招銀国际 CMB INTERNATIONAL

A Wholly Owned Subsidiary Of China Merchants Bank

# ServiceNow (NOW US)

## Strong cRPO growth and GenAI momentum

ServiceNow reported 2Q24 financial results: total revenue grew by 22% YoY to US$2.63bn, inline with consensus estimate; non-GAAP operating income was up by 32% YoY to US$720mn, 9% ahead of consensus estimate on strong efficiency gains. cRPO increased by 22% YoY to US$8.78bn in 2Q24, 2% above previous guidance of management, thanks to the robust momentum of large-size deals. Given the solid deal acquisitions, management now guides FY24 subscription revenue to grow by 22% YoY to US$10.575-10.585bn, and raises FY24 non-GAAP OPM guidance by 50bps to 29.5%. Looking into 3Q24E, management guides subscription revenue/cRPO to grow by 20.5/22% YoY on a constant currency basis. We raise FY24-26E non-GAAP operating income estimate by 2-3%, and lift our target price to US$900.0 on 50x FY24 EV/EBITDA (previous: US$895.0 on 50x FY24 EV/EBITDA). Maintain BUY.

- **Accelerating cRPO growth momentum.** Subscription revenue was up by 23% YoY to US$2.54bn in 2Q24. cRPO grew by 22% YoY to US$8.78bn in 2Q24, a 150bps acceleration vs. 1Q24 growth. Federal, manufacturing, energy & utilities industries exhibited strength in 2Q24, with NNACV all up by over 50% YoY. The Company closed 88 large deals with over US$1mn NNACV in 2Q24, up 26% YoY. RPO grew by 31% YoY to US$18.6bn in 2Q24 (1Q24: +26% YoY), as customers entered longer and more strategic deals with ServiceNow. In 2Q24, the Company recorded the largest quarterly average contract term since 2018 and saw TCV from five plus year deals more than tripling.
- **Unleashing GenAI monetization opportunities.** ServiceNow saw strong adoption of its GenAI offerings. Now Assist NNACV doubled QoQ in 2Q24, and continued to be the fastest growing new product in the company's history, per management. The Pro Plus SKU saw over 30% price uplift versus Pro SKU in 2Q24. The Pro Plus is also driving larger deal size, and the Company saw 3x increase in average deal size of Pro Plus upgrade vs. the comparable Pro upgrade. ServiceNow also implemented more lighthouse use cases of GenAI. For example, LTIMindtree used NowAssist for ITSM to increase developer productivity by 30% with code and flow generation.
- **Raise FY24 OPM guidance on enhanced efficiency.** Non-GAAP operating margin rose by 2.4ppt YoY to 27.4% in 2Q24, driven by the enhanced efficiency and operating leverage. The Company actively adopted GenAI capabilities to enhance its own efficiency. As per management, ServiceNow IT helpdesk saves 45 minutes per avoided case and customer service via deployment of Now Assist. The Company also raised FY24 non-GAAP OPM guidance by 50bps to 29.5% (+2ppt YoY).

### Earnings Summary

| (YE 31 Dec) | FY22A | FY23A | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| **Revenue (US$ mn)** | 7,245 | 8,971 | 10,910 | 13,134 | 15,632 |
| **YoY growth (%)** | 22.9 | 23.8 | 21.6 | 20.4 | 19.0 |
| **Adjusted net profit (US$ mn)** | 1,543.0 | 2,215.0 | 2,935.5 | 3,619.1 | 4,491.6 |
| **YoY growth (%)** | 28.5 | 43.6 | 32.5 | 23.3 | 24.1 |
| **EPS (Adjusted) (US$)** | 7.66 | 10.86 | 14.11 | 17.40 | 21.59 |
| **Consensus EPS (US$)** | 7.66 | 10.86 | 13.78 | 16.51 | 20.31 |
| **P/S (x)** | 21.0 | 16.9 | 13.9 | 11.6 | 9.7 |
| **P/E (x)** | 453.0 | 86.1 | 117.0 | 88.7 | 66.0 |

