
<b>Interest Expense for 2030 Note</b>										
						23	23	23	23	23
							21	21	21	21
Principal Amount	1,500									
Interest Rate, Fixed	1.4%									
Date of Issue	01-Aug-20									



# Appendix

## Cash Flows

Cash Flow Statement	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Net Income	(27)	627	119	230	325	584	632	907	1,173	1,529
Depreciation & Amortization	150	252	336	472	433	334	427	516	630	752
Deferred income taxes	(34)	(576)	(24)	(34)	15	24	26	37	48	62
Stock-based compensation	544	662	870	1,131	1,401	1,611	1,845	2,103	2,387	2,697
Change in working capital	141	78	281	58	174	112	530	372	509	727
Other non-cash items	38	192	204	334	375	394	413	434	456	479
<b>Operating Cash Flow</b>	<b>811</b>	<b>1,236</b>	<b>1,787</b>	<b>2,191</b>	<b>2,723</b>	<b>3,059</b>	<b>3,873</b>	<b>4,369</b>	<b>5,203</b>	<b>6,246</b>
Investments in PPE	(249)	(338)	(432)	(399)	(550)	(365)	(465)	(445)	(570)	(612)
Acquisitions	(37)	(7)	(107)	(785)	(91)	(206)	(239)	(286)	(321)	(229)
Investment purchases	(1,296)	(1,596)	(2,934)	(2,556)	(4,205)	(3,232)	(3,331)	(3,589)	(3,384)	(3,435)
Sales/Maturities of investments	1,235	1,216	1,967	2,119	2,245	2,110	2,158	2,171	2,146	2,159
Other Investing Activities	0	0	0	14	18	18	18	18	18	18
<b>Investing Cash Flow</b>	<b>(347)</b>	<b>(725)</b>	<b>(1,506)</b>	<b>(1,607)</b>	<b>(2,583)</b>	<b>(1,674)</b>	<b>(1,859)</b>	<b>(2,130)</b>	<b>(2,111)</b>	<b>(2,099)</b>
Debt repayment	(431)	(0)	(1,628)	(61)	(94)	(23)	(23)	(23)	(23)	(23)
Dividends payments	0	0	0	0	0	0	0	0	0	0
Other Financing Activities	(177)	(302)	2,224	(445)	(250)	(48)	(52)	(52)	(50)	(51)
<b>Financing Cash Flow</b>	<b>(607)</b>	<b>(302)</b>	<b>597</b>	<b>(506)</b>	<b>(344)</b>	<b>(71)</b>	<b>(75)</b>	<b>(75)</b>	<b>(73)</b>	<b>(74)</b>
Foreign Currency Effect	(16)	0	25	(25)	(53)	(14)	(13)	(16)	(24)	(24)
Cash at beginning of period	728	569	778	1,679	1,732	1,475	2,789	4,729	6,893	9,912
Net cash flow / Change in cash	(159)	209	901	53	(257)	1,314	1,940	2,164	3,019	4,073
<b>Cash at end of period</b>	<b>569</b>	<b>778</b>	<b>1,679</b>	<b>1,732</b>	<b>1,475</b>	<b>2,789</b>	<b>4,729</b>	<b>6,893</b>	<b>9,912</b>	<b>13,985</b>
Capital Expenditure	(249)	(338)	(432)	(399)	(550)	(365)	(465)	(445)	(570)	(612)
<b>Free Cash Flow</b>	<b>562</b>	<b>898</b>	<b>1,355</b>	<b>1,792</b>	<b>2,173</b>	<b>2,694</b>	<b>3,408</b>	<b>3,924</b>	<b>4,633</b>	<b>5,634</b>

