

ServiceNow

Channel suggests broad strength across suites & verticals, reiterate Buy/top pick

Reiterate Rating: BUY | PO: 800.00 USD | Price: 727.54 USD

Early, though growing interest in Pro Plus AI offering

We spoke with nearly a dozen key SI partners in recent weeks, and feedback suggests solid Q4 deal activity, largely exceeding expectations. Commentary suggests balanced strength across the IT, employee and customer suites, and industry verticals. The healthcare, life sciences, financial services and technology verticals stand out as particularly strong. Channel feedback also suggests easing macro pressure, with some partners describing deal activity benefitting from pent up demand. We noted growing interest in the new Pro Plus offering for AI and observability, though partners describe this an interest as opposed to tangible pipeline at this point. Commentary suggests healthy pipeline builds for 2024.

Expect healthy Q3 cRPO upside and guidance

In our upside case, we expect cRPO growth of +23% y/y (+22.5% cc), above our base case of +20.5% (+20.9% cc). We estimate a 0.5% currency tailwind, versus expectations for 50bps headwind heading into Q4. Our upside case is backed by assumptions that 1) Q4 net retention holds with our estimated Q3 level of 119%, 2.) Q4 new customer bookings mix of 23% (consistent with Q4FY22), and 3) Q4 change in cRPO to represents 28% of current bookings (below 4Q22 at 35.5%). See bookings base and upside cases in Exhibits 2 and 3. With healthy pipelines going into 2024 and easing macro pressure, we expect FY24Q1 cRPO guidance for a 2.5% point deceleration to +20% y/y cc, consistent with Q4 guidance for a 3% point deceleration.

An AI, consolidation and cloud winner

The stock has had a nice run (+83% in 2023 and +3% YTD), trading at 35x CY25e FCF. However, with easing macro pressure, solid sustained execution and ongoing consolidation of the large custom apps industry (\$64.7 billion TAM), we believe the company is likely to sustain mid 20s cRPO/revenue growth, best in class for large cap software. Coupled with ongoing margin expansion from platform scale (70 bps implied in the FY24 outlook), solid mid/high 20s FCF growth is sustainable. The 35x FCF multiple represents 1.3x adjusted for mid/high 20s FCF growth, a reasonable level relative to the GARP group (trading at 1.3x 21%). We reiterate our Buy rating/top pick and are raising our PO to \$800 (38x C25E FCF) from \$750 (36x). ServiceNow is a key beneficiary from the three secular themes outlined in our year ahead: AI, Consolidation & Cloud.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	5.93	7.60	10.51	12.80	15.59
GAAP EPS	1.13	1.60	8.12	5.18	6.60
EPS Change (YoY)	27.3%	28.2%	38.3%	21.8%	21.8%
Consensus EPS (Bloomberg)			10.43	12.66	15.40
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	122.7x	95.7x	69.2x	56.8x	46.7x
GAAP P/E	643.8x	454.7x	89.6x	140.5x	110.2x
EV / EBITDA*	75.5x	64.4x	60.8x	48.4x	38.1x
Free Cash Flow Yield*	1.2%	1.5%	1.8%	2.3%	2.8%

* For full definitions of *IQmethod*SM measures, see page 12.

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12647551

Timestamp: 18 January 2024 05:00AM EST

18 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	750.00	800.00

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Stock Data

Price	727.54 USD
Price Objective	800.00 USD
Date Established	18-Jan-2024
Investment Opinion	B-1-9
52-Week Range	405.37 USD - 734.30 USD
Mkt Val (mn) / Shares Out (mn)	147,691 USD / 203.0
Free Float	99.8%
Average Daily Value (mn)	728.70 USD
BofA Ticker / Exchange	NOW / NYS
Bloomberg / Reuters	NOW US / NOW.N
ROE (2023E)	33.2%
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

ITAM = IT Asset Management

cRPO = current remaining performance obligation

GARP = growth at reasonable price

iQprofileSM ServiceNow

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	24.5%	23.4%	27.3%	22.1%	20.8%
Return on Equity	36.8%	35.4%	33.2%	27.7%	24.7%
Operating Margin	26.6%	27.0%	28.1%	28.9%	30.0%
Free Cash Flow	1,756	2,156	2,679	3,398	4,149

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.8x	1.8x	1.5x	1.5x	1.5x
Asset Replacement Ratio	0.8x	1.3x	1.0x	1.1x	1.3x
Tax Rate	7.6%	18.5%	NM	20.0%	20.0%
Net Debt-to-Equity Ratio	-6.6%	0.3%	-11.8%	-37.7%	-53.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,573	6,891	8,635	10,555	12,928
% Change	30.0%	23.6%	25.3%	22.2%	22.5%
Gross Profit	4,793	5,970	7,336	8,942	10,987
% Change	28.9%	24.6%	22.9%	21.9%	22.9%
EBITDA	1,954	2,293	2,429	3,050	3,872
% Change	34.1%	17.3%	5.9%	25.6%	27.0%
Net Interest & Other Income	2	44	238	279	287
Net Income (Adjusted)	1,201	1,543	2,160	2,698	3,371
% Change	29.6%	28.5%	40.0%	24.9%	24.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	230	325	1,670	1,092	1,427
Depreciation & Amortization	472	433	553	586	630
Change in Working Capital	58	174	(168)	(51)	43
Deferred Taxation Charge	(34)	15	NA	NA	NA
Other Adjustments, Net	1,422	1,759	1,198	2,425	2,850
Capital Expenditure	(392)	(550)	(575)	(654)	(801)
Free Cash Flow	1,756	2,156	2,679	3,398	4,149
% Change	25.0%	22.8%	24.3%	26.9%	22.1%
Share / Issue Repurchase	167	177	(89)	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	2,425	5,824	9,973
Trade Receivables	1,390	1,725	2,469	3,980	5,520
Other Current Assets	2,102	3,459	3,765	3,963	4,209
Property, Plant & Equipment	766	1,053	1,196	1,264	1,435
Other Non-Current Assets	4,812	5,592	7,976	8,221	8,531
Total Assets	10,798	13,299	17,831	23,251	29,668
Short-Term Debt	0	0	0	0	4
Other Current Liabilities	4,857	6,005	7,536	9,423	11,542
Long-Term Debt	1,484	1,486	1,487	1,487	1,487
Other Non-Current Liabilities	670	776	836	852	873
Total Liabilities	7,011	8,267	9,859	11,762	13,906
Total Equity	3,695	5,032	7,972	11,489	15,766
Total Equity & Liabilities	10,706	13,299	17,831	23,251	29,672

* For full definitions of iQmethodSM measures, see page 12.

