

# EQUITY RESEARCH: SERVICENOW

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## **General Introduction**

ServiceNow, Inc. is a U.S.-based enterprise software company headquartered in Santa Clara, California, and it focuses on one simple idea: helping large organizations run their internal processes more smoothly using cloud software. In practice, this means giving companies a single digital platform to manage how work flows across departments such as IT, human resources, customer support, and security. Instead of relying on emails, spreadsheets, or disconnected tools, ServiceNow allows tasks, approvals, and data to move automatically from one team to another. At the center of this system is the Now Platform, which combines automation, data, and artificial intelligence to reduce manual work and make organizations more efficient. Through a subscription-based Software-as-a-Service (SaaS) model, ServiceNow supports enterprises worldwide as they modernize operations and adapt to an economy that is increasingly digital and automated.

## **Company Overview**

As mentioned above, ServiceNow's core product is the Now Platform, a cloud-based system designed to connect and automate business workflows across an organization. A useful way to think about it is as a digital "operating system" for a company's internal processes: when an employee requests IT support, when HR approves a new hire, or when a customer issue needs to be escalated, ServiceNow coordinates the steps automatically. The platform is modular, meaning clients can start with one function—historically IT service management—and gradually expand into employee workflows, customer workflows, and low-code application development (tools that allow users to build apps with minimal programming). Today, ServiceNow serves more than 8,000

organizations, including 85% of the Fortune 500, highlighting both the scale of its customer base and the critical role it plays in large enterprises. Strategically, the company is moving beyond its IT roots to position itself as a unified platform for enterprise-wide transformation, with artificial intelligence and automation increasingly embedded into everyday workflows. To sustain this evolution, ServiceNow is investing heavily in innovation and ecosystem development. Between 2020 and 2024, the company maintained an average R&D-to-sales ratio of 23.5%, reflecting its commitment to expanding AI capabilities, strengthening infrastructure, and supporting a global partner network. Rather than competing solely on individual applications, ServiceNow aims to deepen customer relationships by becoming more embedded across functions and industries. This strategy supports long-term scalability but also requires continuous investment to maintain technological leadership and justify its premium positioning in the enterprise software market.

## **Company History**

Founded in 2004 by Fred Luddy, ServiceNow began as a small startup focused on improving IT service management through a cloud-based platform. The company quickly gained traction by simplifying and automating complex enterprise workflows. In 2012, ServiceNow went public on the New York Stock Exchange (NYSE: NOW), marking its transition into a major enterprise software player. Over the following decade, the company expanded beyond IT services into HR, customer service, and industry-specific solutions, evolving into a comprehensive digital workflow and automation platform. ServiceNow's growth has been driven by continuous innovation, digital transformation, and a strong focus on artificial intelligence, aligning with long-term megatrends in enterprise automation, data-



driven decision-making, and intelligent workflow optimization.

### **Recent Developments**

In Q3 of 2025, ServiceNow delivered results above market expectations across all key metrics. Total revenues reached \$3.41 billion, with subscription revenues of \$3.3 billion, both growing approximately 22% year over year, while the non-GAAP operating margin stood at 33.5%. Remaining performance obligations (RPO) rose to \$24.3 billion, up 24% year over year, indicating strong future revenue visibility. The company ended the quarter with 553 customers generating more than \$5 million in annual contract value, an 18% year-over-year increase. On the product side, ServiceNow reinforced its positioning around AI by launching the AI Experience interface and the Zurich platform release, which introduced multi-agent orchestration (the coordination of multiple AI agents working together). Strategic moves, including a \$750 million investment in Genesys and deeper partnerships with Microsoft, NTT DATA, and NVIDIA, further underlined management's focus on embedding AI more deeply into enterprise workflows.

### **Industry Outlook**

The enterprise software and workflow automation industry is expanding rapidly as organizations increasingly rely on cloud-based systems to manage complex operations. Valued at approximately USD 263 billion in 2024, the market is projected to exceed USD 517 billion by 2030, implying a compound annual growth rate of around 12%. This growth is driven by companies seeking greater efficiency, better use of data, and more automated decision-making. Within this context, platforms that combine automation, AI, and low-code development have gained particular relevance, as they allow organizations to adapt quickly without rebuilding systems from scratch.