## Segment Analysis

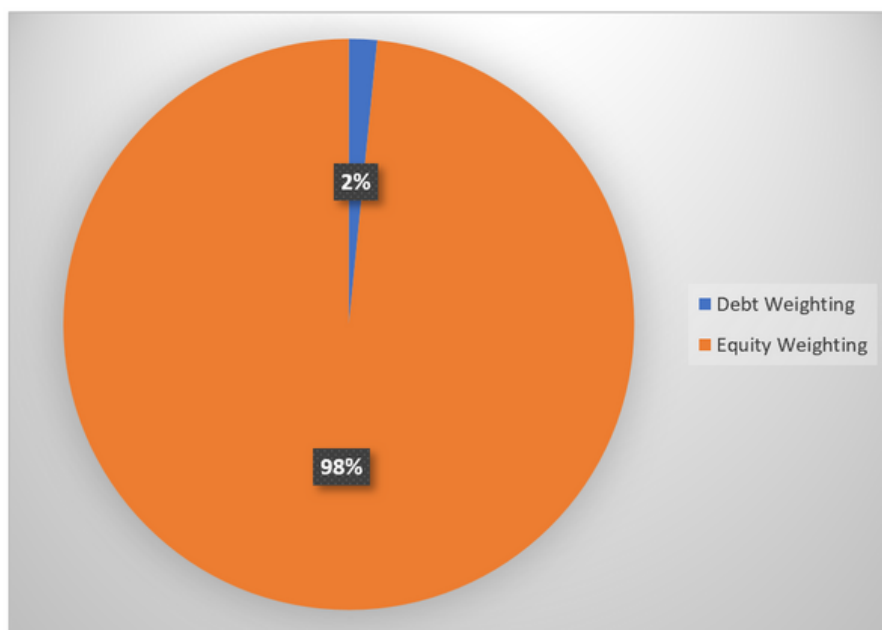
Line of Business Data	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<b>Total Revenue</b>	<b>2,609</b>	<b>3,460</b>	<b>4,519</b>	<b>5,896</b>	<b>7,245</b>	<b>9,129</b>	<b>11,621</b>	<b>14,825</b>	<b>18,995</b>	<b>24,497</b>
Subscription	2,421	3,255	4,286	5,573	6,891	8,683	11,053	14,101	18,066	23,300
Professional Services Other	188	205	233	323	354	446	568	724	928	1,197
<b>Gross Profit</b>	<b>1,986</b>	<b>2,664</b>	<b>3,532</b>	<b>4,543</b>	<b>5,672</b>	<b>7,059</b>	<b>9,014</b>	<b>11,516</b>	<b>14,736</b>	<b>19,031</b>
<b>Operating Income</b>	<b>(42)</b>	<b>42</b>	<b>199</b>	<b>257</b>	<b>355</b>	<b>584</b>	<b>632</b>	<b>907</b>	<b>1,173</b>	<b>1,529</b>
<b>Interest Expense</b>	<b>(53)</b>	<b>(33)</b>	<b>(33)</b>	<b>(28)</b>	<b>(27)</b>	<b>(23)</b>	<b>(23)</b>	<b>(23)</b>	<b>(23)</b>	<b>(23)</b>
<b>EBT</b>	<b>(39)</b>	<b>67</b>	<b>150</b>	<b>249</b>	<b>399</b>	<b>505</b>	<b>546</b>	<b>784</b>	<b>1,014</b>	<b>1,322</b>
<b>Income Tax Expense</b>	<b>(12)</b>	<b>(560)</b>	<b>31</b>	<b>19</b>	<b>74</b>	<b>79</b>	<b>86</b>	<b>123</b>	<b>159</b>	<b>207</b>
<b>Net Income</b>	<b>(27)</b>	<b>627</b>	<b>119</b>	<b>230</b>	<b>325</b>	<b>584</b>	<b>632</b>	<b>907</b>	<b>1,173</b>	<b>1,529</b>
<b>Total Assets</b>	<b>3,879</b>	<b>6,022</b>	<b>8,715</b>	<b>10,798</b>	<b>13,299</b>	<b>14,179</b>	<b>16,761</b>	<b>19,422</b>	<b>22,386</b>	<b>26,815</b>
<b>Depreciation &amp; Amort.</b>	<b>150</b>	<b>252</b>	<b>336</b>	<b>472</b>	<b>433</b>	<b>334</b>	<b>427</b>	<b>516</b>	<b>630</b>	<b>752</b>
<b>Capital Expenditure</b>	<b>(249)</b>	<b>(338)</b>	<b>(432)</b>	<b>(399)</b>	<b>(550)</b>	<b>(365)</b>	<b>(465)</b>	<b>(445)</b>	<b>(570)</b>	<b>(612)</b>