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 1,001,589

Quarterly Earnings Estimates

	2022	2023
Q1	1.73A	2.37A
Q2	1.62A	2.37A
Q3	1.96A	2.93A
Q4	2.29A	2.84E

Preview summary

Exhibit 1: Consensus estimates versus BofA estimates

In an upside case for Q4, we look for +22.5% y/y cc cRPO growth (versus our base case for +20.9% y/y cc)

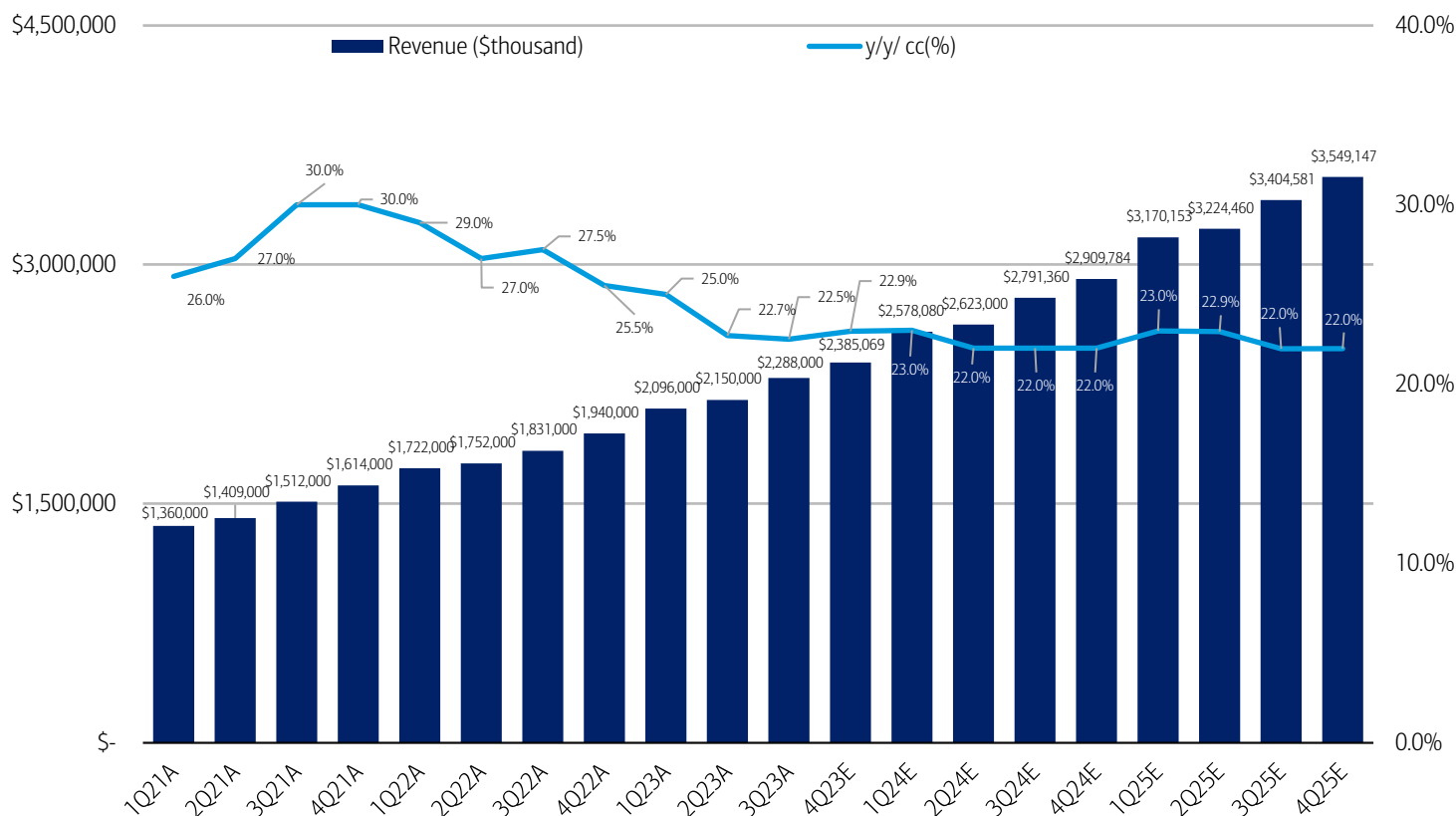
	4Q23E			1Q24E		2024E	
	Consensus Estimate	BofA (Base) Estimate	BofA (Upside) Estimate	Consensus Estimate	BofA (Base) Estimate	Consensus Estimate	BofA (Base) Estimate
Subscription revenue	\$2,324,936	\$2,320,350		\$2,464,606	\$2,489,520	\$10,497,924	\$10,555,367
y/y	25.0%	24.8%		21.8%	23.0%	21.5%	22.2%
y/y cc	22.5%	23.3%			N/A	20.8%	N/A
Total revenue	\$2,401,247	\$2,385,069		\$2,541,396	\$2,578,080	\$10,814,919	\$10,902,224
y/y	23.8%	22.9%		21.2%	23.0%	21.0%	22.2%
y/y cc		N/A			N/A		N/A
cRPO	\$8,371,003	\$8,358,750	\$8,530,138	\$8,428,054	\$8,442,338	\$10,133,037	\$10,299,947
y/y	20.6%	20.4%	22.9%	20.2%	20.4%	21.0%	23.2%
y/y cc	16.6%	20.9%	22.5%	N/A	N/A	N/A	N/A
Current bookings	\$3,341,674	\$3,313,819	\$3,925,339	\$2,600,072	\$2,661,668	\$12,579,971	\$12,843,422
y/y	11.0%	10.1%	30.4%	20.0%	22.9%	21.4%	24.2%
PF operating margin	27.5%	27.5%		27.0%	27.1%	28.2%	28.0%
y/y delta	-0.5%	-0.5%		0.8%	0.8%	0.7%	0.7%
PF EPS	\$2.78	\$2.84		\$2.88	\$2.98	\$12.65	\$12.80
FCF	\$1,308,444	\$1,305,903		\$963,609	\$760,701	\$3,357,581	\$3,398,424
y/y	28.3%	28.3%		30.7%	3.2%	25.4%	26.9%
FCF margin	54.5%	54.8%		37.9%	29.5%	31.0%	31.2%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 2: Historical revenue figures

