

# ServiceNow (NOW US)

## 2Q25 earnings beat; AI drove strong cRPO growth and margin expansion

ServiceNow reported better-than-expected 2Q25 results: total revenue increased by 22.5% YoY to US\$3.22bn, 3% ahead of Bloomberg consensus estimate; non-GAAP operating income grew by 33% YoY to US\$955mn, 13% ahead of consensus estimate, mainly thanks to AI-enhanced efficiencies and the timing of marketing spending. cRPO was up by 21.5% YoY in constant currency in 2Q25, and beat company guidance by 200bps. Given the strong topline performance and deal acquisition, management raised FY25 total revenue guidance by c.1% to US\$12.775-12.795bn (+20% YoY). We lift FY25-27E total revenue forecast by 0-1%, and raise our target price to US\$1,175 based on 55x FY25E EV/EBITDA (previous: US\$1,115 based on 52x FY25E EV/EBITDA) in view of the strong earnings outlook and increase in sector valuation. We are upbeat on ServiceNow's differentiated AI solutions, which offer cross-functional AI agents to improve efficiency of various enterprise workflows. Maintain BUY.

- **Strong subscription revenue and cRPO growth.** Subscription revenue grew by 21.5% YoY in constant currency to US\$3.09bn in 2Q25, 200bps ahead of the company guidance mainly thanks to the strong execution and early on-premise renewals. cRPO grew by 21.5% YoY in constant currency to US\$10.65bn in 2Q25, also beating the company guidance by 200bps. By verticals, net new ACV of transportation & logistics/TMT/retail & hospitality verticals grew by over 100/70/50% YoY respectively in 2Q25. For 3Q25E, management guides cRPO growth will decelerate to +18% YoY (in constant currency), citing a few factors: 1) c.2ppt headwinds to cRPO growth as a larger-than-average customer cohort scheduled to renew contracts in 4Q25, which will lead to contractual obligations wind-down in 3Q25; 2) tightening budgets of US federal agencies.
- **Robust demand for AI solutions.** While macro uncertainty persists, management continues to see robust demand for AI solutions. In 2Q25, key AI Pro Plus deal count (incl. ITSM, CSM & HR) grew by over 50% QoQ, and ITSM Plus and CSM Plus deal value quadrupled YoY. Customers' AI usage trend is also robust, which has gone up 9x during 2Q25, as per management. Based on its AI Control Tower, diverse agentic solutions and data infrastructure, ServiceNow is well positioned to take enterprise AI budget, in our view. Management is positive on achieving its US\$1bn ACV target for the Pro Plus subscription by 2026E.
- **AI drives margin expansion.** Non-GAAP OPM increased by 2.3ppt YoY to 29.7% in 2Q25, 250bps above guidance, as the company used AI to enhance operating efficiency and shifted certain marketing spend into 2H25. The company leverages its own AI tools like code generation to drive efficiency of engineers, and targets to achieve US\$100mn cost savings via AI in 2025.

### Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (US\$ mn)	8,971	10,984	13,148	15,527	18,039
YoY growth (%)	23.8	22.4	19.7	18.1	16.2
Adjusted net profit (US\$ mn)	2,215.0	2,902.0	3,524.0	4,252.5	5,012.3
EPS (Adjusted) (US\$)	10.86	14.09	17.02	20.54	24.21
Consensus EPS (US\$)	10.86	14.09	16.57	19.84	23.85
P/S (x)	23.1	18.9	15.8	13.3	11.5
P/E (x)	117.4	144.0	109.7	84.1	66.5

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

**Target Price** US\$1175.00

(Previous TP US\$1115.00)

**Up/Downside** 18.0%

**Current Price** US\$996.18

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### Stock Data

Mkt Cap (US\$ mn)	207,205.4
Avg 3 mths t/o (US\$ mn)	488.3
52w High/Low (US\$)	1170.39/721.65
Total Issued Shares (mn)	208.0

Source: FactSet

### Shareholding Structure

The Vanguard Group	8.4%
BlackRock	8.0%

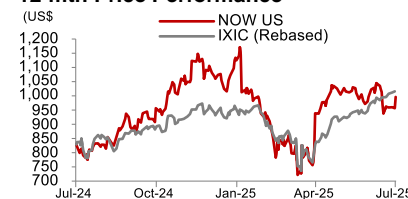
Source: Company data

### Share Performance

	Absolute	Relative
1-mth	-0.9%	-6.0%
3-mth	5.4%	-13.0%
6-mth	-11.4%	-16.1%

Source: FactSet

### 12-mth Price Performance



Source: FactSet

**Figure 1: ServiceNow: forecast revision**

US\$ bn	Current			Previous			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	13.1	15.5	18.0	13.0	15.4	17.9	1.1%	0.8%	0.8%
Gross profit	10.3	12.2	14.2	10.3	12.3	14.3	-0.1%	-0.7%	-0.4%
Operating profit	4.0	4.9	5.9	4.0	4.8	5.7	0.2%	1.8%	3.1%
Non-GAAP net profit	3.5	4.3	5.0	3.5	4.2	4.9	0.7%	1.2%	2.3%
Non-GAAP EPS (US\$)	16.8	20.2	23.9	16.8	20.0	23.3	-0.1%	1.2%	2.4%
Gross margin	78.3%	78.6%	79.0%	79.3%	79.7%	80.0%	-1.0 ppt	-1.1 ppt	-1.0 ppt
Non-GAAP OPM	30.5%	31.5%	32.6%	30.5%	31.2%	31.9%	0.0 ppt	0.3 ppt	0.7 ppt
Non-GAAP net margin	26.8%	27.4%	27.8%	26.9%	27.2%	27.3%	-0.1 ppt	0.2 ppt	0.5 ppt