Geographic Data	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<b>Total Revenue</b>										
United States	1,622	2,139	2,782	3,527	4,440	5,594	7,121	9,085	11,640	15,011
North America (Excluding United States)	104	137	178	225	283	357	455	580	743	958
Europe, The Middle East and Africa (EMEA)	655	866	1,132	1,551	1,778	2,240	2,852	3,638	4,661	6,012
Asia Pacific and Other	229	318	427	593	744	937	1,193	1,522	1,951	2,516
<b>SubTotal - Geographic Segments</b>	<b>2,609</b>	<b>3,460</b>	<b>4,519</b>	<b>5,896</b>	<b>7,245</b>	<b>9,129</b>	<b>11,621</b>	<b>14,825</b>	<b>18,995</b>	<b>24,497</b>
<b>Total Assets (PPE, Net)</b>										
United States	173	197	308	407	564					
North America (Excluding United States)	55	73	87	77	100					
Europe, The Middle East and Africa (EMEA)	83	118	172	176	221					
Asia Pacific and Other	37	80	93	106	168					
<b>SubTotal - Geographic Segments</b>	<b>347</b>	<b>468</b>	<b>660</b>	<b>766</b>	<b>1,053</b>	<b>1,084</b>	<b>1,122</b>	<b>1,051</b>	<b>991</b>	<b>851</b>

# Appendix

## WACC

Valuation Date	15-Dec-23
<b>Share Price, USD</b>	<b>675.23</b>
Diluted Shares Outstanding, MM	204
Equity Value	137,747
Total Debt	2,232
Total Capital - (USD 'MM)	139,979
<b>Cost of Equity</b>	<b>9.08%</b>
<u>Equity Risk Premium</u>	<b>5.00%</b>
Beta	1.05
<u>Risk Free Rate</u>	<b>3.84%</b>
<b>Cost of Debt</b>	<b>1.56%</b>
<u>Tax rate</u>	<b>25.00%</b>
After Tax Cost of Debt	1.17%
Debt Weighting	1.59%
Equity Weighting	98.41%
<b>WACC</b>	<b>9.0%</b>



Cost of Debt	2018A	2019A	2020A	2021A	2022A
Interest Expense (USD 'MM)	(53)	(33)	(33)	(28)	(27)
Total Debt (USD 'MM)	2,232	2,232	2,232	2,232	2,232
Effective Interest Rate, %	2.36%	1.48%	1.48%	1.25%	1.21%
<b>Average Effective Interest Rate, %</b>	<b>1.56%</b>				

## DCF Valuation

Assumptions		Valuation						
Tax Rate	25%	Terminal Value						
Discount Rate	9%	EV/EBITDA	318,141					
Perpetual Growth Rate	3%	Perpetuity Growth	5,712					
EV/EBITDA Multiple	170.8x	Average	161,927					
Fiscal Year End	12/31/2022							
Current Price	675.23							
Shares Outstanding	204							
<b>Discounted Cash Flow</b>	<b>Entry</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>Exit</b>	
Date	6/30/2023	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	
Time periods		0	1	2	3	4		
Year fraction		0.50	1.00	1.00	1.00	1.00	1.00	
EBIT		440	458	665	855	1,110		
Less: Cash Taxes		79	86	123	159	207		
NOPAT		361	372	542	696	903		
Plus: D&A		334	427	516	630	752		
EBITDA		775	885	1,181	1,485	1,862		
Less: Capex		(365)	(465)	(445)	(570)	(612)		
Less: Changes in NWC		112	530	372	509	727		
Unlevered FCFF		218	(196)	241	247	316	161,927	
Transaction FCFF		109	(196)	241	247	316	161,927	
IRR FCFF	(136,985)	109	(196)	241	247	316	161,927	
<b>Intrinsic Value</b>		<b>Market Value</b>		<b>Rate of Return</b>				
Enterprise Value	101,472	Market Cap	137,747	Current Price	675.23			
Plus: Cash	1,470	Plus: Debt	1,470	Target Price	493.68			
Less: Debt	2,232	Less: Cash	2,232	TP Upside (Downside)	-27%			
Equity Value	100,710	Enterprise Value	136,985	IRR	3%			
<b>Equity Value/Share</b>	<b>493.68</b>	<b>Equity Value/Share</b>	<b>675.23</b>					



# Appendix

## Sensitivity Analysis

		Growth Rate				
		2.5%	3.0%	3.5%	4.0%	4.5%
WACC	493.68					
	8.0%	518.63	519.62	520.84	522.36	524.31
	8.5%	504.76	505.57	506.54	507.73	509.22
	9.0%	491.43	492.10	492.90	493.85	495.02
	9.5%	478.59	479.16	479.82	480.60	481.53
	10.0%	466.21	466.69	467.25	467.89	468.65