We believe ServiceNow can sustain greater than 20% revenue growth



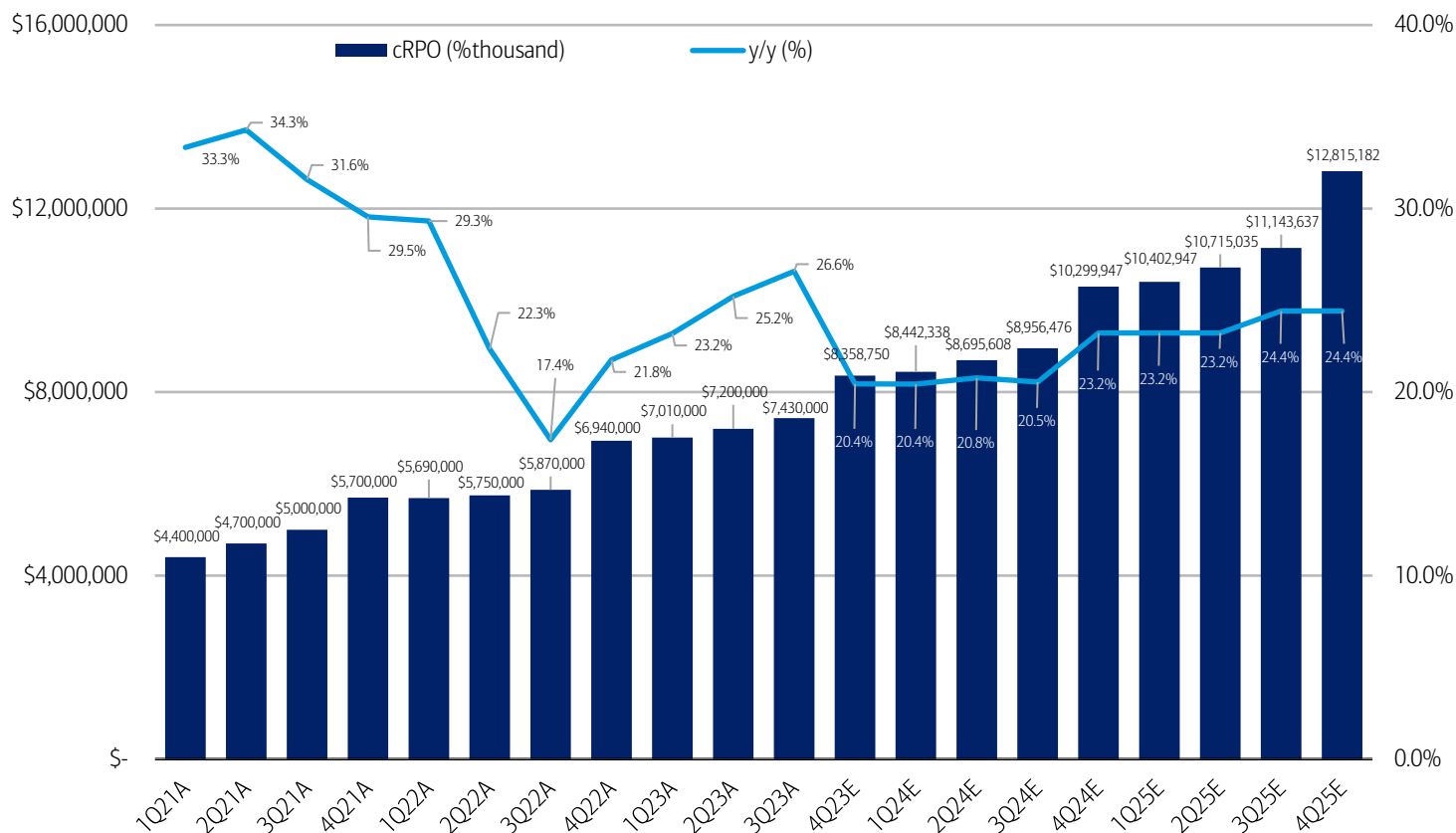
Source: BofA Global Research, company report