Source: CMBIGM estimates

**Figure 2: ServiceNow: CMBIGM estimates vs consensus**

US\$ bn	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	13.1	15.5	18.0	13.0	15.5	18.4	0.9%	0.3%	-1.8%
Gross profit	10.3	12.2	14.2	10.6	12.6	15.1	-3.2%	-3.5%	-5.4%
Operating profit	4.0	4.9	5.9	4.0	4.9	6.0	0.9%	0.5%	-1.3%
Non-GAAP net profit	3.5	4.3	5.0	3.5	4.2	5.1	1.6%	1.7%	-1.8%
Non-GAAP EPS (US\$)	16.8	20.2	23.9	16.6	19.8	23.8	1.2%	2.1%	0.1%
Gross margin	78.3%	78.6%	79.0%	81.6%	81.7%	81.9%	-3.3 ppt	-3.1 ppt	-3.0 ppt
Non-GAAP OPM	30.5%	31.5%	32.6%	30.5%	31.4%	32.4%	0.0 ppt	0.0 ppt	0.2 ppt
Non-GAAP net margin	26.8%	27.4%	27.8%	26.6%	27.0%	27.8%	0.2 ppt	0.4 ppt	0.0 ppt

Source: Bloomberg, CMBIGM estimates

## Valuation

We value ServiceNow at US\$1,175 per share based on 55x 2025E EV/EBITDA. Our target EV/EBITDA is at a premium to the sector average (27x), which is justified by ServiceNow's strong earnings growth outlook over 2025-2027E.

**Figure 3: ServiceNow: target valuation**

EV/EBITDA Valuation (US\$mn)		FY25E
Adjusted EBITDA		4,417
Target 2025E EV/EBITDA (x)		55.0
Target EV		242,920
Net cash		1,395
Target equity valuation		244,315
Valuation per share (USD)		1,175.0

Source: Company data, CMBIGM estimates

**Figure 4: SaaS: valuation comparison**

Companies	Ticker	Price (Local)	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR
			2025E	2026E	2027E	2025E	2026E	2027E	25-27E
ITSM									
ServiceNow	NOW US	956.4	14.9	12.5	10.4	43.3	35.3	28.9	19%
Atlassian	TEAM US	202.6	10.0	8.4	7.0	39.8	32.5	26.2	19%
CRM									
Salesforce	CRM US	267.2	6.2	5.7	5.2	15.6	14.3	13.3	9%
HubSpot	HUBS US	560.9	9.1	7.8	6.6	42.4	34.3	26.6	16%
Five9	FIVN US	29.2	2.2	2.0	1.8	11.1	9.6	7.8	11%
ERP									
SAP	SAP US	290.6	9.3	8.3	7.3	26.6	22.4	18.9	13%
Oracle	ORCL US	241.9	14.6	12.8	10.9	28.4	25.1	20.8	13%
Average			8.6	7.5	6.5	27.3	23.0	18.9	

Source: Bloomberg, CMBIGM

Note: data are as of 23 Jul 2025

## Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Revenue	7,245	8,971	10,984	13,148	15,527	18,039
Cost of goods sold	(1,573)	(1,921)	(2,287)	(2,855)	(3,315)	(3,794)
Gross profit	5,672	7,050	8,697	10,293	12,212	14,245
Operating expenses	(5,317)	(6,288)	(7,333)	(8,458)	(9,660)	(10,874)
Selling expense	(2,814)	(3,301)	(3,854)	(4,475)	(5,126)	(5,777)
Admin expense	(735)	(863)	(936)	(1,026)	(1,118)	(1,209)
R&D expense	(1,768)	(2,124)	(2,543)	(2,958)	(3,416)	(3,889)
Operating profit	355	762	1,364	1,834	2,552	3,370
Other income	71	(56)	(45)	13	16	18
Interest expense	(27)	302	419	460	497	487
Pre-tax profit	399	1,008	1,738	2,307	3,064	3,875
Income tax	74	(723)	313	427	613	775
After tax profit	325	1,731	1,425	1,881	2,451	3,100
Net profit	325	1,731	1,425	1,881	2,451	3,100
Adjusted net profit	1,543	2,215	2,902	3,524	4,252	5,012

