

ServiceNow

AI drives early wins in a strong Q4; Reiterate Buy on our top pick

Reiterate Rating: BUY | PO: 900.00 USD | Price: 763.42 USD

Broad strength across geographies and workflow suites

ServiceNow reported strong Q4 results across all key growth and margin metrics. Q4 cRPO growth of 23% y/y cc exceeded our base case for 21% cc, from strong net new ACV performance, early traction with the AI enabled Pro Plus offering, and better on premise deals. The Q1 outlook for cRPO growth of 20.0% cc represents a 3% point deceleration, consistent with management's Q4 outlook, suggesting sustained pipeline strength across ServiceNow's IT, customer and employee workflow suites, and geographies.

New enterprise wins bode well for future expansion deals

A healthy backlog beat (+2% growth points y/y) is underscored by solid execution across expansion deals, but also large new customer additions. Closing the gap on the remaining large enterprises not running ServiceNow was a key go to market focus in 2023 and the effort has yielded real results. These new enterprise customers come to ServiceNow with large IT budgets, which bodes well for future expansion deals.

Pro Plus AI offerings are accelerating adoption outside IT

Early strength in AI offerings also stands out to us. Specifically, a higher mix of employee and customer workflows (29% of new ACV versus 25% in Q3), partially driven by demand for new generative AI Pro Plus offering. This supports our view that generative AI features (such as natural language search and AI orchestrator) is a must have functionality driving accelerated adoption of the ServiceNow workflow automation in categories outside of the core IT. We believe this is a multi-year cycle.

FCF growth accelerating; Raising PO to \$900 from \$800

Finally, the company maintained FY24 FCF margin outlook for 31%, despite ramping data intensive AI workloads, which demonstrates ServiceNow's ability to offset any gross margin pressure from AI with opex scale. The net result of top line and consistent FCF margin drives our FY25 FCF growth estimate to 24% from 22%, representing the fastest FCF growth rate in the GARP software group. We continue to view ServiceNow as a key beneficiary of three key secular trends, AI, consolidation and cloud. We fine-tune estimates, reiterate Buy rating on our top pick and raise our PO to \$900 from \$800, now based on 42x C25E FCF (vs 38x prior), for accelerating FCF growth.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.93	7.60	11.09	12.90	15.83
GAAP EPS	1.13	1.60	8.42	5.61	7.24
EPS Change (YoY)	27.3%	28.2%	45.9%	16.3%	22.7%
Consensus EPS (Bloomberg)			10.44	12.67	15.41
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	128.7x	100.5x	68.8x	59.2x	48.2x
GAAP P/E	675.6x	477.1x	90.7x	136.1x	105.4x
EV / EBITDA*	79.6x	67.8x	62.5x	49.1x	38.6x
Free Cash Flow Yield*	1.1%	1.4%	1.7%	2.2%	2.8%

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 25 January 2024 05:00AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	800.00	900.00
2023E Rev (m)	8,919.1	8,971.0
2024E Rev (m)	10,902.2	10,922.0
2025E Rev (m)	13,348.3	13,320.6
2023E EPS	10.51	11.09
2024E EPS	12.80	12.90
2025E EPS	15.59	15.83

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Stock Data

Price	763.42 USD
Price Objective	900.00 USD
Date Established	25-Jan-2024
Investment Opinion	B-1-9
52-Week Range	405.37 USD - 775.96 USD
Mkt Val (mn) / Shares Out (mn)	154,974 USD / 203.0
Free Float	99.8%
Average Daily Value (mn)	856.90 USD
BoFA Ticker / Exchange	NOW / NYS
Bloomberg / Reuters	NOW US / NOW.N
ROE (2023E)	36.0%
Net Dbt to Eqty (Dec-2022A)	0.3%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BoFA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BoFA ESGMeter Methodology".

ITSM = IT service management;

cRPO = current remaining performance obligation;

SKII = stock keeping unit

iQprofileSM ServiceNow

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.5%	23.4%	28.4%	22.7%	21.4%
Return on Equity	36.8%	35.4%	36.0%	28.8%	25.6%
Operating Margin	26.6%	27.0%	28.7%	30.0%	31.2%
Free Cash Flow	1,756	2,156	2,704	3,386	4,286

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	1.8x	1.5x	1.6x	1.6x
Asset Replacement Ratio	0.8x	1.3x	1.2x	1.3x	1.4x
Tax Rate	7.6%	18.5%	NM	20.0%	20.0%
Net Debt-to-Equity Ratio	-6.6%	0.3%	-5.4%	-34.0%	-52.0%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,573	6,891	8,680	10,568	12,892
% Change	30.0%	23.6%	26.0%	21.7%	22.0%
Gross Profit	4,793	5,970	7,381	8,967	10,969
% Change	28.9%	24.6%	23.6%	21.5%	22.3%
EBITDA	1,954	2,293	2,489	3,166	4,027
% Change	34.1%	17.3%	8.5%	27.2%	27.2%
Net Interest & Other Income	2	44	246	184	192
Net Income (Adjusted)	1,201	1,543	2,280	2,713	3,418
% Change	29.6%	28.5%	47.8%	19.0%	26.0%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	230	325	1,731	1,180	1,562
Depreciation & Amortization	472	433	562	685	776
Change in Working Capital	58	174	(101)	17	230
Deferred Taxation Charge	(34)	15	NA	NA	NA
Other Adjustments, Net	1,422	1,759	1,206	2,377	2,783
Capital Expenditure	(392)	(550)	(694)	(874)	(1,066)
Free Cash Flow	1,756	2,156	2,704	3,386	4,286
% Change	25.0%	22.8%	25.4%	25.2%	26.6%
Share / Issue Repurchase	167	177	(344)	0	0
Cost of Dividends Paid	0	0	0	0	NA
Change in Debt	(6,000)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,728	1,470	1,897	5,290	9,576
Trade Receivables	1,390	1,725	2,036	3,325	4,539
Other Current Assets	2,102	3,459	3,844	4,039	4,284
Property, Plant & Equipment	766	1,053	1,358	1,547	1,837
Other Non-Current Assets	4,812	5,592	8,252	8,473	8,746
Total Assets	10,798	13,299	17,387	22,674	28,983
Short-Term Debt	0	0	0	0	4
Other Current Liabilities	4,857	6,005	7,365	9,067	11,007
Long-Term Debt	1,484	1,486	1,488	1,488	1,488
Other Non-Current Liabilities	670	776	906	925	950
Total Liabilities	7,011	8,267	9,759	11,481	13,448
Total Equity	3,695	5,032	7,628	11,193	15,539
Total Equity & Liabilities	10,706	13,299	17,387	22,674	28,987

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Server & Enterprise Software

Company Description

ServiceNow develops and sells a hosted, subscription based suite of services designed to automate various IT department functions, such as help desk, operations management and change/release management. The company also sells a number of applications which automate various self service related applications outside of the IT department, such as HR onboarding, facilities requests and governance, risk and compliance.