BofA GLOBAL RESEARCH



Exhibit 3: Historical cRPO figures

We believe ServiceNow can sustain greater than 20% cRPO growth



Source: BofA Global Research, company report

BofA GLOBAL RESEARCH

Partner commentary

“Demand in Q4 was good and fell in line with our expectations. As we turn into January it has been lighter, however, this is quite normal as this business is cyclical and we tend to see things slowdown in the holiday season. Now the sales cycle has started, and we expect that we will be fully utilized by February; pipelines are looking strong going into Q1 and 2024. We are winning new logos every quarter and are beginning to win logos with clients we have never worked with such as companies in the manufacturing sector. In Q4, there was a strong theme of “back-to-base,” which is essentially where a lot of our big customers who have been using ServiceNow since 2011, 2012, 2013, etc., are now in the process of utilizing it to its full extent. But this is limited because their current ServiceNow software stack was customized which creates a conflict when trying to adopt ServiceNow’s new functionalities, so therefore, many of these firms are redeploying the system. This tells us that large customers of ServiceNow in the past are still willing to continue spending on ServiceNow after all these years. ServiceNow’s risk management solutions have gained good acceptance in the market in Q4 and is starting to become a platform of choice for risk management. As for AI, it is still in theory although ServiceNow has created some early proof of concepts. Nevertheless, the interest is growing and there are big customers now that want to do trial runs with generative AI in ServiceNow. I don’t think it can be monetized in the next 6 months, but definitely sometime in the future.” – **SI Partner, Global**

“Demand in Q4 exceeded expectations and ticked up from Q3, however slower than this time last year. We revised our estimates down in July from our initial estimates in January thinking that 2023 would look like 2022. Starting in Q4, a lot of pent up demand was released from customers holding off over the summer which caused demand to then exceed our estimates, largely attributed to an easing macro. Pipelines are looking healthy and better than they have in the last 6 months. On Pro Plus, customers are waiting for either the price to decrease or the value to improve. There is a lot of AI interest, but we are not seeing any customers jump into big AI transformations or embedding it into their business processes. Product sales are still proportional to what we see historically, where ITOM and ITSM remain the key drivers of ServiceNow. I know of 1 Pro Plus purchase, however that was implemented as a part of a deal which involved an exchange of intellectual property. There is not much focus on Lightstep right now as Gen AI is being pushed heavily, however, it is worth keeping tabs on. I don’t think Creator and Gen AI will be a big seller for ServiceNow but will be consistent.” – **SI Partner, Global**

“Q4 was an excellent quarter and exceeded expectations, representing a record quarter for us. The core growth drivers include 1) easing of macro environment and 2) renewal cohort was forced into N-1 version policy (price change for people on older versions of ServiceNow). Expansion was strong with ITOM this quarter, and there was a general uplift from momentum/interest in Pro Plus, causing some upgrades to Pro. We are typically H2 loaded, but its looking like 2024 will be a better year on y/y. The main benefit customers get from Pro Plus is assistant search, but most customers are not in that position yet where this will derive enough value to justify a 50% pricing premium. In terms of sales cycles, Q4 early renewals slowed down, which could be because of the tail end of N-1 rush to get customers to new versions. ITSM and ITOM remain the key driver of ServiceNow. Lightstep is good from a capability standpoint, but there are other solutions that are more sticky which makes displacing them difficult.” – **SI Partner, Global**

“Demand in Q4 was strong and exceeded our expectations. Although last year there was much uncertainty surrounding inflation, wars, etc., we never saw budgets being pulled too tight. Rather, there was just a more conservative approach in the vetting process such as the potential ROI. We saw some sales cycles lengthen because of this, but no deals dried up. We had strong businesses cases for our customers, so the macro did not impact our demand too much. Pipelines going into 2024 are excellent and is an all-time

high for our company. We have a strong outlook for the coming Q1 and 2024 in general. Trend of new logo growth remains consistent and customer expansion remains strong too. I would say our growth is 75/25, customer expansion vs. new customers. Some notable verticals at the moment that have been performing especially well in Q4 were Healthcare and Life Sciences, Financial Services and TMT.” – **SI Partner, Global**

“Demand in Q4 was strong, and surpassed expectations. Many deals that were in the pipeline went through and we can largely attribute it to pent-up demand. This success was broad-based across verticals, and no specific verticals are outperforming at the moment. It seems that many companies are doubling down on their ServiceNow stack, and new logo adds are happening pretty quickly too. There was a healthy mix between new customer adds and customer expansion in Q4. Pipelines are looking strong going into 2024, and sales cycles have been at a normal pace. ServiceNow has a strong history of innovation, and we think they will make a good transition into AI, as the technology matures. Nevertheless, a lot of customers are starting to have conversations about AI and the interest continues to grow. Interest in demand for ITSM, ITOM, Employee and Customer workflows remain robust as usual. In Q4, we have also been pivoting away from conversations about macro uncertainty, and it seems that many customers now are more focused on the value that ServiceNow can provide.” – **SI Partner, Global**

“Demand in Q4 cooled off from the previous quarters, in line with expectations. We had a large amount of deals in the middle of 2023, and it has slowed since. A good portion of our business comes from government agencies in New Zealand, and their recent restructuring has caused demand to slow there as they have cut spending. Furthermore, the demand in the commercial sector has slowed too which is largely attributed to the macro environment. Going into 2024, pipelines are not looking great at the moment, and sales cycles overall have been slower recently as customers have been more hesitant. In Q4, we definitely experienced more customer expansion versus new logo adds. There is a lot of talk about AI, however, it has yet to yield any real impact. ITOM and ITSM are likely to remain as ServiceNow’s core drivers throughout 2024.” – **SI Partner, Regional SI, Asia Pacific**

“Demand in Q4 was strong and came in line with expectations, which started to accelerate in H2 of 2023. There was a lot of pent-up demand that was left from the pullbacks earlier in 2023. These pullbacks were mainly attributed to the increased scrutiny about the potential ROI of ServiceNow, which relaxed in H2 of 2023. Looking forward in 2024, our pipeline is strong, however, not as strong as this time last year. The general sentiment around Pro Plus right now seems to be “underwhelming,” and none of our current customers have expressed any interest in it. The core features that customers want from AI are chatbot’s and auto code generation, however, the Vancouver release did not provide these tools at a high quality, e.g., chat bot support is not there. A 50% premium over ITSM pro is not considered a good deal for many ServiceNow customers. As of now, growth still comes from the core ITSM and ITOM products, however, the interest in AI functionality is definitely growing. I think there is a decent chance that ServiceNow can monetize Pro Plus this year, they just have to make the product even better. What it provides now can be substituted by in-house solution, which many firms have been doing.” – **SI Partner, Global**