ServiceNow benefits from these trends thanks to its strong enterprise footprint and focus on AI-enabled workflows. At the same time, the industry is facing a meaningful structural shift. A new generation of AI-native software companies—built entirely around artificial intelligence from inception—poses a long-term challenge to established SaaS providers such as ServiceNow and Salesforce. Firms like Cursor, which reached \$200 million in annual recurring revenue with roughly \$16 million in revenue per employee, or Perplexity in AI-first search, illustrate a fundamentally different economic model. Unlike legacy platforms originally designed for human-driven workflows, these companies focus on autonomous outcomes, meaning AI performs tasks end-to-end rather than assisting users. This architectural advantage enables lower costs, faster deployment, and consumption-based pricing models that may be especially attractive to smaller or more flexible customers. While large enterprises face higher switching costs, the rise of these AI-native players introduces a new form of competition that incumbents must continuously address.

#### **1. Rise of Artificial Intelligence and Generative AI**

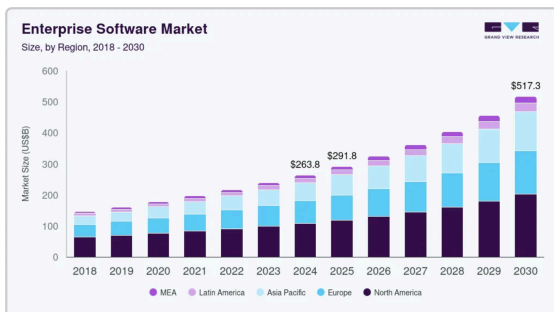
Artificial intelligence and generative AI are increasingly embedded into enterprise software offerings. ServiceNow has responded by introducing tools such as Now Assist and AI Agent Fabric, which allow workflows to be partially automated and managed autonomously across IT, HR, and customer operations. Similar initiatives can be seen at Salesforce with Einstein Copilot and at Microsoft with Copilot for 365, all aimed at improving productivity and decision-making. These investments reflect rising customer expectations for smarter, more responsive systems rather than purely manual software tools. Parallel to these developments, AI-native



vendors are entering the market with platforms designed around large language models and autonomous agents from the ground up. Their simpler architectures and faster innovation cycles make them attractive alternatives in certain use cases, particularly where cost, speed, and flexibility are prioritized. Over time, these solutions could erode portions of the addressable market of incumbent platforms, especially outside the largest enterprises. While this threat is gradual rather than immediate, it adds an additional layer of uncertainty to long-term competitive dynamics.

## 2. Regional and Segment Growth Momentum

Geographically, the enterprise software market remains anchored in North America, which accounted for over 40% of global revenue in 2024. ServiceNow generates approximately 62% of its revenues from this region, reflecting its strong penetration among U.S. enterprises. At the same time, Asia-Pacific represents a key growth opportunity, with projected growth of 13–14% CAGR through 2030. ServiceNow is actively expanding in this region through initiatives such as the ServiceNow Protected Platform Singapore and local partnerships. From a technology standpoint, the shift toward cloud deployment—now over 55% of total industry spending—aligns directly with ServiceNow’s fully cloud-native model. Sector-wise, while IT and telecom remain core, the company is gaining traction in financial services, healthcare, and manufacturing through tailored workflow solutions.



*Grand View Research. (2025). Enterprise Software Market – Size, Share & Trends Analysis Report*

## 3. Low-Code Development Trend

Low-code and no-code development platforms are becoming increasingly important as enterprises face shortages of traditional software developers and seek faster innovation cycles. Gartner estimates that the low-code market reached about USD 30 billion in 2024 and could see nearly 20% annual growth through 2026, with 75% of new enterprise applications expected to use such tools. ServiceNow’s Creator Workflows fit naturally into this trend by allowing non-technical users to build applications and automate processes with limited coding, reducing both costs and time-to-deployment.

