



### Company Overview:

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 several applications that automate various self-service-related applications outside of the IT department, such as HR onboarding, facilities requests and governance, risk, and compliance.

<u>Name</u>	<u>Ticker</u>	<u>Yield</u>	<u>Growth</u>	<u>D + G</u>
ServiceNow, Inc.	NOW	0.00%	20.00%	20.00%

### Highlights:

We believe ServiceNow deserves an elite valuation based on its rare blend of high growth (20%+) and free cash flow margin, especially considering the rarity of this balance at scale and the durability of trends it is innovating. The company has continued to execute under the leadership of Bill McDermott

### Bull Case:

- **From ITSM to Workflows** - ServiceNow has evolved its core IT Service Management (ITSM) offering into a broader enterprise workflow platform. As global enterprises and governments commit to Digital Transformation, ServiceNow is well-positioned to capture share from legacy vendors. The company has previously noted that IT spend is ~25% penetrated, so there remains a lot of opportunity to expand.
- **Extensible Platform** - ServiceNow operates a single extensible platform. This platform powers the company's organic growth engine, mitigating the need for risky M&A. It has also enabled innovation, opening up new TAM within the enterprise.
- **Land and Expand Strategy** - ServiceNow's go-to-market strategy involves initially targeting one department to land, which is commonly the IT Department with its ITSM product portfolio. The goal is to secure the center of the IT department, control the data associated with Help Desk, and then expand out in concentric circles. The next goal is to drive usage of the Platform to automate email or Lotus Notes-based processes within the IT Department. The longer-term goal is to continue to expand Platform usage outward, eventually moving beyond the IT Department into adjacent lines of business (Facilities, HR, Field Service, Marketing, Legal, Customer Service, and Security).

### Bear Case:

- **Execution Outside of ITSM** - To date, ServiceNow's execution outside of its core ITSM market has been phenomenal and we believe the company will continue to look for opportunities to expand outside of the core, which could introduce some execution risk.
- **PLG Competition** - ServiceNow faces competition from larger incumbents such as BMC Remedy, but also from smaller product-led-growth players such as Atlassian. We believe that the PLG motion makes it easier for some customers to adopt initial usage.
- **Large Deals Can Be Lumpy** - ServiceNow predominantly services some of the largest enterprises in the world. The software deals are large and can create quarterly lumpiness, which is not always easy to predict.
- **M&A Capital Allocation** - ServiceNow is differentiated from most of its large application software peers with its extensible platform. This gives NOW an edge in innovation, implementation, and cross-platform user experience. Under the leadership of Chairman/CEO Bill McDermott, the company has eschewed M&A, which according to McDermott can create "tech debt." Any change in that approach would potentially introduce risk

### Overview:

Our thesis attempts to balance our positive long-term view on the business with the acknowledgement that near-term valuation is challenging. We see the relative valuation multiple holding as growth durability and incremental margin improvement from monetizing and deploying AI and total company growth in the 20% range should power the stock to outperform if this holds true. For longer-term investors, we believe that you can overlay ServiceNow vs. other iconic software businesses (MSFT, CRM, ADBE, etc.) at this stage in time (\$10B + revenue), and following a similar path should result in relative outperformance in future years.

We believe ServiceNow has a substantial GenAI monetization opportunity, from the low hundreds of millions to multi-billions. We see ServiceNow's advantages to drive GenAI/Pro Plus adoption lying in being the incumbent with a critical foothold in daily operations, being able to invest heavily in innovation with its balance sheet/cash flow/R&D team (and building on existing capabilities).

Overall, we believe that ServiceNow is the bellwether in the space and is a long-term cornerstone position in a growth strategy.



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