Investment Rationale

We believe ServiceNow is well positioned to continue gaining share of the BofA estimated \$65bn+ TAM across ITSM, ITOM, and unstructured workflows (Employee and Customer) given a number of key competitive advantages including 1) a unified platform and single code base, 2) breadth of offering, 3) growing SI partner channel, 4) ease of implementation, and 5) a referenceable install base of key enterprises.

Stock Data

Average Daily Volume 1,122,446

Quarterly Earnings Estimates

	2022	2023
Q1	1.73A	2.37A
Q2	1.62A	2.37A
Q3	1.96A	2.93A
Q4	2.29A	3.11A

Q4 earnings recap

ServiceNow reported strong Q4 results with subscription revenue and cRPO upside. Total revenue of \$2.44 billion (+26% y/y; +24% y/y cc) nicely exceeded our \$2.39 billion, with subscription revenue of \$2.37 billion (+27% y/y; +25.5% y/y cc) exceeding our \$2.32 billion. cRPO was \$8.6 billion (+24% y/y; +23% y/y cc) and also nicely exceeded our \$8.4 billion (+20.4% y/y; +20.9% y/y cc).

Subs rev and cRPO upside was primarily driven by strong net new ACV performance, early traction with the AI enabled Pro Plus offering, and better on premise deals. ServiceNow now has 1897 customers with >\$1 million of ACV, up from 1789 in Q3. Q4 operating margin of 29.4% exceeded our 27.5% from operating expense discipline.

ServiceNow set Q1 subscription revenue guidance to \$2.513 billion at the midpoint (+24.5% y/y; +24% y/y cc), exceeding our prior \$2.490 billion. The Q1 operating margin outlook for 29% is also ahead of our prior 27%, partially benefiting from an extended depreciation impact on cost of sales (100 basis points). ServiceNow expects Q1 cRPO growth of +20% y/y with no currency impact for Q1, which is in line with our prior +20% y/y. ServiceNow set FY24 subscription revenue guidance to \$10.565 billion at the midpoint (+22% y/y; +21.5% y/y cc), slightly better than our prior \$10.555 billion. The company expects minimal cRPO currency impact in H1 of FY24.

Exhibits/Model

Exhibit 1: Variance: Strong Q4 results with subscription revenue and cRPO upside

BofA estimates vs. 4Q23 reported actuals

\$ in Thousands (except per share data)	BofA Estimates	4Q23 Actuals	Variance
Subscription	\$2,320,350	2,365,000	2%
y/y	24.8%	27.2%	2%
Professional services and other	\$64,719	72,000	11%
Total Revenues	\$2,385,069	2,437,000	2%
y/y	22.9%	25.6%	3%
cRPO growth (y/y)	20.4%	23.9%	3%
CC cRPO growth (y/y)	20.9%	23.0%	2%
Cost of Revenues			
Subscription	\$364,387	369,000	1%
Professional services and other	\$58,427	61,000	4%
Total Cost of Revenue	\$422,814	430,000	2%
Gross Profit	\$1,962,255	2,007,000	2%
Operating Expenses:			
Sales and marketing	\$749,576	720,000	-4%
Research and development	\$403,028	401,000	-1%
General and administrative	\$152,817	169,000	11%
Total Operating Costs	\$1,305,420	1,290,000	-1%
Operating Income (Loss)	\$656,835	717,000	9%
Interest and other income (expense), net	\$68,500	77,000	12%
Income (loss) before provision for income taxes	\$725,335	729,000	1%
Provision for income taxes	\$137,463	86,000	-37%
Net Income (Pro forma)	\$587,873	643,000	9%
EPS diluted (Pro forma)	\$2.84	\$3.11	10%
Net Income (GAAP)	\$234,009	295,000	26%
EPS diluted (GAAP)	\$1.13	\$1.43	26%
Weighted-average shares			
Basic	\$205,326	205,000	0%
Diluted shares (Non-GAAP)	207,339	207,000	0%
Margin Analysis			
Subscription	84.3%	84.4%	0%
Professional services and other	9.7%	15.3%	6%
Total Gross Margin	82.3%	82.4%	0%
Sales and marketing	31.4%	29.5%	-2%
Research and development	16.9%	16.5%	0%
General and administrative	6.4%	6.9%	1%
Operating Margin	27.5%	29.4%	2%
Pretax Margin	30.4%	29.9%	0%
Proforma Tax Rate	19.0%	11.8%	-7%
Net Margin	24.6%	26.4%	2%
Balance Sheet & Cash Flows			
Cash and cash equivalents	\$2,425,333	1,897,000	-22%
Deferred Revenues	\$5,970,394	5,866,000	-2%
Subscription billings	\$3,423,655	3,262,000	-5%
Subscription billings (y/y)	24.2%	18.3%	-6%
Total Billings	\$3,869,463	\$3,817,000	-1%
Total Billings (y/y)	24.2%	22.5%	-2%
Cash Flow from Operations	\$1,447,673	1,605,000	11%
Free Cash Flow	\$1,305,903	1,344,000	3%
Free Cash Flow (y/y)	28%	32%	4%
Free cash flow Margin	55%	55%	0%
Free cash flow Margin	55%	55%	0%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 2: BofA Estimates