## 4. Hybrid Cloud Momentum

Hybrid and multi-cloud architectures are gaining traction as enterprises balance flexibility with security and regulatory requirements. Hybrid cloud adoption is expected to grow at a CAGR of around 22.8% through 2030, driven by the need to manage sensitive data while still leveraging scalable public cloud infrastructure. ServiceNow benefits from this shift because its platform is cloud-native but infrastructure-agnostic, allowing clients to manage workflows consistently across different environments. As enterprises increasingly prioritize interoperability, ServiceNow can act as a unifying layer across complex IT ecosystems.

## 5. Profitability and Margin Trends

ServiceNow operates in one of the most profitable segments of the technology sector. The company consistently reports gross margins above 80% and non-GAAP operating margins around 30%, exceeding industry averages. This reflects the scalability of its subscription model and the high value of its



workflow solutions, which support strong retention and pricing power. Importantly, ServiceNow has been able to maintain these margins while investing around 23% of revenue in R&D, indicating a balanced approach between growth and operational discipline.

### Conclusion

Overall, the enterprise software and workflow automation industry is supported by strong structural tailwinds. Demand for automation, data intelligence, and AI-driven efficiency continues to rise, creating long-term opportunities for established platforms. ServiceNow is well positioned within this landscape, though the pace of innovation and evolving competitive dynamics require continuous execution to sustain its leadership.

### Porter's Five Forces Analysis

#### 1. Competitive Rivalry – High

Competition in the enterprise workflow automation market is intense and continues to escalate. The industry's rapid expansion—expected to grow from roughly \$165 billion in 2023 to \$350 billion by 2027—has attracted both large technology conglomerates and specialized software providers. ServiceNow itself acknowledges operating in markets that evolve quickly and remain highly competitive. Established players such as Microsoft, Salesforce, Oracle, SAP, and IBM increasingly bundle workflow and automation capabilities into broader software suites, often using pricing flexibility to pressure standalone platforms. At the same time, more focused competitors continue to contest specific segments: Atlassian and BMC in IT service management, Pegasystems and Appian in low-code automation, and UiPath and Automation Anywhere in robotic process automation.

This convergence of capabilities compresses differentiation and forces continuous innovation. While ServiceNow retains leadership in IT service management and strong positioning in low-code platforms, maintaining this advantage requires sustained investment in AI and ecosystem expansion. Overall, competitive rivalry represents the strongest force shaping the industry: it drives technological progress but also sustains pricing pressure and limits margin expansion, even for market leaders.

#### 2. Threat of New Entrants – Moderate

At first glance, the enterprise SaaS and workflow automation industry appears accessible, as cloud infrastructure and development tools have lowered the cost of launching new software products. However, scaling into a credible enterprise-grade provider remains a significant challenge. Large organizations require proven reliability, strict security and compliance standards, and deep integration with existing systems, all of which demand sustained investment and long development cycles.

ServiceNow benefits from strong brand recognition, a deeply embedded platform, and a global partner ecosystem that new entrants struggle to replicate. Gartner's 2024 Market Share Report ranked ServiceNow No. 1 across six workflow markets, underscoring the high switching costs faced by enterprise customers. While startups can succeed in narrow niches, long-term disruption is more likely to come from adjacent technology giants expanding into automation rather than from small entrants. As a result, the threat of new entrants is moderated by scale, trust, and distribution advantages held by incumbents.

#### 3. Bargaining Power of Suppliers – Moderate



In enterprise software, the most critical supplier input is human capital. Skilled engineers, AI specialists, and cloud architects are essential to developing and maintaining complex workflow platforms, and competition for this talent remains intense. ServiceNow highlights this dynamic in its filings, noting increasing pressure on compensation, particularly in AI-related roles. Talent scarcity can raise operating costs and slow innovation if not managed carefully.

Beyond labor, software providers rely on cloud infrastructure, data centers, and software components. Here, supplier power is more limited. ServiceNow mitigates dependency by using multiple co-location partners and operating its own private cloud, reducing reliance on any single vendor. Open-source tools and widely available software components further constrain supplier pricing power. Overall, supplier influence is moderate: while labor costs create upward pressure, diversified infrastructure and strong gross margins allow leading firms to absorb these challenges without compromising strategic flexibility.