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (US\$ mn)						
Current assets	6,654	7,777	9,187	11,421	14,184	17,365
Cash & equivalents	1,470	1,897	2,304	2,884	3,746	4,629
Account receivables	1,725	2,036	2,240	2,628	2,979	3,322
Prepayment	280	403	668	784	898	1,012
Financial assets at FVTPL	2,810	2,980	3,458	4,495	5,844	7,597
Other current assets	369	461	517	631	718	805
Non-current assets	6,645	9,610	11,196	12,927	14,856	17,186
PP&E	1,053	1,358	1,763	2,139	2,588	3,111
Right-of-use assets	682	715	693	693	693	693
Deferred income tax	636	1,508	1,385	1,385	1,385	1,385
Investment in JVs & assos	2,117	3,203	4,111	5,242	6,552	8,190
Intangibles	232	224	209	209	209	209
Goodwill	824	1,231	1,273	1,273	1,273	1,273
Other non-current assets	1,101	1,371	1,762	1,987	2,156	2,325
Total assets	13,299	17,387	20,383	24,348	29,041	34,551
Current liabilities	6,005	7,365	8,358	9,927	11,530	13,196
Short-term borrowings	0	0	0	0	0	0
Account payables	274	126	68	81	91	101
Lease liabilities	96	89	102	102	102	102
Contract liabilities	4,660	5,785	6,819	8,223	9,712	11,283
Accrued expenses	975	1,365	1,369	1,521	1,625	1,711
Non-current liabilities	2,262	2,394	2,416	2,446	2,469	2,493
Long-term borrowings	1,486	1,488	1,489	1,489	1,489	1,489
Deferred income	70	81	95	125	148	172
Other non-current liabilities	706	825	832	832	832	832
Total liabilities	8,267	9,759	10,774	12,373	13,999	15,689
Share capital	0	0	0	0	0	0
Capital surplus	4,796	5,661	7,407	7,892	8,508	9,228
Retained earnings	236	1,967	2,202	4,083	6,534	9,634
Total shareholders equity	5,032	7,628	9,609	11,975	15,042	18,862
Total equity and liabilities	13,299	17,387	20,383	24,348	29,041	34,551

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec (US\$ mn)</b>						
<b>Operating</b>						
Profit before taxation	399	1,008	1,738	2,307	3,064	3,875
Depreciation & amortization	433	562	564	610	715	830
Tax paid	74	(723)	313	427	613	775
Change in working capital	174	(101)	(65)	758	904	977
Others	1,643	2,652	1,717	1,118	964	813
<b>Net cash from operations</b>	<b>2,723</b>	<b>3,398</b>	<b>4,267</b>	<b>5,221</b>	<b>6,259</b>	<b>7,270</b>
<b>Investing</b>						
Capital expenditure	(340)	(300)	(254)	(388)	(351)	(343)
Acquisition of subsidiaries/ investments	(566)	(717)	(713)	(339)	(256)	(256)
Net proceeds from disposal of short-term investments	(1,960)	(1,112)	(1,279)	(2,168)	(2,659)	(3,391)
Others	283	(38)	(255)	(260)	(557)	(753)
<b>Net cash from investing</b>	<b>(2,583)</b>	<b>(2,167)</b>	<b>(2,501)</b>	<b>(3,154)</b>	<b>(3,824)</b>	<b>(4,744)</b>
<b>Financing</b>						
Net borrowings	(94)	0	0	0	0	0
Others	(250)	(803)	(1,343)	(1,487)	(1,574)	(1,643)
<b>Net cash from financing</b>	<b>(344)</b>	<b>(803)</b>	<b>(1,343)</b>	<b>(1,487)</b>	<b>(1,574)</b>	<b>(1,643)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	1,728	1,470	1,897	2,304	2,884	3,746
Exchange difference	(53)	1	(17)	0	0	0
<b>Cash at the end of the year</b>	<b>1,470</b>	<b>1,897</b>	<b>2,304</b>	<b>2,884</b>	<b>3,746</b>	<b>4,629</b>
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Revenue	22.9%	23.8%	22.4%	19.7%	18.1%	16.2%
Gross profit	24.9%	24.3%	23.4%	18.3%	18.6%	16.6%
Operating profit	38.1%	114.6%	79.0%	34.5%	39.1%	32.1%
Net profit	41.3%	432.6%	(17.7%)	32.0%	30.3%	26.5%
Adj. net profit	28.5%	43.6%	31.0%	21.4%	20.7%	17.9%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Gross profit margin	78.3%	78.6%	79.2%	78.3%	78.6%	79.0%
Operating margin	4.9%	8.5%	12.4%	14.0%	16.4%	18.7%
Adj. net profit margin	21.3%	24.7%	26.4%	26.8%	27.4%	27.8%
Return on equity (ROE)	7.4%	27.3%	16.5%	17.4%	18.1%	18.3%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
Current ratio (x)	1.1	1.1	1.1	1.2	1.2	1.3
Receivable turnover days	86.9	82.8	74.4	72.9	70.0	67.2
Payable turnover days	(63.6)	(23.9)	(10.9)	(10.3)	(10.0)	(9.7)
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
<b>YE 31 Dec</b>						
P/E	617.4	117.4	144.0	109.7	84.1	66.5
P/E (diluted)	623.9	118.6	145.4	111.2	85.3	67.5
P/B	39.9	26.6	21.4	17.2	13.7	10.9

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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