Source: Company data, Bloomberg, CMBIGM estimates

**BUY (Maintain)**

| | |
|---|---|
| **Target Price** | **US$900.00** |
| (Previous TP | US$895.00) |
| **Up/Downside** | **23.1%** |
| **Current Price** | **US$730.87** |

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**Stock Data**

| | |
|---|---|
| Mkt Cap (US$ mn) | 152,021.0 |
| Avg 3 mths t/o (US$ mn) | 244.5 |
| 52w High/Low (US$) | 812.94/530.17 |
| Total Issued Shares (mn) | 208.0 |

Source: FactSet

**Shareholding Structure**

| | |
|---|---|
| The Vanguard Group | 8.4% |
| BlackRock | 8.0% |

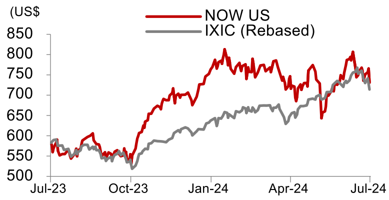
Source: Company data

**Share Performance**

| | Absolute | Relative |
|---|---|---|
| 1-mth | -3.2% | -1.1% |
| 3-mth | 2.0% | -8.1% |
| 6-mth | -4.7% | -14.7% |

Source: FactSet

**12-mth Price Performance**




Source: FactSet

**Figure 1: ServiceNow: forecast revision**

| US$ bn | Current | | | Previous | | | Change (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 10.9 | 13.1 | 15.6 | 10.9 | 13.1 | 15.6 | 0.4% | 0.3% | 0.3% |
| Gross profit | 8.7 | 10.5 | 12.6 | 8.6 | 10.4 | 12.5 | 0.8% | 0.8% | 0.8% |
| Operating profit | 3.2 | 4.0 | 5.0 | 3.1 | 3.9 | 4.9 | 2.9% | 2.8% | 2.8% |
| Non-GAAP net profit | 2.9 | 3.6 | 4.5 | 2.9 | 3.5 | 4.4 | 2.6% | 2.6% | 2.5% |
| Non-GAAP EPS (US$) | 14.1 | 17.4 | 21.6 | 14.0 | 17.3 | 21.5 | 0.6% | 0.6% | 0.5% |
| Gross margin | 79.6% | 80.2% | 80.6% | 81.5% | 81.7% | 81.8% | -1.9 ppt | -1.5 ppt | -1.2 ppt |
| Non-GAAP OPM | 29.6% | 30.8% | 32.2% | 29.7% | 30.7% | 32.0% | -0.1 ppt | 0.1 ppt | 0.2 ppt |
| Non-GAAP net margin | 26.9% | 27.6% | 28.7% | 27.1% | 27.6% | 28.7% | -0.2 ppt | 0.0 ppt | 0.1 ppt |

Source: CMBIGM estimates

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

| US$ bn | CMBIGM | | | Consensus | | | Diff (%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E | FY24E | FY25E | FY26E |
| Revenue | 10.9 | 13.1 | 15.6 | 10.9 | 13.2 | 15.9 | -0.1% | -0.3% | -1.7% |
| Gross profit | 8.7 | 10.5 | 12.6 | 9.0 | 10.9 | 13.1 | -3.6% | -3.0% | -4.0% |
| Operating profit | 3.2 | 4.0 | 5.0 | 3.2 | 4.0 | 5.0 | 0.2% | 0.9% | -0.3% |
| Non-GAAP net profit | 2.9 | 3.6 | 4.5 | 2.9 | 3.5 | 4.4 | 2.2% | 3.7% | 3.0% |
| Non-GAAP EPS (US$) | 14.1 | 17.4 | 21.6 | 13.8 | 16.5 | 20.3 | 2.4% | 5.4% | 6.3% |
| Gross margin | 79.6% | 80.2% | 80.6% | 82.5% | 82.4% | 82.6% | -2.9 ppt | -2.2 ppt | -2.0 ppt |
| Non-GAAP OPM | 29.6% | 30.8% | 32.2% | 29.5% | 30.4% | 31.8% | 0.1 ppt | 0.4 ppt | 0.4 ppt |
| Non-GAAP net margin | 26.9% | 27.6% | 28.7% | 26.3% | 26.5% | 27.4% | 0.6 ppt | 1.1 ppt | 1.3 ppt |