We fine-tune BofA estimate updates post earnings

	1Q24E				2024E				2025E			
	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth	Previous Estimate	Previous Y/Y Growth	New Estimate	New Y/Y Growth
Subscription revenues	\$2,489,520	23.0%	\$2,513,808	24.2%	\$10,555,367	22.2%	\$10,567,568	21.7%	\$12,927,758	22.5%	\$12,892,433	22.0%
Total revenues	\$2,578,080	23.0%	\$2,603,232	24.2%	\$10,902,224	22.2%	\$10,921,982	21.7%	\$13,348,341	22.4%	\$13,320,591	22.0%
Operating Margin	27.1%	26.5%	29.0%	36.7%	28.0%	25.6%	29.0%	27.2%	29.0%	27.0%	30.2%	27.2%
Proforma net income	\$622,016	28.8%	\$647,959	34.2%	\$2,698,318	24.9%	\$2,713,306	19.0%	\$3,371,089	24.9%	\$3,417,641	26.0%
Pro forma EPS	\$2.98	25.9%	\$3.11	31.4%	\$12.80	21.9%	\$12.90	16.2%	\$15.59	21.7%	\$15.83	22.7%
Free Cash Flow	\$760,701	3.2%	\$311,313	-57.8%	\$3,398,424	26.9%	\$3,385,630	25.2%	\$4,149,347	22.1%	\$4,285,999	26.6%
cRPO (USD)	20%	...	20%	...	23%	...	22%	...	24%	...	23%	...
cRPO (CC)	20%	...	20%	...	23%	...	22%	...	24%	...	23%	...
Billings	\$2,590,330	23.0%	\$2,615,268	24.2%	\$12,467,899	22.7%	\$12,330,814	22.0%	\$15,324,597	22.9%	\$15,067,781	22.2%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 3: Income Statement

We are modeling \$2.60 billion total revenue in 1Q24

5 Millions (except per share data)	YEAR FY18A	YEAR FY19A	YEAR FY20A	YEAR FY21A	Mar 1Q22A	Jun 2Q22A	Sep 3Q22A	Dec 4Q22A	YEAR FY22A	Mar 1Q23A	Jun 2Q23A	Sep 3Q23A	Dec 4Q23A	YEAR FY23E	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E
Revenues:																				
Subscription	2,421.3	3,255.1	4,285.8	5,573.0	1,631.0	1,658.0	1,742.0	1,860.0	6,891.0	2,024.0	2,075.0	2,216.0	2,365.0	8,680.0	2,513.8	2,510.8	2,681.4	2,861.7	10,567.6	12,892.4
Professional services and other	187.5	205.4	233.7	322.0	91.0	94.0	89.0	80.0	354.0	72.0	75.0	72.0	72.0	291.0	89.4	90.8	87.1	87.1	354.4	428.2
Total revenues	2,608.8	3,460.4	4,519.5	5,895.0	1,722.0	1,752.0	1,831.0	1,940.0	7,245.0	2,096.0	2,150.0	2,288.0	2,437.0	8,971.0	2,603.2	2,601.5	2,768.5	2,948.8	10,922.0	13,320.6
Cost of revenues:																				
Subscription	349.7	452.8	596.8	830.0	221.0	230.0	240.0	265.0	956.0	290.0	320.0	348.0	369.0	1,327.0	365.2	392.2	426.4	452.2	1,636.1	1,970.2
Professional services and other	172.4	203.9	204.7	272.0	78.0	84.0	82.0	75.0	319.0	70.0	67.0	65.0	61.0	263.0	80.5	81.7	78.4	78.4	319.0	381.1
Total cost of revenues	522.1	656.7	801.5	1,102.0	299.0	314.0	322.0	340.0	1,275.0	360.0	387.0	413.0	430.0	1,590.0	445.7	473.9	504.9	530.6	1,955.1	2,351.3
Gross profit:																				
Subscription	2,071.6	2,802.3	3,689.0	4,743.0	1,410.0	1,428.0	1,502.0	1,595.0	5,935.0	1,734.0	1,755.0	1,868.0	1,996.0	7,353.0	2,148.6	2,118.5	2,254.9	2,409.4	8,931.5	10,922.2
Professional services and other	15.1	1.5	29.0	50.0	13.0	10.0	7.0	5.0	35.0	2.0	8.0	7.0	11.0	28.0	8.9	9.1	8.7	8.7	35.4	47.1
Total gross profit	2,086.7	2,803.8	3,718.0	4,793.0	1,423.0	1,438.0	1,509.0	1,600.0	5,970.0	1,736.0	1,763.0	1,875.0	2,007.0	7,381.0	2,157.5	2,127.6	2,263.6	2,418.1	8,966.9	10,969.3
Operating expenses:																				
Sales and marketing	975.0	1,265.7	1,533.4	1,903.0	568.0	609.0	578.0	600.0	2,355.0	697.0	712.0	667.0	720.0	2,796.0	811.0	861.5	784.9	847.6	3,305.1	3,951.0
Research and development	392.5	551.7	740.3	990.0	294.0	313.0	323.0	322.0	1,252.0	350.0	368.0	388.0	401.0	1,507.0	421.7	442.7	452.9	467.5	1,784.7	2,136.7
General and administrative	190.7	246.8	323.1	418.0	124.0	117.0	128.0	134.0	503.0	137.0	139.0	144.0	169.0	589.0	170.2	168.2	171.5	201.5	711.4	854.3
Total operating expenses	1,558.2	2,064.3	2,596.8	3,311.0	986.0	1,039.0	1,029.0	1,056.0	4,110.0	1,184.0	1,219.0	1,199.0	1,290.0	4,892.0	1,402.8	1,472.4	1,409.3	1,516.7	5,801.2	6,942.0
Operating Income (Loss)	528.5	739.5	1,121.2	1,482.0	437.0	399.0	480.0	544.0	1,860.0	552.0	544.0	676.0	717.0	2,489.0	754.7	655.2	854.4	901.5	3,165.8	4,027.3
Interest and other income (expense), net	56.1	58.3	21.4	2.0	(2.0)	7.0	11.0	28.0	44.0	44.0	57.0	68.0	77.0	246.0	45.3	45.8	46.3	46.8	184.0	192.0
Income (loss) before taxes	584.7	797.9	1,142.6	1,484.0	435.0	406.0	491.0	572.0	1,904.0	596.0	601.0	744.0	794.0	2,735.0	799.9	701.0	900.6	948.2	3,349.8	4,219.3
Provision for income taxes	114.3	151.6	216.2	283.0	83.0	77.0	93.0	108.0	361.0	113.0	115.0	141.0	86.0	455.0	152.0	133.2	171.1	180.2	636.5	801.7
Net income (non GAAP)	470.4	646.3	926.4	1,201.0	352.0	329.0	398.0	464.0	1,543.0	483.0	486.0	603.0	643.0	2,280.0	648.0	567.8	729.5	768.1	2,713.3	3,417.6
EPS (non GAAP)	\$2.50	\$3.33	\$4.66	\$5.93	\$1.73	\$1.62	\$1.96	\$2.29	\$7.60	\$2.37	\$2.37	\$2.93	\$3.11	\$11.09	\$3.11	\$2.71	\$3.46	\$3.62	\$12.90	\$15.83
Net income (GAAP)	(26.7)	626.7	118.5	230.0	75.0	20.0	80.0	150.0	325.0	150.0	1,044.0	242.0	295.0	1,731.0	293.0	194.9	336.4	356.1	1,180.4	1,562.3
EPS (GAAP)	(\$0.14)	\$3.28	\$0.59	\$1.13	\$0.37	\$0.10	\$0.39	\$0.74	\$1.60	\$0.74	\$5.09	\$1.17	\$1.43	\$8.42	\$1.41	\$0.93	\$1.59	\$1.68	\$5.61	\$7.24
Weighted-average shares																				
Basic	177.8	186.5	192.5	198.3	200.0	201.0	202.0	203.0	201.5	203.0	204.0	204.0	205.0	204.0	206.3	207.7	209.0	210.4	208.4	213.8
Diluted shares (Non-GAAP)	188.1	194.1	198.8	202.5	203.0	203.0	203.0	203.0	203.0	204.0	205.0	206.0	207.0	205.5	208.3	209.7	211.1	212.4	210.4	215.9