#### 4. Bargaining Power of Customers – Moderate

Enterprise customers in the workflow automation market are sophisticated buyers. Large contracts typically involve lengthy procurement processes, during which customers can leverage competition to negotiate pricing, implementation support, and contract terms. During the initial sale, this gives buyers meaningful bargaining power, particularly when multiple vendors can meet baseline requirements.

However, once a platform is deployed, it becomes deeply integrated into daily operations. Replacing it would require retraining employees, redesigning workflows, and rebuilding integrations, creating

substantial switching costs. This dynamic is reflected in ServiceNow's customer retention rate of 98.5% in 2024. While alternatives exist in the form of CRM, ERP, or RPA solutions, only a limited number of platforms can meet the scale, security, and compliance needs of large enterprises. As a result, customer power declines significantly after implementation, making overall buyer bargaining power moderate rather than high.

#### 5. Threat of Substitutes – Low

Substitutes in workflow automation include internal development, manual processes, and adjacent technologies such as robotic process automation. Some organizations still rely on spreadsheets, email chains, or customized in-house tools, particularly for less complex use cases. RPA solutions can also automate specific tasks without requiring a unified workflow platform.

However, these substitutes tend to lose effectiveness as organizational complexity increases. Manual or fragmented solutions struggle to scale, lack robust governance, and require ongoing human intervention. As companies pursue cross-functional automation, integrated platforms such as ServiceNow's Now Platform become more attractive. That said, substitutes can offer a favorable price-to-performance tradeoff in simpler environments, especially for cost-sensitive users. For this reason, the threat of substitutes is not negligible, though it remains constrained by scalability and integration limitations.

#### Conclusion

Overall, Porter's Five Forces analysis highlights an industry that combines strong growth potential with persistent competitive pressure. High switching costs and recurring revenues support profitability for established leaders like



ServiceNow, but intense rivalry, rapid innovation cycles, and credible substitutes limit pricing power and differentiation. Entry barriers are meaningful at scale, and supplier and buyer power remain balanced. Long-term success therefore depends less on market growth alone and more on sustained innovation, platform depth, and execution in an increasingly crowded landscape.

## **SWOT Analysis**

### **Strengths**

ServiceNow's primary strength lies in its position as the market leader in IT service management, a role built around the breadth and flexibility of the Now Platform. By expanding beyond IT into HR, customer service, and security workflows, the platform has become deeply embedded across enterprise operations. This breadth supports strong customer retention and recurring subscription revenues, which have grown between 19–22% year over year. Continuous investment in R&D has enabled ServiceNow to stay at the forefront of workflow automation and AI integration, while its focus on large enterprises enhances network effects, product feedback loops, and global reach. Together, these factors create a resilient business model with strong competitive advantages.

### **Weaknesses**

Despite its strengths, ServiceNow's subscription-heavy model also introduces vulnerabilities. The company's financial performance depends heavily on maintaining very high retention rates, which stood at 98% as of September 30, 2024. Any deterioration in customer renewal behavior would have a direct impact on growth and cash flows. In addition, sustained investment in sales, marketing, and R&D increases operating expenses and can pressure margins if growth were to slow. Finally, expansion beyond core IT workflows

into areas such as HR and customer service exposes ServiceNow to new competitive dynamics, where customer acquisition costs may be higher and differentiation less established.

### **Opportunities**

ServiceNow's opportunities are closely tied to the ongoing digital transformation of enterprises. Strategic partnerships and acquisitions have expanded the platform's capabilities and strengthened its relevance across more use cases. Growing demand for AI-enabled workflows and intelligent automation provides a favorable backdrop, as many organizations seek to improve efficiency and reduce manual effort. Geographic expansion, particularly in EMEA and Asia-Pacific, also offers room for incremental growth, as does deeper penetration into mid-market and lower-tier enterprise segments. If executed effectively, these opportunities can support sustained expansion without fundamentally altering the company's risk profile.