Source: Bloomberg, CMBIGM estimates

## Valuation

We value ServiceNow at US$900.0 per share based on 50x 2024E EV/EBITDA. Our target EV/EBITDA is at a premium to the sector average (33x), which is justified by ServiceNow's strong earnings growth outlook over 2024-2026E.

**Figure 3: ServiceNow: target valuation**

| EV/EBITDA Valuation (US$mn) | FY24E |
|---|---|
| Adjusted EBITDA | 3,663 |
| Target 2024E EV/EBITDA | 50 |
| Target EV | 183,168 |
| Net cash | 4,031 |
| Target equity valuation | 187,199 |
| Valuation per share (USD) | 900.0 |

Source: Company data, CMBIGM estimates

**Figure 4: SaaS: valuation comparison**

| Companies | Ticker | Price (LC) | EV/Sales (x) | | | EV/EBITDA (x) | | | Rev CAGR |
|---|---|---|---|---|---|---|---|---|---|
| | | | 2024E | 2025E | 2026E | 2024E | 2025E | 2026E | 24-26E |
| **ITSM** | | | | | | | | | |
| ServiceNow | NOW US | 730.9 | 13.5 | 11.2 | 9.6 | 38.9 | 32.4 | 27.3 | 20% |
| Atlassian | TEAM US | 167.6 | 9.8 | 8.3 | 6.8 | 40.2 | 35.2 | 28.0 | 21% |
| **CRM** | | | | | | | | | |
| Salesforce | CRM US | 249.8 | 6.4 | 5.8 | 5.3 | 16.0 | 14.8 | 13.2 | 9% |
| HubSpot | HUBS US | 473.3 | 9.2 | 7.8 | 6.5 | 46.5 | 37.8 | 27.9 | 18% |
| Five9 | FIVN US | 43.3 | 3.1 | 2.6 | 2.2 | 18.2 | 14.6 | 10.8 | 18% |
| **Security** | | | | | | | | | |
| CrowdStrike | CRWD US | 258.1 | 15.1 | 12.0 | 9.8 | 57.1 | 43.1 | 34.5 | 26% |
| Okta | OKTA US | 92.7 | 5.8 | 5.2 | 4.5 | NA | NA | 18.8 | 13% |
| **ERP** | | | | | | | | | |
| SAP | SAP US | 209.4 | 7.5 | 6.8 | 6.0 | 29.3 | 20.4 | 17.5 | 11% |
| Oracle | ORCL US | 138.8 | 8.0 | 7.3 | 6.5 | 15.6 | 13.6 | 11.9 | 11% |
| ***Average*** | | | **8.7** | **7.4** | **6.4** | **32.7** | **26.5** | **21.1** | |

Source: Bloomberg, CMBIGM

Note: Data as of 24 Jul 2024

# Financial Summary

| INCOME STATEMENT | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Revenue** | **5,896** | **7,245** | **8,971** | **10,910** | **13,134** | **15,632** |
| Cost of goods sold | (1,353) | (1,573) | (1,921) | (2,226) | (2,602) | (3,028) |
| **Gross profit** | **4,543** | **5,672** | **7,050** | **8,683** | **10,531** | **12,604** |
| **Operating expenses** | **(4,286)** | **(5,317)** | **(6,288)** | **(7,481)** | **(8,847)** | **(10,272)** |
| Selling expense | (2,292) | (2,814) | (3,301) | (3,917) | (4,573) | (5,280) |
| Admin expense | (597) | (735) | (863) | (982) | (1,164) | (1,365) |
| R&D expense | (1,397) | (1,768) | (2,124) | (2,583) | (3,110) | (3,627) |
| **Operating profit** | **257** | **355** | **762** | **1,202** | **1,684** | **2,332** |
| Other income | 20 | 71 | (56) | 55 | 66 | 78 |
| Interest expense | (28) | (27) | 302 | 367 | 394 | 469 |
| **Pre-tax profit** | **249** | **399** | **1,008** | **1,624** | **2,143** | **2,879** |
| Income tax | 19 | 74 | (723) | 325 | 429 | 576 |
| **After tax profit** | **230** | **325** | **1,731** | **1,299** | **1,715** | **2,303** |
| **Net profit** | **230** | **325** | **1,731** | **1,299** | **1,715** | **2,303** |
| **Adjusted net profit** | **1,201** | **1,543** | **2,215** | **2,936** | **3,619** | **4,492** |