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 4: Income Statement Analysis

We are modeling 29% operating margin for FY24

	YEAR	YEAR	YEAR	YEAR	Mar	Jun	Sep	Dec	YEAR	Mar	Jun	Sep	Dec	YEAR	Mar	Jun	Sep	Dec	YEAR	YEAR
	FY18A	FY19A	FY20A	FY21A	1Q22A	2Q22A	3Q22A	4Q22A	FY22A	1Q23A	2Q23A	3Q23A	4Q23A	FY23E	1Q24E	2Q24E	3Q24E	4Q24E	FY24E	FY25E
Revenue Percentage																				
Subscription	93%	94%	95%	95%	95%	95%	95%	96%	95%	97%	97%	97%	97%	97%	97%	97%	97%	97%	97%	97%
Professional services and other	7%	6%	5%	5%	5%	5%	5%	4%	5%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Growth Rates																				
Quarter-to-Quarter																				
Subscription					7%	2%	5%	7%		9%	3%	7%	7%		6%	0%	7%	7%		
Professional services and other					0%	3%	-5%	-10%		-10%	4%	-4%	0%		24%	1%	-4%	0%		
Total Revenues					7%	2%	5%	6%		8%	3%	6%	7%		7%	0%	6%	7%		
Gross profit					9%	1%	5%	6%		9%	2%	6%	7%		8%	-1%	6%	7%		
Operating profit (loss)					19%	-9%	20%	13%		1%	-1%	24%	6%		5%	-13%	30%	6%		
Adj EBITDA					9%	-6%	17%	12%		2%	0%	21%	6%		6%	70%	-34%	525%		
Non-GAAP net income					19%	-7%	21%	17%		4%	1%	24%	7%		1%	-12%	28%	5%		
Non-GAAP diluted EPS					20%	-7%	21%	17%		4%	0%	23%	6%		0%	-13%	28%	5%		
Year-to-Year																				
Subscription	39%	34%	32%	30%	26%	25%	22%	22%	24%	24%	25%	27%	27%	26%	24%	21%	21%	21%	22%	22%
Professional services and other	5%	10%	14%	38%	36%	19%	5%	-12%	10%	-21%	-20%	-19%	-10%	-18%	24%	21%	21%	21%	22%	21%
Total Revenues	36%	33%	31%	30%	27%	24%	21%	20%	23%	22%	23%	25%	26%	24%	24%	21%	21%	21%	22%	22%
Gross profit	39%	34%	33%	29%	28%	26%	23%	22%	25%	22%	23%	24%	25%	24%	24%	21%	21%	20%	21%	22%
Operating profit (loss)	51%	40%	52%	32%	17%	13%	23%	48%	26%	26%	36%	41%	32%	34%	37%	20%	26%	26%	27%	27%
Adj EBITDA	46%	46%	47%	34%	13%	8%	14%	34%	17%	26%	35%	40%	32%	9%	36%	130%	25%	637%	27%	27%
Non-GAAP net income	94%	37%	43%	30%	15%	15%	27%	57%	28%	37%	48%	52%	39%	48%	34%	17%	21%	19%	19%	26%
Non-GAAP diluted EPS	85%	33%	40%	27%	14%	14%	27%	58%	28%	37%	46%	49%	36%	46%	31%	14%	18%	16%	16%	23%
Margin Analysis																				
Cost of Revenue	20%	19%	18%	19%	17%	18%	18%	18%	18%	17%	18%	18%	18%	18%	17%	18%	18%	18%	18%	18%
Gross Margin	80%	81%	82%	81%	83%	82%	82%	82%	82%	83%	82%	82%	82%	82%	83%	82%	82%	82%	82%	82%
Subscription gross margin	86%	86%	86%	85%	86%	86%	86%	86%	86%	86%	85%	84%	84%	85%	85%	84%	84%	84%	85%	85%
Professional services and other gross margin	8%	1%	12%	16%	14%	11%	8%	6%	10%	3%	11%	10%	15%	10%	10%	10%	10%	10%	10%	11%
Sales and Marketing	37%	37%	34%	32%	33%	35%	32%	31%	33%	33%	33%	29%	30%	31%	31%	33%	28%	29%	30%	30%
Research and Development	15%	16%	16%	17%	17%	18%	18%	17%	17%	17%	17%	17%	16%	17%	16%	17%	16%	16%	16%	16%
General and Administrative	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	6%	6%	7%	7%	7%	6%	6%	7%	7%	6%
Operating Margin	20%	21%	25%	25%	25%	23%	26%	28%	26%	26%	25%	30%	29%	28%	29%	25%	31%	31%	29%	30%
Adj EBITDA Margin	26%	29%	32%	33%	31%	29%	32%	34%	32%	32%	32%	36%	36%	28%	35%	60%	37%	218%	29%	30%
Pretax Margin	22%	23%	25%	25%	25%	23%	27%	29%	26%	28%	28%	33%	30%	30%	31%	27%	33%	32%	31%	32%
Tax Rate	20%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	12%	17%	19%	19%	19%	19%	19%	19%
Net Income Margin	18%	19%	20%	20%	20%	19%	22%	24%	21%	23%	23%	26%	26%	25%	25%	22%	26%	26%	25%	26%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