### **Threats**

The company operates in a highly competitive environment where both large incumbents and specialized players compete aggressively for enterprise automation budgets. Pricing pressure and faster innovation cycles can challenge differentiation over time. Macroeconomic uncertainty, including interest rate volatility, inflation, and geopolitical tensions, may also weigh on enterprise IT spending, potentially delaying large transformation projects. In addition, ServiceNow's global footprint exposes it to increasing regulatory and cybersecurity risks, particularly related to data privacy frameworks such as GDPR. While these factors have not materially disrupted operations to date, they represent ongoing external risks that require careful management.



## **VALUATION**

### **Discounted Cash Flow (DCF) Analysis (WACC Assumptions)**

To estimate the intrinsic value of ServiceNow, we use a discounted cash flow (DCF) model built on a weighted average cost of capital (WACC) framework. The WACC reflects ServiceNow's cost of equity and cost of debt, weighted by its capital structure. Given the company's minimal leverage, the WACC is predominantly driven by equity costs.

We estimate the cost of equity using the Capital Asset Pricing Model (CAPM). For ServiceNow, we assume a risk-free rate of 4.00%, consistent with the 10-year U.S. Treasury yield, and a market risk premium (MRP) of 3.95%. The company's 5-year regression beta is 0.97, reflecting its relatively stable volatility profile compared to broader markets. Substituting into the formula, the Cost of Equity  $\approx$  7.83%.

ServiceNow's cost of debt is based on the yield of its 2023-issued bond, which stands at 4.22%. After applying an effective corporate tax rate of 21%, the after-tax cost of debt is 3.33%.

Currently, ServiceNow's capital structure includes \$178.6 billion in market capitalization and \$2.28 billion in debt, resulting in an equity-total capital ratio of approximately 98.7%. Given this structure, the WACC is 7.77%.

This discount rate is applied to unlevered free cash flows projected over a 10-year forecast horizon, followed by a terminal value. The terminal growth rate (g) is set at 2.00%, consistent with long-term inflation and GDP expectations.

Revenue forecasts begin with ServiceNow's actual performance, 24% year-over-year revenue growth in Q1 2025, and taper gradually over the forecast horizon to reflect

market maturation. Revenue is projected top-down, with drivers linked to subscription base expansion, cross-sell opportunities, and GenAI adoption (which accounted for  $\sim$ 40% of new deals in Q1). Gross margins are assumed to be stable in the 78–82% range, while operating leverage is reflected through improving non-GAAP operating margins, expected to exceed 30% in the outer years.

Depreciation and amortization are modeled at  $\sim$ 3% of revenue, in line with historic capital intensity, and CAPEX is forecast at  $\sim$ 2.5% of revenue, reflecting continued investment in infrastructure and R&D. Changes in net working capital are assumed minimal, consistent with ServiceNow's subscription billing model and limited receivables drag.

This DCF model thus reflects both the company's current financial performance and a conservative, market-aligned view of long-term growth and risk. The resulting valuation will serve as a key input in determining the stock's upside relative to its current market price.

### **DCF Forecasts**

We employ a two-stage DCF model with a five-year explicit forecast period followed by a terminal value derived using the exit multiple approach. Projections are guided by ServiceNow's recent performance, management's 2025 guidance, and investor consensus estimates. Management projects \$12.8 billion in 2025 subscription revenues (+20% YoY) with  $\sim$ 83.5% gross margins and  $\sim$ 31% operating margins.

Our forecast follows a similar trajectory: starting from FY2024 revenue of \$10.6 billion, we model  $\sim$ 20–18% annual revenue growth in the near term, moderating to  $\sim$ 17% by 2028–2030. This growth outlook is underpinned by ServiceNow's dominant position in enterprise



SaaS workflows. The company’s leadership in workflow automation provides a strong competitive moat, and while new pure-AI entrants are emerging, they are unlikely to materially erode ServiceNow’s share due to high customer switching costs and the embedded nature of its platform. Furthermore, ServiceNow’s exceptionally high customer-retention ratio and expanding product adoption across workflows support sustained double-digit growth potential.