| BALANCE SHEET | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Current assets** | **5,220** | **6,654** | **7,777** | **11,967** | **17,032** | **23,092** |
| Cash & equivalents | 1,728 | 1,470 | 1,897 | 5,519 | 10,043 | 15,527 |
| Account receivables | 1,390 | 1,725 | 2,036 | 2,476 | 2,861 | 3,270 |
| Prepayment | 223 | 280 | 403 | 475 | 555 | 641 |
| Financial assets at FVTPL | 1,576 | 2,810 | 2,980 | 2,980 | 2,980 | 2,980 |
| Other current assets | 303 | 369 | 461 | 517 | 592 | 675 |
| **Non-current assets** | **5,578** | **6,645** | **9,610** | **9,960** | **10,417** | **10,993** |
| PP&E | 766 | 1,053 | 1,358 | 1,624 | 1,935 | 2,350 |
| Right-of-use assets | 591 | 682 | 715 | 715 | 715 | 715 |
| Deferred income tax | 692 | 636 | 1,508 | 1,508 | 1,508 | 1,508 |
| Investment in JVs & assos | 1,630 | 2,117 | 3,203 | 3,203 | 3,203 | 3,203 |
| Intangibles | 287 | 232 | 224 | 224 | 224 | 224 |
| Goodwill | 777 | 824 | 1,231 | 1,231 | 1,231 | 1,231 |
| Other non-current assets | 835 | 1,101 | 1,371 | 1,455 | 1,601 | 1,762 |
| **Total assets** | **10,798** | **13,299** | **17,387** | **21,927** | **27,448** | **34,086** |
| | | | | | | |
| **Current liabilities** | **4,949** | **6,005** | **7,365** | **8,671** | **10,224** | **11,954** |
| Short-term borrowings | 92 | 0 | 0 | 0 | 0 | 0 |
| Account payables | 89 | 274 | 126 | 142 | 161 | 181 |
| Lease liabilities | 82 | 96 | 89 | 89 | 89 | 89 |
| Contract liabilities | 3,836 | 4,660 | 5,785 | 6,985 | 8,409 | 10,008 |
| Accrued expenses | 850 | 975 | 1,365 | 1,455 | 1,565 | 1,675 |
| **Non-current liabilities** | **2,154** | **2,262** | **2,394** | **2,419** | **2,441** | **2,465** |
| Long-term borrowings | 1,484 | 1,486 | 1,488 | 1,488 | 1,488 | 1,488 |
| Deferred income | 63 | 70 | 81 | 106 | 128 | 152 |
| Other non-current liabilities | 607 | 706 | 825 | 825 | 825 | 825 |
| **Total liabilities** | **7,103** | **8,267** | **9,759** | **11,090** | **12,665** | **14,420** |
| | | | | | | |
| Share capital | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital surplus | 3,665 | 4,796 | 5,661 | 7,570 | 9,803 | 12,382 |
| Retained earnings | 30 | 236 | 1,967 | 3,266 | 4,981 | 7,284 |
| **Total shareholders equity** | **3,695** | **5,032** | **7,628** | **10,836** | **14,784** | **19,666** |
| **Total equity and liabilities** | **10,798** | **13,299** | **17,387** | **21,927** | **27,448** | **34,086** |