Exhibit 5: Balance Sheet

We are modeling a cash & ST investments balance of >\$8 billion in FY24

\$ Millions (except per share data)	YEAR FY18A	YEAR FY19A	YEAR FY20A	YEAR FY21A	Mar 1Q22A	Jun 2Q22A	Sep 3Q22A	Dec 4Q22A	YEAR FY22A	Mar 1Q23A	Jun 2Q23A	Sep 3Q23A	Dec 4Q23A	YEAR FY23E	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E
Assets																				
Current assets:																				
Cash and cash equivalents	566.2	775.8	1,676.8	1,728.0	2,252.0	1,664.0	1,248.0	1,470.0	1,470.0	1,852.0	1,663.0	1,112.0	1,897.0	1,897.0	2,215.7	2,997.3	3,449.4	5,290.1	5,290.1	9,576.1
Restricted cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Short-term investments	931.7	915.3	1,415.2	1,576.0	1,762.0	2,170.0	2,708.0	2,810.0	2,810.0	3,062.0	3,084.0	2,955.0	2,980.0	2,980.0	2,980.0	2,980.0	2,980.0	2,980.0	2,980.0	2,980.0
Accounts receivable, net	574.8	835.3	1,009.4	1,390.0	824.0	853.0	898.0	1,725.0	1,725.0	1,109.0	1,093.0	1,168.0	2,036.0	2,036.0	2,137.5	2,082.2	2,221.7	3,324.6	3,324.6	4,539.5
Deferred commissions, current	139.9	175.0	228.9	303.0	322.0	323.0	330.0	369.0	369.0	392.0	401.0	417.0	461.0	461.0	486.1	497.3	517.2	571.7	571.7	709.0
Prepaid expenses and other assets	132.1	125.5	191.5	223.0	282.0	322.0	292.0	280.0	280.0	319.0	362.0	394.0	403.0	403.0	396.2	438.0	476.7	487.6	487.6	594.6
Current portion of deferred tax assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current assets	2,344.7	2,826.9	4,521.8	5,220.0	5,442.0	5,332.0	5,476.0	6,654.0	6,654.0	6,734.0	6,603.0	6,046.0	7,777.0	7,777.0	8,215.6	8,994.8	9,645.0	12,654.0	12,654.0	18,399.2
Deferred commissions, less current	282.5	333.4	444.1	623.0	655.0	640.0	650.0	742.0	742.0	777.0	777.0	807.0	919.0	919.0	963.6	963.6	1,000.8	1,139.7	1,139.7	1,413.4
Long-term investments	581.9	1,013.3	1,468.0	1,630.0	1,484.0	1,608.0	1,517.0	2,117.0	2,117.0	2,239.0	2,740.0	2,939.0	3,203.0	3,203.0	3,203.0	3,203.0	3,203.0	3,203.0	3,203.0	3,203.0
Property and equipment, net	347.2	468.1	659.6	766.0	798.0	876.0	914.0	1,053.0	1,053.0	1,117.0	1,148.0	1,199.0	1,358.0	1,358.0	1,401.6	1,440.6	1,489.1	1,547.2	1,547.2	1,837.3
Intangible assets, net	100.6	143.9	153.4	287.0	266.0	257.0	234.0	232.0	232.0	682.0	656.0	242.0	224.0	224.0	224.0	224.0	224.0	224.0	224.0	224.0
Goodwill	148.8	156.8	240.8	777.0	774.0	803.0	794.0	824.0	824.0	823.0	821.0	1,204.0	1,231.0	1,231.0	1,231.0	1,231.0	1,231.0	1,231.0	1,231.0	1,231.0
Deferred income taxes, noncurrent	-	599.6	673.1	692.0	686.0	642.0	604.0	636.0	636.0	640.0	1,551.0	1,505.0	1,508.0	1,508.0	1,508.0	1,508.0	1,508.0	1,508.0	1,508.0	1,508.0
Other assets	73.5	480.4	554.3	803.0	888.0	944.0	917.0	1,041.0	1,041.0	602.0	627.0	1,149.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0	1,167.0
Total assets	3,879.1	6,022.4	8,715.1	10,798.0	10,993.0	11,102.0	11,106.0	13,299.0	13,299.0	13,614.0	14,923.0	15,091.0	17,387.0	17,387.0	17,913.8	18,732.0	19,467.9	22,674.0	22,674.0	28,982.9
Liabilities and Equity																				
Current liabilities:																				
Accounts payable	30.7	53.0	34.2	89.0	166.0	265.0	195.0	274.0	274.0	228.0	171.0	69.0	126.0	126.0	283.2	206.9	83.5	152.5	152.5	185.9
Accrued expenses and other liabilities	330.2	461.4	668.1	850.0	661.0	705.0	657.0	975.0	975.0	694.0	893.0	1,001.0	1,365.0	1,365.0	861.9	1,080.5	1,211.2	1,651.7	1,651.7	1,834.2
Current portion of deferred revenue	1,651.6	2,185.8	2,962.6	3,836.0	3,850.0	3,686.0	3,491.0	4,660.0	4,660.0	4,742.0	4,613.0	4,440.0	5,785.0	5,785.0	5,796.9	5,696.9	5,486.6	7,174.4	7,174.4	8,897.4
Current portion of deferred rent	-	52.7	72.2	82.0	87.0	87.0	89.0	96.0	96.0	97.0	90.0	91.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0	89.0
Total current liabilities	2,012.6	2,752.8	3,737.1	4,857.0	4,852.0	4,743.0	4,432.0	6,005.0	6,005.0	5,761.0	5,767.0	5,601.0	7,365.0	7,365.0	7,031.0	7,073.4	6,870.3	9,067.5	9,067.5	11,006.6
Deferred revenue, less current portion	38.6	40.0	45.3	63.0	57.0	58.0	63.0	70.0	70.0	53.0	45.0	46.0	81.0	81.0	81.2	79.8	76.8	100.5	100.5	124.6
Deferred rent, less current portion	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	661.7	695.0	1,640.2	1,484.0	1,484.0	1,485.0	1,485.0	1,486.0	1,486.0	1,486.0	1,487.0	1,487.0	1,488.0	1,488.0	1,488.0	1,488.0	1,488.0	1,488.0	1,488.0	1,488.0
Other long-term liabilities	55.1	406.7	457.9	607.0	603.0	1,172.0	603.0	706.0	706.0	714.0	698.0	775.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0	825.0
Total liabilities	2,767.9	3,894.5	5,880.6	7,011.0	6,996.0	7,458.0	6,583.0	8,267.0	8,267.0	8,014.0	7,997.0	7,909.0	9,759.0	9,759.0	9,425.2	9,466.1	9,260.1	11,480.9	11,480.9	13,444.2
Stockholders equity (deficit)	1,111.2	2,127.9	2,834.5	3,695.0	3,997.0	3,644.0	4,523.0	5,032.0	5,032.0	5,600.0	6,926.0	7,182.0	7,628.0	7,628.0	8,488.6	9,265.8	10,207.8	11,193.0	11,193.0	15,538.7
Total equity and liabilities	3,879.1	6,022.4	8,715.1	10,798.0	10,993.0	11,102.0	11,106.0	13,299.0	13,299.0	13,614.0	14,923.0	15,091.0	17,387.0	17,387.0	17,913.8	18,732.0	19,467.9	22,674.0	22,674.0	28,982.9