		Terminal Multiple				
		167.00	169.00	171.00	173.00	175.00
WACC	493.68					
	8.0%	508.74	514.72	520.69	526.66	532.64
	8.5%	494.87	500.69	506.51	512.34	518.16
	9.0%	481.59	487.27	492.95	498.63	504.31
	9.5%	468.86	474.39	479.93	485.47	491.00
	10.0%	456.60	462.00	467.40	472.80	478.20

## Terminal Growth Rate

Source: Worldbank	United States	East Asia and Pacific	North America	Euro Area	Middle East and North Africa	Adjusted Weighted Revenue	Adjusted TGR
% of Revenue	61%	10%	4%		25%	100%	
10y Average	2.0894090269	4.2034918267	5.6671925037	4.8692652791	4.8649296091	4.2073396591	3.1%
20y Average	2.4284164301	4.8935405584	4.8349566906			4.2554608221	3.4%
2003	6.6913366535	4.9476618550	-	1.2330778682	4.0740675895		3.3%
2004	4.1146988044	5.8677758003	-	11.0583366817	0.1402685372		
2005	2.4885573394	5.8994111127	-7.8431372549	5.8218688368	3.3835937218		
2006	6.9969262676	6.4539834952	-8.5106382979	5.8425362462	2.5101427649		
2007	3.3229685983	7.4667781774	-6.9767441860	5.9775524356	4.7747058021		
2008	0.4046408086	4.3853185484	-	4.9933891518	3.8263591660		
2009	-1.3781936056	2.5604327392	6.0606060606	2.8561850548	-1.1338736546		
2010	4.4704679351	7.6098550849	1.6129032258	6.9180435579	5.5436400107		
2011	-0.6062766515	5.4617054639	9.8360655738	-0.0853060672	0.4670505643		
2012	1.1691121838	5.1829706240	31.3432835821	4.8925341390	4.1177063761		
2013	2.4624841722	5.2451139510	4.5454545455	3.4764525934	5.4733559142		
2014	2.1457271878	4.7587396714	15.2173913043	2.1492944723	7.6335384644		
2015	2.7850979176	4.7283317156	5.6603773585	1.0901015346	9.6081323482		
2016	4.1496810047	4.6601259140	8.0000000000	2.2055706552	3.3814504759		
2017	2.5481017324	5.0546400004	6.4814814815	2.5000995936	10.8692692319		
2018	3.1756114424	4.7602191038	7.9207920792	2.5903644397	7.4162698234		
2019	1.6617274437	3.9605910345	8.2568807339	2.1739155017	7.0587272892		
2020	-3.7395620535	-0.1703100248	-4.2372881356	-5.0405583472	-8.0779728715		
2021	0.7952939346	6.1430822026	3.2520325203	2.4578743777	12.2979667788		
2022	4.9099274874	2.8943846980	1.5748031496	1.2056611401	6.9157921651		