“Demand in Q4 has slowed from previous quarters, mostly attributed to macro factors as companies have been more prudent about investing with tighter budgets. Many ServiceNow consulting agencies have also been laying off workers recently, which could be a sign of a slow demand across the general partner ecosystem. Nevertheless, we saw demand pick up again in mid-December as we have been having a lot of conversations with customers since then; pipelines are accelerating and looking healthy going into 2024. Most of our growth in Q4, although slow, came from customer expansion as opposed to new logo adds. Many customers think Pro Plus is too expensive for the use cases they need. There needs to be a strong business case for a customer to adopt Pro Plus. The core IT offerings (ITOM and ITSM) remain the key drivers of ServiceNow and

demand for those products look healthy going into 2024. Sales cycles have been at a normal pace.” – **SI Partner, Regional SI, Asia Pacific**

“Demand in Q4 was good and accelerated from Q3, above our expectations. Our growth steadily increased throughout 2023. ServiceNow is constantly innovating in new categories which brings new businesses. Heading into 2024, pipelines look healthy. We have already signed multiple large deals this year and expect growth to continue. ITOM and ITSM nevertheless are still the core growth drivers. Our growth is mostly driven by new logo adds versus customer expansion, with a mix of about 80/20 respectively. ServiceNow is particularly popular amongst larger enterprises as they have the resources to customize and implement the software to be able to fully utilize its capabilities, whereas smaller companies have more alternatives as the more affordable strip down version of ServiceNow is difficult to customize and adds extra cost. ServiceNow has been especially popular amongst TMT and Healthcare Services companies. In terms of AI, the interest has definitely grown (e.g., chatbots) and is continuing to grow, and ServiceNow is most likely to succeed here, given the company’s history of innovation.” – **SI Partner, North America**

“Demand in Q4 was slower than usual. Some customer cut budgets, projects were put on hold, and some were cancelled. We felt this in Q3 as well. This is mostly attributed to the macro we believe. There were not many conversations in Q4 with customers wanting to implement ServiceNow. There was a good amount of customers who talked about the possibility of switching to other tools that are cheaper as more companies want to optimize their costs in this tough environment. We had a few new logo adds in Q4 and customer expansion as well. Pipelines have definitely decelerated this quarter and we think it is just a matter of the macro. There has definitely been an increased interest in the potential that AI could provide for ServiceNow, however, everything is still in “theory”. We don’t think AI will be fully monetized in 2024.” – **SI Partner, North America**