| CASH FLOW | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec (US$ mn)** | | | | | | |
| **Operating** | | | | | | |
| **Profit before taxation** | **249** | **399** | **1,008** | **1,624** | **2,143** | **2,879** |
| Depreciation & amortization | 472 | 433 | 562 | 552 | 674 | 757 |
| Tax paid | 19 | 74 | (723) | 325 | 429 | 576 |
| Change in working capital | 58 | 174 | (101) | 680 | 888 | 1,017 |
| Others | 1,393 | 1,643 | 2,652 | 1,260 | 1,375 | 1,428 |
| **Net cash from operations** | **2,191** | **2,723** | **3,398** | **4,440** | **5,510** | **6,656** |
| **Investing** | | | | | | |
| Capital expenditure | (401) | (340) | (300) | (440) | (385) | (408) |
| Acquisition of subsidiaries/ investments | (565) | (566) | (717) | (139) | (221) | (244) |
| Net proceeds from disposal of short-term investments | (437) | (1,960) | (1,112) | 0 | 0 | 0 |
| Others | (204) | 283 | (38) | (239) | (378) | (520) |
| **Net cash from investing** | **(1,607)** | **(2,583)** | **(2,167)** | **(818)** | **(985)** | **(1,172)** |
| **Financing** | | | | | | |
| Net borrowings | (61) | (94) | 0 | 0 | 0 | 0 |
| Others | (445) | (250) | (803) | 0 | 0 | 0 |
| **Net cash from financing** | **(506)** | **(344)** | **(803)** | **0** | **0** | **0** |
| **Net change in cash** | | | | | | |
| Cash at the beginning of the year | 1,679 | 1,732 | 1,475 | 1,904 | 5,526 | 10,051 |
| Exchange difference | (25) | (53) | 1 | 0 | 0 | 0 |
| **Cash at the end of the year** | **1,732** | **1,475** | **1,904** | **5,526** | **10,051** | **15,535** |

| GROWTH | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Revenue | 30.5% | 22.9% | 23.8% | 21.6% | 20.4% | 19.0% |
| Gross profit | 28.6% | 24.9% | 24.3% | 23.2% | 21.3% | 19.7% |
| Operating profit | 29.2% | 38.1% | 114.6% | 57.7% | 40.1% | 38.5% |
| Net profit | 94.1% | 41.3% | 432.6% | (25.0%) | 32.0% | 34.3% |
| Adj. net profit | 29.7% | 28.5% | 43.6% | 32.5% | 23.3% | 24.1% |

| PROFITABILITY | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Gross profit margin | 77.1% | 78.3% | 78.6% | 79.6% | 80.2% | 80.6% |
| Operating margin | 4.4% | 4.9% | 8.5% | 11.0% | 12.8% | 14.9% |
| Adj. net profit margin | 20.4% | 21.3% | 24.7% | 26.9% | 27.6% | 28.7% |
| Return on equity (ROE) | 7.0% | 7.4% | 27.3% | 14.1% | 13.4% | 13.4% |

| GEARING/LIQUIDITY/ACTIVITIES | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| Current ratio (x) | 1.1 | 1.1 | 1.1 | 1.4 | 1.7 | 1.9 |
| Receivable turnover days | 86.0 | 86.9 | 82.8 | 82.8 | 79.5 | 76.3 |
| Payable turnover days | (24.0) | (63.6) | (23.9) | (23.2) | (22.5) | (21.8) |

| VALUATION | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E |
|---|---|---|---|---|---|---|
| **YE 31 Dec** | | | | | | |
| P/E | 629.2 | 453.0 | 86.1 | 117.0 | 88.7 | 66.0 |
| P/E (diluted) | 645.1 | 457.7 | 87.0 | 117.0 | 88.7 | 66.0 |
| P/B | 39.2 | 29.3 | 19.5 | 14.0 | 10.3 | 7.7 |

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

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| | |
|---|---|
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| **SELL** | : Stock with potential loss of over 10% over next 12 months |
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| | |
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