Source: BofA Global Research estimates, company report

BoFA GLOBAL RESEARCH

Exhibit 6: Cash Flow Statement

We are modeling OCF of \$4.26 billion in FY24

\$ Millions (except per share data)	YEAR FY18A	YEAR FY19A	YEAR FY20A	YEAR FY21A	Mar 1Q22A	Jun 2Q22A	Sep 3Q22A	Dec 4Q22A	YEAR FY22A	Mar 1Q23A	Jun 2Q23A	Sep 3Q23A	Dec 4Q23A	YEAR FY23E	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E
Cash flows from operating activities:																				
Net income (loss)	(26.7)	626.7	118.5	230.0	75.0	20.0	80.0	150.0	325.0	150.0	1,044.0	242.0	295.0	1,731.0	293.0	194.9	336.4	356.1	1,180.4	1,562.3
Adjustments:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	149.6	252.1	336.4	472.0	101.0	105.0	109.0	118.0	433.0	126.0	136.0	146.0	154.0	562.0	164.7	169.1	173.0	177.8	684.5	775.6
Amortization of premiums, net	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of deferred commissions and issuance costs	143.4	168.0	217.6	294.0	83.0	86.0	92.0	97.0	358.0	106.0	112.0	115.0	126.0	459.0	126.5	127.0	127.5	128.0	509.0	517.0
Stock-based compensation	52.7	33.3	24.5	(2.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax benefit from exercise of options	544.0	662.2	870.5	1,130.0	325.0	352.0	361.0	363.0	1,401.0	381.0	397.0	413.0	413.0	1,604.0	433.7	455.3	478.1	501.0	1,868.1	2,266.4
Deferred tax assets	(9.8)	(1.4)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	(24.3)	(574.4)	(24.5)	(34.0)	(2.0)	(1.0)	-	18.0	15.0	7.0	(911.0)	30.0	17.0	(857.0)	-	-	-	-	-	-
	(158.4)	(8.9)	-	-	15.0	4.0	(10.0)	8.0	-	1.0	(3.0)	(11.0)	13.0	-	-	-	-	-	-	-
Changes in operating assets and liabilities:																				
Accounts receivable	(146.1)	(259.8)	(151.4)	(401.0)	562.0	(51.0)	(66.0)	(785.0)	(340.0)	619.0	16.0	(83.0)	(852.0)	(300.0)	(101.5)	55.4	(139.5)	(1,102.9)	(1,288.6)	(1,214.9)
Deferred commissions	(239.4)	(255.6)	(365.3)	(565.0)	(137.0)	(100.0)	(132.0)	(197.0)	(566.0)	(159.0)	(121.0)	(173.0)	(264.0)	(717.0)	(69.8)	(11.2)	(57.0)	(193.5)	(331.4)	(411.0)
Prepaid expenses and other assets	(19.9)	(29.9)	(54.2)	(93.0)	(46.0)	(26.0)	(1.0)	34.0	(39.0)	(64.0)	(72.0)	(47.0)	(20.0)	(203.0)	6.8	(41.8)	(38.7)	(10.9)	(84.6)	(107.0)
Accounts payable	(4.8)	21.4	(33.6)	55.0	69.0	71.0	(24.0)	56.0	172.0	(46.0)	(44.0)	(98.0)	46.0	(142.0)	157.2	(76.3)	(123.4)	69.0	26.5	33.5
Accrued expenses and other	82.1	65.1	175.0	102.0	(203.0)	38.0	(32.0)	240.0	43.0	(259.0)	155.0	(95.0)	375.0	176.0	(503.1)	218.6	130.7	440.4	286.7	182.6
Deferred revenue	468.9	537.2	711.0	960.0	21.0	(65.0)	(112.0)	1,060.0	904.0	40.0	(129.0)	(128.0)	1,302.0	1,085.0	12.0	(101.3)	(213.3)	1,711.4	1,408.8	1,747.2
Cash Flow from Operations	811.1	1,236.0	1,824.4	2,148.0	863.0	433.0	265.0	1,162.0	2,706.0	902.0	580.0	311.0	1,605.0	3,398.0	519.6	989.6	673.6	2,076.6	4,259.4	5,351.6
Cash flows from investing activities:																				
Purchases of property and equipment	(224.5)	(264.9)	(419.3)	(392.0)	(93.0)	(151.0)	(162.0)	(144.0)	(550.0)	(165.0)	(132.0)	(136.0)	(261.0)	(694.0)	(208.3)	(208.1)	(221.5)	(235.9)	(873.8)	(1,065.6)
Acquisition, net of cash acquired	(48.2)	(7.4)	(107.2)	(792.0)	-	(57.0)	-	(34.0)	(91.0)	-	-	(282.0)	-	(282.0)	-	-	-	-	-	-