Base and upside case exhibits

Exhibit 4: Base Case Revenue/Bookings Model

We model to +20.9% y/y cc cRPO growth in our base case

	YEAR FY20A	YEAR FY21A	Mar 1Q22A	Jun 2Q22A	Sep 3Q22A	Dec 4Q22A	YEAR FY22A	Mar 1Q23A	Jun 2Q23A	Sep 3Q23A	Dec 4Q23E	YEAR FY23E	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Detailed bookings model																			
Customer count - beginning	6,200	6,900	7,300	7,400	7,500	7,600	7,300	7,700	7,800	7,900	8,000	7,700	8,081	8,172	8,245	8,336	8,081	8,409	8,706
Customer count - attrition	(144)	(175)	(37)	(19)	(38)	(19)	(112)	(39)	(20)	(40)	(40)	(138)	(40)	(41)	(41)	(42)	(164)	(170)	(176)
Gross customer adds	844	576	137	119	138	119	512	139	120	140	121	518	132	114	133	115	492	468	444
y/y growth	-7.7%	-31.8%	-10.0%	-22.3%	-10.3%	0.8%	-11.1%	1.5%	0.8%	1.5%	1.5%	1.3%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%	-5.0%
Net customer adds	700	400	100	100	100	100	400	100	100	100	81	381	91	73	91	73	328	297	268
Customer count - ending	6,900	7,300	7,400	7,500	7,600	7,700	7,700	7,800	7,900	8,000	8,081	8,081	8,172	8,245	8,336	8,409	8,409	8,706	8,974
Gross attrition	98%	98%	98%	99%	98%	99%	99%	98%	99%	98%	98%	98%	98%	98%	98%	98%	98%	98%	98%
Net revenue retention	130%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	124%	124%	124%	124%	124%	123%	122%
Ratio of upsell to attrition	14.3x	11.0x	13.5x	26.0x	13.5x	26.0x	17.7x	13.5x	26.0x	13.5x	13.5x	15.3x	13.0x	13.0x	13.0x	13.0x	13.0x	12.5x	12.0x
Renewal bookings	4,310,437	5,619,484	1,360,000	1,709,000	1,812,000	2,314,000	7,195,000	1,712,000	1,812,000	1,951,000	3,010,000	8,485,000	2,166,000	2,340,000	2,518,000	3,313,819	10,337,819	12,843,422	15,863,576
Less: attrition	(22,355)	(32,894)	(6,800)	(4,273)	(9,060)	(5,785)	(25,918)	(8,560)	(4,530)	(9,755)	(10,500)	(37,895)	(10,830)	(11,700)	(12,590)	(16,569)	(51,689)	(64,217)	(79,318)
Net renewals	4,288,082	5,586,590	1,353,200	1,704,728	1,802,940	2,308,215	7,169,083	1,703,440	1,807,470	1,941,245	2,999,450	8,447,105	2,155,170	2,328,300	2,505,410	3,297,250	10,286,130	12,779,204	15,784,258
New bookings from installed base	345,638	411,367	91,800	111,085	122,310	150,410	475,605	115,560	117,780	131,693	203,175	568,208	140,790	152,100	163,670	215,398	671,958	802,714	951,815
y/y growth	32.2%	19.0%	9.7%	12.8%	12.3%	25.1%	15.6%	25.9%	6.0%	7.7%	35.1%	19.5%	21.8%	29.1%	24.3%	6.0%	18.3%	19.5%	18.6%
Renewing customer count	5,756	6,462	1,713	1,756	1,762	1,806	7,038	1,812	1,856	1,861	1,885	7,413	1,910	1,934	1,959	1,979	7,781	8,120	8,423
Upsell bookings per customer	60.0	63.7	53.6	63.2	69.4	83.3	67.6	63.8	63.5	70.8	107.8	76.7	73.7	78.6	83.6	108.9	86.4	98.9	113.0
y/y growth	13.0%	6.0%	-1.3%	1.8%	3.7%	18.2%	6.1%	19.1%	0.4%	2.0%	29.4%	13.4%	15.6%	23.9%	18.0%	1.0%	12.7%	14.5%	14.3%
New customer bookings	985,764	1,197,044	267,000	(3,813)	25,750	551,375	840,313	347,000	414,750	445,063	115,694	1,322,507	365,708	395,870	383,148	740,607	1,885,333	2,281,657	1,307,797
y/y growth	22.1%	21.4%	12.3%	-101.1%	-90.2%	58.4%	-29.8%	30.0%	-109.7%	162.8%	-79.0%	57.4%	5.4%	-4.6%	-13.9%	540.1%	42.6%	21.0%	-42.7%
New customer bookings per customer	4,723	8,515	1,956.0	(32.2)	187.3	4,633.4	6,745	2,505.4	3,470.7	3,190.4	958.3	10,125	2,779.5	3,487.1	2,891.1	6,457.2	15,615	19,700	19,846
y/y growth	37.5%	80.3%	24.8%	-101.4%	-89.0%	57.2%	-20.8%	28.1%	-108.7%	160.3%	-79.3%	50.1%	10.9%	0%	-9%	574%	54.2%	26.2%	0.7%
New bookings total	1,331,402	1,608,410	358,800	107,273	148,060	701,785	1,315,918	462,560	532,530	576,755	318,869	1,890,714	506,498	547,970	546,818	956,006	2,557,292	3,084,371	2,259,611
y/y growth	24.6%	20.8%	11.6%	-76.0%	-60.1%	49.9%	-18.2%	28.9%	39.4%	289.5%	-54.6%	43.7%	9.5%	2.9%	-5.2%	199.8%	35.3%	20.6%	-26.7%
New bookings mix	23.7%	22.4%	21.0%	5.9%	7.6%	23.3%	15.5%	21.4%	22.8%	22.9%	9.6%	18.3%	19.0%	19.1%	17.9%	22.5%	19.9%	19.4%	12.5%
Current bookings	5,619,484	7,195,000	1,712,000	1,812,000	1,951,000	3,010,000	8,485,000	2,166,000	2,340,000	2,518,000	3,313,819	10,337,819	2,661,668	2,876,270	3,052,228	4,253,256	12,843,422	15,863,576	18,043,869
y/y growth	30.4%	28.0%	25.9%	6.0%	7.7%	30.1%	17.9%	26.5%	29.1%	29.1%	10.1%	21.8%	22.9%	22.9%	21.2%	28.3%	24.2%	23.5%	13.7%
q/q growth			-26.0%	5.8%	7.7%	54.3%		-28.0%	8.0%	7.6%	31.6%		-19.7%	8.1%	6.1%	39.3%			
% bookings from rev	80.4%	81.9%	100.6%	96.7%	93.8%	64.5%	85.4%	96.8%	91.9%	90.9%	72.0%	86.3%	96.9%	91.2%	91.5%	68.4%	84.9%	84.1%	86.2%
% bookings from change in cRPO	19.6%	18.1%	-0.6%	3.3%	6.2%	35.5%	14.6%	3.2%	8.1%	9.1%	28.0%	13.7%	3.1%	8.8%	8.5%	31.6%	15.1%	15.9%	13.8%
cRPO, end of period	4,400,000	5,700,000	5,690,000	5,750,000	5,870,000	6,940,000	6,940,000	7,010,000	7,200,000	7,430,000	8,358,750	8,358,750	8,442,338	8,695,608	8,956,476	10,299,947	10,299,947	12,815,182	15,668,351
% q/q			-0.2%	1.1%	2.1%	18.2%		1.0%	2.7%	3.2%	12.5%		1.0%	3.0%	3.0%	15.0%			
% y/y	33.3%	29.5%	29.3%	22.3%	17.4%	21.8%	21.8%	23.2%	25.2%	26.6%	20.4%	20.4%	20.4%	20.8%	20.5%	23.2%	23.2%	24.4%	22.3%
Change in cRPO	1,100,000	1,300,000	(10,000)	60,000	120,000	1,070,000	1,240,000	70,000	190,000	230,000	928,750	1,418,750	83,587.5	253,270	260,868	1,343,471	1,941,197	2,515,235	2,853,169
Revenue	4,519,484	5,895,000	1,722,000	1,752,000	1,831,000	1,940,000	7,245,000	2,096,000	2,150,000	2,288,000	2,385,069	8,919,069	2,578,080	2,623,000	2,791,360	2,909,784	10,902,224	13,348,341	15,558,728
y/y growth	30.6%	30.4%	26.6%	24.3%	21.1%	20.2%	22.9%	21.7%	22.7%	25.0%	22.9%	23.1%	23.0%	22.0%	22.0%	22.0%	22.2%	22.4%	16.6%
T-1 bookings as a % of revenue			134.4%	97.7%	99.0%	100.6%		143.6%	100.7%	102.3%	105.6%		128.5%	101.5%	103.0%	104.9%			
T-1 LTM bookings as a % of LTM rev			115.0%	114.3%	111.9%	107.5%		111.4%	111.5%	108.4%	112.5%		110.0%	109.7%	109.6%	109.2%			