We assume gradual margin expansion, with gross margins remaining in the mid-80% range and operating expenses rising more slowly than revenue (R&D and SG&A growing ~8–9% annually versus 12%+ revenue growth). This generates operating leverage, allowing GAAP operating margins to expand from ~15% in 2024 to the high-20s by 2030. Consequently, unlevered free cash flow (UFCF) is projected to grow from \$1.25 billion in 2024 to about \$7.5 billion by 2029, reflecting ServiceNow’s increasing earnings power and scale efficiency.

**Intrinsic Value Results**

Discounting the projected UFCFs and terminal value at the 7.8% WACC gives an enterprise value close to \$200 billions. For the terminal value, we apply an EV/EBITDA multiple of 28x to ServiceNow’s 2030 EBITDA. This 29x is in line with high-growth SaaS valuations and industry; it is slightly above the current peer average (more on peer multiples below) to reflect ServiceNow’s leadership position. Using 2029 EBITDA, the exit multiple method gives a terminal value of ~\$250B.

Summing the present value of 2025–2029 cash flows and the present value of the terminal value produces an enterprise value of about \$190 billion. After adjusting for ServiceNow’s negative net debt (debt ~\$2.278B vs cash ~\$5.762B, so net debt is positive) and surplus

assets, the equity value is roughly \$197.7B. Dividing by ~208 million shares outstanding gives an intrinsic value per share of approximately \$951. Table 1 summarizes the DCF valuation:

DCF Valuation Summary	\$ Millions (except per-share)
PV of 5yr Forecast FCF (2025–2029)	~18,060
PV of Terminal Value (avg. methods)	~170,898
<b>Enterprise Value (EV)</b>	<b>~190,203</b>
Less: Debt	-2,278
Add: Cash	5,762
Add: Surplus Assets	4,111
<b>Equity Value</b>	<b>~197,758</b>
Shares Outstanding (millions)	208
<b>Intrinsic Value per Share</b>	<b>\$950.95</b>
Current Share Price (Nov 2025)	\$849.35
Implied Upside vs. Market	~+12%

Table N°1, ServiceNow DCF Valuation Summary

**Sensitivity Analysis**

		Exit EV/EBITDA Multiple				
		26x	27x	28x	29x	30x
WACC	6.8%	931.7	962.4	993.2	1,023.9	1,054.7
	7.3%	911.8	941.8	971.9	1,001.9	1,031.9
	7.8%	892.5	921.8	951.2	980.5	1,009.9
	8.3%	873.6	902.3	931.0	959.7	988.4
	8.8%	855.3	883.4	911.4	939.4	967.5



The sensitivity analysis shows that ServiceNow's intrinsic value is most responsive to changes in the exit EV/EBITDA multiple, while shifts in the WACC have a more moderate effect. Across reasonable assumptions (27–29× exit multiple and 7.3–8.3% WACC), the valuation ranges from roughly \$902 to \$1,001 per share, bracketing our base-case estimate of \$951. This indicates that the stock's fair value remains robust under a range of plausible discount rate and terminal multiple scenarios.

### **Interpretation**

Our DCF-based target price is approximately \$951 per share, representing a modest ~12% implied upside from the current market price (~\$849 as of November 2025). This suggests that, on an intrinsic cash flow basis, ServiceNow is close to fairly valued but still offers some room for appreciation. The use of the exit multiple methodology captures market expectations for sustained double-digit revenue growth and continued margin expansion beyond the explicit forecast period. This blended approach balances fundamental caution with optimism about ServiceNow's durable competitive position, high customer retention, and expanding platform adoption, which together justify a modest valuation premium relative to peers. In our view, the current valuation appropriately reflects ServiceNow's quality and growth profile, offering limited short-term upside but high confidence in its long-term growth trajectory.

### **Scenario Analysis**

- **Bear Case**

In our bear case, we model a more challenging operating environment driven by heightened uncertainty around U.S. economic growth and less favorable macro trends affecting enterprise IT spending. Slower U.S. economic growth and,

consequently, tighter corporate IT budgets could all lead enterprises to postpone or scale back digital-transformation projects—directly impacting demand for workflow automation and SaaS platforms like ServiceNow. Rising interest rates and greater cost-discipline across large organizations may further limit new seat expansion and large-deal activity. More broadly, the macro backdrop remains highly uncertain. Given this elevated uncertainty, our bear case assumes that negative macro outcomes outweigh the potential positives, resulting in a more cautious outlook for enterprise spending.