Purchases of ST investments	(1,309.4)	(1,668.4)	(2,947.1)	(2,556.0)	(763.0)	(1,147.0)	(1,039.0)	(1,256.0)	(4,205.0)	(1,252.0)	(1,615.0)	(994.0)	(848.0)	(4,709.0)	-	-	-	-	-	-
Sale of ST investments	40.0	33.5	-	1,096.0	-	-	569.0	545.0	1,114.0	-	-	915.0	654.0	1,569.0	-	-	-	-	-	-
Maturities of ST investments	1,194.7	1,182.7	1,966.8	1,023.0	577.0	554.0	-	-	1,131.0	880.0	1,073.0	-	-	1,953.0	-	-	-	-	-	-
Restricted cash	-	-	-	14.0	(1.0)	1.0	3.0	15.0	18.0	13.0	-	(28.0)	11.0	(4.0)	-	-	-	-	-	-
Cash Flow from Investments	(347.4)	(724.5)	(1,506.9)	(1,607.0)	(280.0)	(800.0)	(629.0)	(874.0)	(2,583.0)	(524.0)	(674.0)	(525.0)	(444.0)	(2,167.0)	(208.3)	(208.1)	(221.5)	(235.9)	(873.8)	(1,065.6)
Cash flows from financing activities:																				
Net proceeds from follow-on offering	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net proceeds from borrowings	-	-	1,034.0	(6.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proceeds from exercise of stock options	104.2	107.9	145.8	167.0	105.0	1.0	71.0	-	177.0	117.0	-	76.0	1.0	194.0	-	-	-	-	-	-
Proceeds from early exercise of options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes paid related to share settlement of equity awards	(281.0)	(409.7)	(508.6)	-	(150.0)	(91.0)	(111.0)	(75.0)	-	(112.0)	(94.0)	(127.0)	(126.0)	-	-	-	-	-	-	-
Tax benefit from exercise of options	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Payments on financing obligation	(430.6)	(0.0)	(74.6)	-	(6.0)	(88.0)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash Flow from Financings	(607.4)	(301.9)	596.6	161.0	(51.0)	(178.0)	(40.0)	(75.0)	177.0	5.0	(94.0)	(333.0)	(381.0)	(344.0)	-	-	-	-	-	-
Foreign currency effects	(15.5)	(0.2)	25.1	(25.0)	(5.0)	(44.0)	(12.0)	8.0	(53.0)	1.0	(1.0)	(4.0)	5.0	1.0	-	-	-	-	-	-
Net increase in cash	(159.3)	209.5	939.3	677.0	527.0	(589.0)	(416.0)	221.0	247.0	384.0	(189.0)	(551.0)	785.0	888.0	311.3	781.5	452.2	1,840.6	3,385.6	4,286.0
Cash at beginning of period	727.1	567.8	777.3	1,716.6	1,732.4	2,259.4	1,670.4	1,254.4	2,393.6	1,475.4	1,859.4	1,670.4	1,119.4	2,640.6	1,904.4	2,215.7	2,997.3	3,449.4	3,528.6	6,914.2
Cash at end of period	567.8	777.3	1,716.6	2,393.6	2,259.4	1,670.4	1,254.4	1,475.4	2,640.6	1,859.4	1,670.4	1,119.4	1,904.4	3,528.6	2,215.7	2,997.3	3,449.4	5,290.1	6,914.2	11,200.2

Source: BofA Global Research estimates, company report

BoFA GLOBAL RESEARCH

Price objective basis & risk

ServiceNow (NOW)

Our price objective of \$900 is based on 42x our C25E FCF estimate, representing an EV/FCF/Growth multiple of 1.6x. The multiple compares to the GARP group trading at 30x EV/C25E FCF (1.4x growth-adjusted).

Downside risks are: 1) ServiceNow shares currently trade at a premium versus its large cap software peer group, and we recognize the risk of a potential pullback in the event of changes to market sentiment or a disappointing bookings quarter, 2) an inability to maintain key product advantages may slow share gains and large established competitors in the space may pose threats to ServiceNow's goal of continuing to capture market share by competing on price, 3) application spending is highly cyclical, which could present a higher degree of risk for a bookings deceleration for ServiceNow and other application vendors in the event of an economic slowdown.