## Comparative Analysis

Date of Analysis		02-Jan-24										
Company Name	Ticker: Exchange	Market Data					Financial Data			Valuation		
		Price (\$/share)	Shares (MM)	Market Cap (\$MM)	Net Debt (\$MM)	EV (\$MM)	Sales (\$MM)	EBITDA (\$MM)	Earnings (\$MM)	EV/Sales x	EV/EBITDA x	P/E x
Snowflake Inc.	(NYSE:SNOW)	\$ 199	329	\$ 65,531	\$ 286	\$ 65,817	\$ 2,621	\$ 0	\$ 0	25.1x	NA	NA
Workday, Inc.	(NASDAQQGS:WDAY)	\$ 276	263	\$ 72,604	\$ 3,276	\$ 75,880	\$ 6,983	\$ 316	\$ 0	10.9x	240.3x	NA
Splunk Inc.	(NASDAQQGS:SPLK)	\$ 152	169	\$ 25,677	\$ 4,071	\$ 29,748	\$ 3,843	\$ 107	\$ 108	7.7x	277.1x	276.6x
Salesforce, Inc.	(NYSE:CRM)	\$ 263	968	\$ 254,720	\$ 13,759	\$ 268,479	\$ 33,954	\$ 8,476	\$ 2,513	7.9x	31.7x	106.8x
Adobe Inc.	(NASDAQQGS:ADBE)	\$ 597	455	\$ 271,632	\$ 4,080	\$ 275,712	\$ 19,409	\$ 7,517	\$ 5,362	14.2x	36.7x	51.4x
Datadog, Inc.	(NASDAQQGS:DDOG)	\$ 121	329	\$ 39,880	\$ 888	\$ 40,768	\$ 2,008	\$ 0	\$ 0	20.3x	NA	NA
HubSpot, Inc.	(NYSE:HUBS)	\$ 581	50	\$ 29,219	\$ 787	\$ 30,006	\$ 2,058	\$ 0	\$ 0	14.6x	NA	NA
Palo Alto Networks, Inc.	(NASDAQQGS:PANW)	\$ 295	315	\$ 92,976	\$ 2,223	\$ 95,198	\$ 7,207	\$ 784	\$ 554	13.2x	121.5x	171.7x
CrowdStrike Holdings, Inc.	(NASDAQQGS:CRWD)	\$ 255	240	\$ 61,314	\$ 795	\$ 62,109	\$ 2,241	\$ 5,469	\$ 0	27.7x	11.4x	NA
Zoom Video Communications, Inc.	(NASDAQQGS:ZM)	\$ 72	304	\$ 21,891	\$ 79	\$ 21,970	\$ 4,499	\$ 454	\$ 232	4.9x	48.4x	94.7x
Oracle Corporation	(NYSE:ORCL)	\$ 104	2,749	\$ 285,668	\$ 81	\$ 285,749	\$ 46,493	\$ 17,983	\$ 8,503	6.1x	15.9x	33.6x
Sap SE	(NYSE:SAP)	\$ 150	1,164	\$ 174,568	\$ 11	\$ 174,579	\$ 32,153	\$ 6,147	\$ 2,284	5.4x	28.4x	76.4x
ServiceNow, Inc.	(NYSE:NOW)	\$ 706	205	\$ 144,516	\$ 2,232	\$ 146,748	\$ 7,245	\$ 859	\$ 1,605	20.3x	170.8x	91.5x
Minimum										4.9x	11.4x	33.6x
Average										13.2x	146.4x	145.0x
Median										10.9x	138.5x	106.8x
Maximum										27.7x	277.1x	276.6x
Difference										1.5x	1.2x	0.6x
Comparison										\$ 459	\$ 606	\$ 1,120
Fair Value	\$	728										
Valuation	\$	148,957.41										
Upside (downside)		3%										

# Appendix

## Financial Analysis

Financial Analysis:	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
<b>Profitability</b>										
Return on Assets	(0.69)	10.41	1.37	2.13	2.44	4.12	3.77	4.67	5.24	5.70
Return on Capital	(2.27)	1.28	4.00	4.39	4.87	6.37	6.23	9.23	13.30	19.04
Return on Equity	(2.40)	29.47	4.20	6.22	6.46	12.64	12.67	19.02	29.86	46.96
Net Income Margin, %	(1.63)	1.21	4.40	4.36	4.90	4.83	3.94	4.49	4.50	4.53
Gross Profit Margin, %	76.13	76.99	78.16	77.05	78.29	77.33	77.56	77.68	77.58	77.69
<b>Liquidity Ratios</b>										
Current Ratio	1.17	1.03	1.21	1.05	1.11	1.04	1.00	0.92	0.84	0.79
Quick Ratio	1.03	0.92	1.10	0.95	1.00	0.93	0.88	0.81	0.73	0.69
Cash Ratio	0.28	0.28	0.45	0.35	0.24	0.37	0.36	0.32	0.29	0.27
<b>Solvency Ratios</b>										
Debt to Equity	0.60	0.53	0.75	0.60	0.44	0.49	0.47	0.51	0.64	0.79
Debt to Capital	0.37	0.35	0.43	0.37	0.31	0.33	0.32	0.34	0.39	0.44
Debt to Assets	0.17	0.19	0.24	0.21	0.17	0.16	0.14	0.12	0.11	0.10
Financial Leverage	3.49	2.83	3.08	2.92	2.64	3.07	3.36	4.07	5.70	8.23
Interest Coverage	(0.80)	1.27	6.03	9.18	13.15	19.15	19.91	28.91	37.18	48.25
<b>Operating Performance</b>										
Total Asset Turnover	0.67	0.57	0.52	0.55	0.54	0.64	0.69	0.76	0.85	0.91
Fixed Asset Turnover	7.51	3.97	4.06	4.34	4.18	5.50	6.69	8.85	11.90	16.71

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