Additionally, we assume that emerging AI-native competitors begin to gain traction, modestly eroding ServiceNow's market share as some customers experiment with lower-cost or more flexible AI-first platforms. These dynamics collectively result in a sharper deceleration in revenue growth, with subscription expansion slowing more rapidly than in our base case. While ServiceNow's recurring-revenue model and high retention soften the downside, the combination of macro softness and rising competitive pressure meaningfully dampens the company's growth trajectory in this scenario.

The target share price in this bear scenario is ~\$905, which implies a \$50 discount compared to the base case share price.

- **Bull Case**

In the bull case, we assume a more favourable macroeconomic environment, with steady U.S. economic growth, improving business confidence, and expanding IT budgets that accelerate digital-transformation initiatives. Against this backdrop, ServiceNow benefits from robust enterprise demand for automation and productivity tools. We further assume that the company's newly launched AI agents gain



significant traction, driving faster platform adoption and deeper customer expansion across workflows. In this scenario, the recent acquisition of Veza is also assumed to be highly successful: by integrating Veza's AI-native identity-security capabilities into the Now Platform, ServiceNow strengthens its position in governance, risk, and security automation. This enhances its value proposition and enables new cross-sell opportunities, while addressing a rapidly growing customer need for identity governance in AI-powered environments. Collectively, these factors allow subscription revenues to sustain elevated double-digit growth rates, outpacing our base case and reinforcing the company's long-term growth momentum.

The target share price in this bear scenario is ~\$1030, which implies an additional \$80 upside compared to the base case share price.

## RELATIVE VALUATION

### Comparables (see Table 1 in the Appendix)

As a sense-check, we examined market multiples for **ServiceNow** and its peers. ServiceNow's stock commands a premium valuation ratio relative to its diversified enterprise software peers, reflecting its superior growth profile and its leadership as the "AI platform for business transformation." Table 2 below compares ServiceNow to key competitors—**Microsoft** (a leader in productivity and cloud), **Salesforce** (the pioneer in CRM and AI-driven customer workflows), **SAP** (the incumbent in ERP), **Adobe** (digital media and marketing), **Workday** (HCM and finance), and higher-growth/niche specialists like **Atlassian** and **UiPath**.

### Peer Comparison

ServiceNow currently trades at approximately **12.7x** estimated 2025 revenue and **36.5x** EBITDA. This represents a significant premium to large-cap software incumbents; for instance, **Salesforce** trades at ~8.5x sales and **SAP** at about 6.2x. Even **Microsoft**, despite its massive AI tailwinds, trades at a lower EBITDA multiple (~22x) due to its more mature earnings base. On the specialized end, ServiceNow's multiples are closer to **Atlassian** (~11x sales), though ServiceNow operates at a much larger scale (\$13B+ vs \$5B+ revenue). While **UiPath** offers pure-play exposure to automation, its lower 6.8x revenue multiple reflects a smaller market cap and higher volatility. In summary, industry averages for established SaaS giants cluster in the **6–9x sales** and **20–25x EBITDA** range, whereas ServiceNow sits comfortably above these benchmarks.

This premium is justified by ServiceNow's exceptional "**Rule of 50+**" performance (combining revenue growth and free cash flow margin), where it consistently outperforms its peer group. With 2025 revenue growth expected at ~**21%**—higher than the 8–12% projected for SAP or Salesforce—investors value ServiceNow as a rare "compounder" that delivers high growth at a massive scale. Furthermore, the company's expansion into GenAI with "Now Assist" has allowed it to command a higher price point per seat, a transition that is more "pure-play" than the broad-based efforts of diversified titans like Microsoft.