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Exhibit 5: Upside Case Revenue/Bookings Model

We model to +22.5% y/y cc cRPO growth in our upside case

\$ Thousands	YEAR FY21A	Mar 1Q22A	Jun 2Q22A	Sep 3Q22A	Dec 4Q22A	YEAR FY22A	Mar 1Q23A	Jun 2Q23A	Sep 3Q23A	Dec 4Q23E	YEAR FY23E	Mar 1Q24E	Jun 2Q24E	Sep 3Q24E	Dec 4Q24E	YEAR FY24E	YEAR FY25E	YEAR FY26E
Customer count - beginning	6,900	7,300	7,400	7,500	7,600	7,300	7,700	7,800	7,900	8,000	7,700	8,081	8,179	8,257	8,356	8,081	8,435	8,781
Customer count - attrition	(175)	(37)	(19)	(38)	(19)	(112)	(39)	(20)	(40)	(40)	(138)	(40)	(41)	(41)	(42)	(164)	(171)	(178)
Gross customer adds	576	137	119	138	119	512	139	120	140	121	518	139	120	140	121	518	518	518
y/y growth	-31.8%	-10.0%	-22.3%	-10.3%	0.8%	-11.1%	1.5%	0.8%	1.5%	1.5%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net customer adds	400	100	100	100	100	400	100	100	100	81	381	98	79	98	79	354	347	340
Customer count - ending	7,300	7,400	7,500	7,600	7,700	7,700	7,800	7,900	8,000	8,081	8,081	8,179	8,257	8,356	8,435	8,435	8,781	9,121
Gross attrition	98%	98%	99%	98%	99%	99%	98%	99%	98%	98%	98%	98%	98%	98%	98%	98%	98%	98%
Net revenue retention	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	125%	124%	123%
Ratio of upsell to attrition	11.0x	13.5x	26.0x	13.5x	26.0x	17.7x	13.5x	26.0x	13.5x	13.5x	15.3x	13.5x	13.5x	13.5x	13.5x	13.5x	13.0x	12.5x
Renewal bookings	5,619,484	1,360,000	1,709,000	1,812,000	2,314,000	7,195,000	1,712,000	1,812,000	1,951,000	3,010,000	8,485,000	2,166,000	2,340,000	2,518,000	3,925,339	10,949,339	14,433,252	18,830,474
Less: attrition	(32,894)	(6,800)	(4,273)	(9,060)	(5,785)	(25,918)	(8,560)	(4,530)	(9,755)	(15,050)	(37,895)	(10,830)	(11,700)	(12,590)	(19,627)	(54,747)	(72,166)	(94,152)
Net renewals	5,586,590	1,353,200	1,704,728	1,802,940	2,308,215	7,169,083	1,703,440	1,807,470	1,941,245	2,994,950	8,447,105	2,155,170	2,328,300	2,505,410	3,905,712	10,894,592	14,361,086	18,736,321
New bookings from installed base	411,367	91,800	111,085	122,310	150,410	475,605	115,560	117,780	131,693	203,175	568,208	146,205	157,950	169,965	264,960	739,080	938,161	1,176,905
y/y growth	19.0%	9.7%	12.8%	12.3%	25.1%	15.6%	25.9%	6.0%	7.7%	35.1%	19.5%	26.5%	34.1%	29.1%	30.4%	30.1%	26.9%	25.4%
Renewing customer count	6,462	1,713	1,756	1,762	1,806	7,038	1,812	1,856	1,861	1,885	7,413	1,910	1,934	1,959	1,978	7,781	8,135	8,478
Upsell bookings per customer	63.7	53.6	63.2	69.4	83.3	67.6	63.8	63.5	70.8	107.8	76.7	76.6	81.7	86.8	133.9	95.0	115.3	138.8
y/y growth	6.0%	-1.3%	1.8%	3.7%	18.2%	6.1%	19.1%	0.4%	2.0%	29.4%	13.4%	20.0%	28.7%	22.6%	24.3%	23.9%	21.4%	20.4%
New customer bookings	1,197,044	267,000	(3,813)	25,750	551,375	840,313	347,000	414,750	445,063	727,214	1,934,026	485,800	622,125	600,834	1,090,820	2,799,580	3,531,227	3,884,349
y/y growth	21.4%	12.3%	-101.1%	-90.2%	58.4%	-29.8%	30.0%	-109.78.7%	1628.4%	31.9%	130.2%	40.0%	50.0%	35.0%	50.0%	44.8%	26.1%	10.0%
New customer bookings per customer	2,079.8	1,956.0	(32.2)	187.3	4,633.4	1,642.8	2,505.4	3,470.7	3,190.4	6,023.4	3,732.0	3,507.6	5,206.1	4,307.1	9,035.1	5,402.2	6,814.0	7,495.4
y/y growth	78.0%	24.8%	-101.4%	-89.0%	57.2%	-21.0%	28.1%	-108.87.7%	1603.6%	30.0%	127.2%	40.0%	50.0%	35.0%	50.0%	44.8%	26.1%	10.0%
New bookings - total	1,608,410	358,800	107,273	148,060	701,785	1,315,918	462,560	532,530	576,755	930,389	2,502,234	632,005	780,075	770,799	1,355,781	3,538,660	4,469,388	5,061,254
y/y growth	20.8%	11.6%	-76.0%	-60.1%	49.9%	-18.2%	28.9%	396.4%	289.5%	32.6%	90.2%	36.6%	46.5%	33.6%	45.7%	41.4%	26.3%	13.2%
New bookings mix	22.4%	21.0%	5.9%	7.6%	23.3%	15.5%	21.4%	22.8%	22.9%	23.7%	22.9%	22.7%	25.1%	23.5%	25.8%	24.5%	23.7%	21.3%
Total current bookings	7,195,000	1,712,000	1,812,000	1,951,000	3,010,000	8,485,000	2,166,000	2,340,000	2,518,000	3,925,339	10,949,339	2,787,175	3,108,375	3,276,209	5,261,492	14,433,252	18,830,474	23,797,575
y/y growth	28.0%	25.9%	6.0%	7.7%	30.1%	17.9%	26.5%	29.1%	29.1%	30.4%	29.0%	28.7%	32.8%	30.1%	34.0%	31.8%	30.5%	26.4%
q/q growth		-26.0%	5.8%	7.7%	54.3%		-28.0%	8.0%	7.6%	55.9%		-29.0%	11.5%	5.4%	60.6%			
% bookings from rev	81.9%	100.6%	96.7%	93.8%	64.5%	85.4%	96.8%	91.9%	90.9%	72.0%	86.3%	96.9%	91.2%	91.5%	68.4%	84.9%	84.1%	86.2%
% bookings from change in cRPO	18.1%	-0.6%	3.3%	6.2%	35.5%	14.6%	3.2%	8.1%	9.1%	28.0%	13.7%	7.1%	8.8%	8.5%	27.6%	15.1%	15.9%	13.8%
cRPO, end of period	5,700,000	5,690,000	5,750,000	5,870,000	6,940,000	6,940,000	7,010,000	7,200,000	7,430,000	8,530,138	8,530,138	8,729,154	9,002,862	9,282,874	10,734,356	10,734,356	13,434,911	16,841,719
% q/q		-0.2%	1.1%	2.1%	18.2%		1.0%	2.7%	3.2%	14.8%		2.3%	3.1%	3.1%	15.6%			
% y/y	29.5%	29.3%	22.3%	17.4%	21.8%	21.8%	23.2%	25.2%	26.6%	22.9%	22.9%	24.5%	25.0%	24.9%	25.8%	25.8%	25.2%	25.4%
Change in cRPO	1,300,000	(10,000)	60,000	120,000	1,070,000	1,240,000	70,000	190,000	230,000	1,100,138	1,590,138	199,016	273,708	280,011	1,451,482	2,204,218	2,700,555	3,406,808
Revenue	5,895,000	1,722,000	1,752,000	1,831,000	1,940,000	7,245,000	2,096,000	2,150,000	2,288,000	2,385,069	8,919,069	3,053,829	2,746,684	3,016,613	3,123,313	11,940,439	15,397,284	19,702,392
y/y growth	30.4%	26.6%	24.3%	21.1%	20.2%	22.9%	21.7%	22.7%	25.0%	22.9%	23.1%	45.7%	27.8%	31.8%	31.0%	33.9%	29.0%	28.0%
Prior quarter billings as a % of revenue		134.4%	97.7%	99.0%	100.6%		143.6%	100.7%	102.3%	105.6%		128.5%	101.5%	103.0%	104.9%			
T-1 LTM billings as a % of LTM rev		115.0%	114.3%	111.9%	107.5%		111.4%	111.5%	108.4%	112.5%		110.9%	110.5%	110.1%	109.7%			