Analyst Certification

I, Brad Sills, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	8x8	EGHT	EGHT US	Michael J. Funk
	Adobe	ADBE	ADBE US	Brad Sills
	Alarm.com	ALRM	ALRM US	Michael J. Funk
	Amplitude, Inc.	AMPL	AMPL US	Koji Ikeda, CFA
	BILL	BILL	BILL US	Brad Sills
	CCC Intelligent Solutions	CCCS	CCCS US	Michael J. Funk
	Dropbox	DBX	DBX US	Michael J. Funk
	Dynatrace	DT	DT US	Koji Ikeda, CFA
	Elastic NV	ESTC	ESTC US	Koji Ikeda, CFA
	GitLab Inc.	GTLB	GTLB US	Koji Ikeda, CFA
	Global-e Online Ltd.	GLBE	GLBE US	Koji Ikeda, CFA
	HubSpot	HUBS	HUBS US	Brad Sills
	Informatica Inc.	INFA	INFA US	Koji Ikeda, CFA
	Intapp Inc.	INTA	INTA US	Koji Ikeda, CFA
	Intuit	INTU	INTU US	Brad Sills
	JFrog Ltd	FROG	FROG US	Koji Ikeda, CFA
	MeridianLink, Inc.	MLNK	MLNK US	Koji Ikeda, CFA
	Microsoft Corporation	MSFT	MSFT US	Brad Sills
	MongoDB Inc	MDB	MDB US	Brad Sills
	nCino, Inc.	NCNO	NCNO US	Adam Bergere
	NICE Ltd.	NICE	NICE US	Michael J. Funk
	NICE Ltd.	NCSYF	NICE IT	Michael J. Funk
	PagerDuty	PD	PD US	Koji Ikeda, CFA
	PowerSchool Holdings, Inc.	PWSC	PWSC US	Koji Ikeda, CFA
	RingCentral	RNG	RNG US	Michael J. Funk
	Salesforce.com	CRM	CRM US	Brad Sills
	ServiceNow	NOW	NOW US	Brad Sills
	UiPath	PATH	PATH US	Brad Sills
	Unity	U	U US	Michael J. Funk
	Weave	WEAV	WEAV US	Michael J. Funk
	Workday Inc.	WDAY	WDAY US	Brad Sills
	Zeta Global	ZETA	ZETA US	Koji Ikeda, CFA
NEUTRAL				
	Autodesk	ADSK	ADSK US	Michael J. Funk

US - Enterprise Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bentley Systems	BSY	BSY US	Michael J. Funk
	BigCommerce Holdings, Inc.	BIGC	BIGC US	Koji Ikeda, CFA
	Coveo	YCVO	CVO CN	Koji Ikeda, CFA
	Datadog Inc	DDOG	DDOG US	Koji Ikeda, CFA
	DocuSign	DOCU	DOCU US	Brad Sills
	Freshworks, Inc.	FRSH	FRSH US	Adam Bergere
	HashiCorp	HCP	HCP US	Brad Sills
	Jamf	JAMF	JAMF US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	LSPD	LSPD US	Koji Ikeda, CFA
	Lightspeed Commerce Inc.	YLSPD	LSPD CN	Koji Ikeda, CFA
	Oracle Corporation	ORCL	ORCL US	Brad Sills
	Paycom	PAYC	PAYC US	Adam Bergere
	Paylocity	PCTY	PCTY US	Adam Bergere
	Shopify, Inc.	SHOP	SHOP US	Brad Sills
	Snowflake	SNOW	SNOW US	Brad Sills
	Veeva Systems, Inc.	VEEV	VEEV US	Brad Sills
	Zoom Video Communications	ZM	ZM US	Michael J. Funk
	ZoomInfo	ZI	ZI US	Koji Ikeda, CFA

UNDERPERFORM

	AvidXchange, Inc.	AVDX	AVDX US	Brad Sills
	Blackbaud, Inc.	BLKB	BLKB US	Koji Ikeda, CFA
	BlackLine, Inc.	BL	BL US	Koji Ikeda, CFA
	C3.ai	AI	AI US	Brad Sills
	Confluent	CFLT	CFLT US	Brad Sills
	CS Disco, Inc.	LAW	LAW US	Koji Ikeda, CFA
	Enfusion, Inc.	ENFN	ENFN US	Koji Ikeda, CFA
	Everbridge	EVBG	EVBG US	Koji Ikeda, CFA
	Five9	FIVN	FIVN US	Michael J. Funk
	Guidewire Software, Inc.	GWRE	GWRE US	Michael J. Funk
	Twilio	TWLO	TWLO US	Michael J. Funk
	Vertex, Inc.	VERX	VERX US	Brad Sills

RSTR

	Splunk	SPLK	SPLK US	Brad Sills
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IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$
Sales

Basic EBIT + Depreciation + Amortization



Valuation Toolkit

Numerator

Denominator

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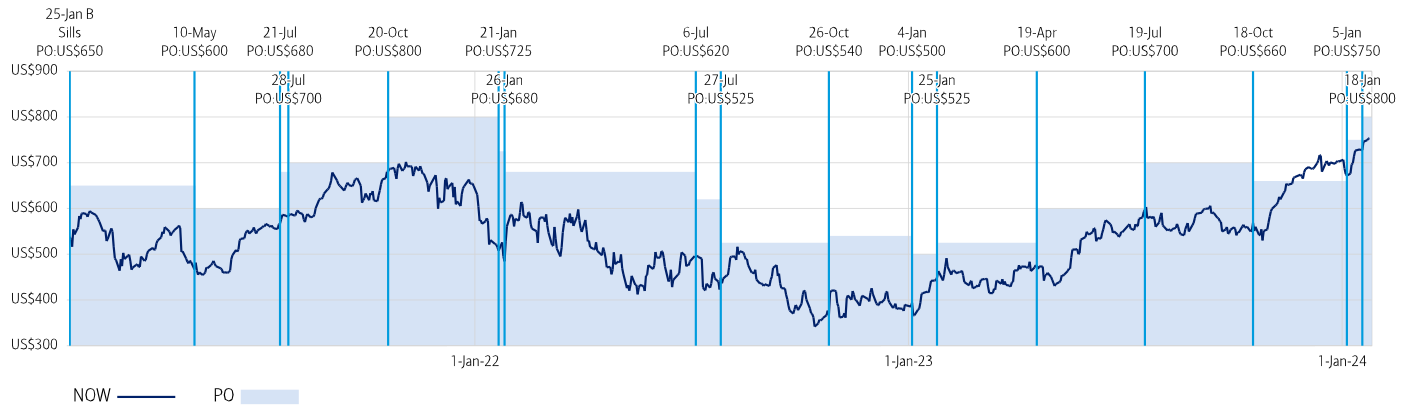
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Important Disclosures

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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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