### Relative Valuation Exercise

Using peer multiples as a gauge, ServiceNow's current share price appears rich, but the gap narrows when adjusted for its growth trajectory and high renewal rates (98%). If we were to value ServiceNow at the unadjusted peer average for large-cap software (say ~**8x sales** or ~**24x EBITDA**), we would derive an



enterprise value significantly below the current **\$168B**. For example, at an 8x 2025E sales multiple, ServiceNow's EV would be roughly **\$105B**, implying a share price nearly 35% below current market levels. Similarly, applying a 24x EBITDA multiple to the 2025 estimate of **\$4.6B** yields an EV of **\$110B**.

However, such a direct comparison fails to account for ServiceNow's superior efficiency and AI-driven tailwinds. A more nuanced approach involves applying a "justified" multiple that incorporates a **25-30% premium** over Salesforce and Workday, reflecting ServiceNow's higher revenue CAGR and operating margin targets (guided at **30.5%** for 2025). Applying a **12x sales** or **38x EBITDA** multiple—justified by the company's consistent "beat and raise" performance—aligns the relative valuation closely with our DCF result, supporting a target price in the range of \$1,050 - \$1,075. Bottom line: while ServiceNow trades at a premium to the sector, its fundamentals and unique positioning as the "operating system for the enterprise" make that premium warranted. However, investors must monitor for any deceleration in AI seat adoption, as the stock remains sensitive to multiple compressions should growth converge with the peer average.

### **INVESTMENT THESIS**

ServiceNow continues to stand out as one of the highest-quality platforms in enterprise software, supported by a resilient subscription model, exceptional customer retention, and leadership in AI-powered workflow automation. The company has consistently demonstrated its ability to innovate and scale, reinforcing its role as a strategic backbone for digital transformation across global enterprises. Recent initiatives—most notably the acquisition of Veza to deepen AI-native identity security—further strengthen its

strategic positioning and highlight its commitment to shaping the next generation of enterprise automation. Overall, ServiceNow remains a structurally sound, innovation-driven company with attractive long-term potential.

However, despite these strengths, we believe the stock's current setup warrants a Hold rating rather than a Buy. The competitive landscape is undergoing a meaningful shift as AI-native platforms continue to mature and gain credibility, introducing a new form of competitive pressure that incumbents have not historically faced. These players, built from day one around autonomous agents and modern architectures, can move faster, iterate more aggressively, and offer compelling alternatives that may gradually chip away at ServiceNow's growth trajectory. In parallel, Salesforce's expanding push into workflow automation and cross-platform AI adds pressure from above, particularly in segments where the two companies increasingly overlap. Against this evolving backdrop, ServiceNow's shares appear fairly priced, with our DCF suggesting only limited upside under reasonable assumptions. In other words, the market is already capitalizing much of the company's AI-driven potential, leaving a narrower margin for error should competitive dynamics intensify or growth normalize more quickly than expected.

In essence, ServiceNow remains an excellent company, but not an obvious stock to accumulate at current valuation levels. Its long-term trajectory is promising, yet the combination of evolving competitive dynamics, uncertain AI monetization, expansion challenges across newer workflows, and a fully priced market valuation tempers the upside case. For these reasons, we recommend a Hold, recognizing the company's strategic strength while acknowledging that a more attractive risk-return profile may emerge following clearer evidence of sustained AI-driven growth or a more compelling entry point.

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**Appendix:**Table 1

Company	Enterprise Value	EV/Sales 2025E	EV/EBITDA 2025E	Notes
ServiceNow (NOW)	~\$168B	~12.7x	~36.5x	~\$13.2B sales, ~21% growth, AI workflow focus
Microsoft (MSFT)	\$3.2T+	11.5x	21.8x	Massive scale; Azure and Office 365 lead growth
Salesforce (CRM)	\$320B+	8.5x	26.5x	Market leader in CRM; focus on margin expansion
SAP (SAP)	\$245B	6.2x	19.7x	Dominant in ERP; accelerating cloud transition
Adobe (ADBE)	\$215B	9.8x	24.1x	High margins; Creative Cloud and Firefly AI
Workday (WDAY)	\$72B	7.9x	25.8x	Leader in Cloud HCM; steady ~17% growth
Atlassian (TEAM)	\$65B	11.2x	32.0x	High growth; collaboration and developer tools
UiPath (PATH)	\$11B	6.8x	13.4x	Automation specialist; lower multiple due to size