Source: BofA Global Research estimates, company report



Price objective basis & risk

ServiceNow (NOW)

Our price objective of \$800 is based on 38x our C25E FCF estimate, representing an EV/FCF/Growth multiple of 1.6x. The multiple compares to the GARP group trading at 28x EV/C25E FCF (1.3x 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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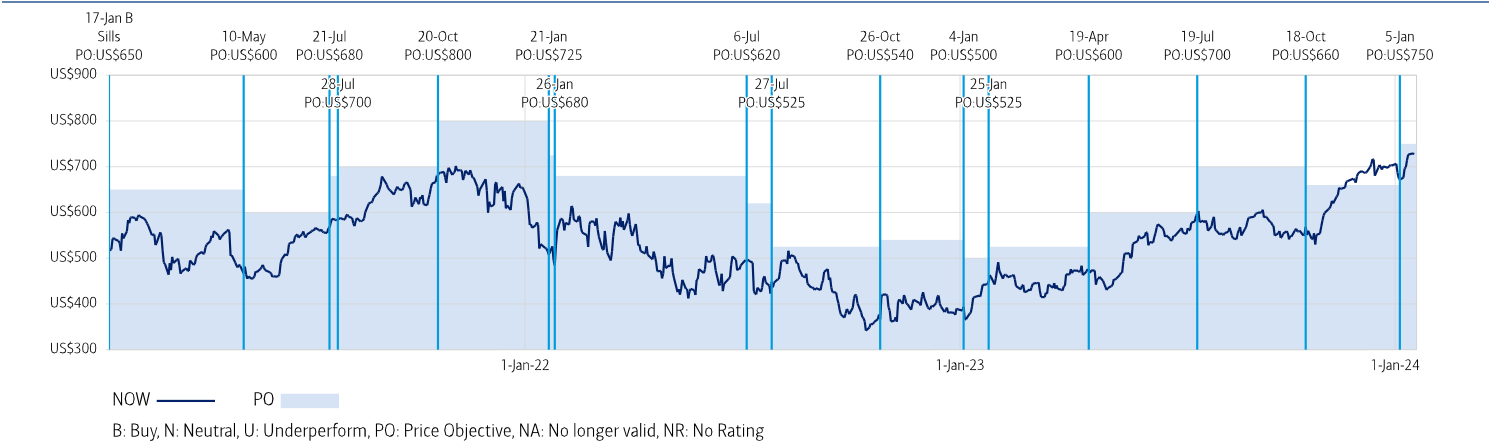
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Disclosures

Important Disclosures

ServiceNow (NOW) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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