Initiating Coverage

ServiceNow Inc ($NOW)

ServiceNow leads pivot to breakthrough workflow automation

Consortium Research Group
TMT | Software
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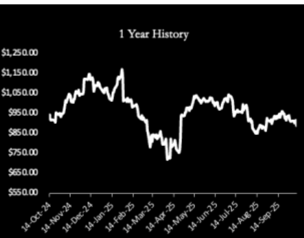
Stock Rating:	Equal
Price Target:	$1001

Price:	$888.71
Potential Upside/Downside:	12.1%
Ticker:	$NOW



Key Take-away: ServiceNow's Zurich release is setting new benchmarks across enterprise workflow integration fueled by advanced AI and seamless security features that transform how organizations operate and innovate. The integration of agentic and enables teams to move from idea to execution with unprecedented speed. By embedding compliance, governance, and security directly into its AI platform ServiceNow is uniquely enabling enterprises to scale AI with confidence.

Development 1: ServiceNow's Zurich platform release marks a pivotal catalyst for growth backed by the development of multi-agentic AI capabilities, enhanced enterprise security, and support for autonomous workflows. ServiceNow has now won over 40 enterprise technology deals, a notable 4 exceeding $5 million in Q2 FY25. Zurich's technology increases ServiceNow's value proposition by enabling rapid intelligence adoption. Management has raised subscription segment top line guidance to $12.79 billion, up 19.5% YoY. ServiceNow is accelerating innovation for their platform in risk management, developer productivity, and workflow integration.

Development 2: ServiceNow has an integrated business model, and they have seen the rise of their ecosystem and strategic partnerships particularly with cloud giants like AWS, Nvidia, Cisco, alongside new enterprise partners like Genesys and PlexTrac. These moves are deepening ServiceNow's AI capabilities and improving platform stickiness amongst customers allowing margin expansion (+28% bottom line forecast for FY25). They seek to continue partnering with higher-value enterprise clients and the broader adoption across core business operations. These developments are shifting ServiceNow as the core orchestrator of intelligent enterprise workflows that are essential infrastructure for the next generation of digital transformation for businesses.

Valuation: We initiate underweight coverage with a $1,001 PT.

TMT Coverage Team

ServiceNow
Burak Yilmaz
Ohio State University
Yilmaz.59@osu.edu

Company Overview

Company Description: ServiceNow is less of a “software company” and more of the operating backbone for large enterprises. Originally known for their modernization of IT service management, the company strategically expanded into workflows that blur the lines of IT, employee, customer, and creator ecosystems. The main appeal of ServiceNow’s product is its ability to act as a unifying later between messy legacy systems and the clean UX/UI that modern enterprises expect for ease-of-use. Unlike horizontal SaaS players chasing land-grab logos ServiceNow embeds deep into enterprise workflow and processes; once it’s in it effectively acts as the nervous system. ServiceNow runs on a subscription model (~95% FY24 revenue) with best-in-class retention and expansion rates thanks to their consistent upsells. Growth remained robust ~20% YoY even as most SaaS peers decelerated under macro pressure. This underpins their positioning as critical infrastructure rather than an additional software tool.

Core IT Workflow Engine: ITSM remains ServiceNow’s most entrenched product commanding a dominant market share. However what’s interesting is not the revenue itself, but the strategic position it holds: every incremental product layer anchors back to this core. It acts as a toll booth; any enterprise looking to streamline a workflow inevitably flows through ServiceNow’s IT engine first. This is the reason for high renewal rates above 98% for top customers and why the attach rates for new modules are structurally high. A way to think about this is it acts as a proxy to an Oracle Database of modern workflow software. Cliché surface, indispensable mission-critical backend.

Platform Expansion & AI Layer: The second pillar is ServiceNow’s *Now Platform*. This is a customizable low/no-code platform and AI engine that lets customers build workflows beyond the native modules. This is mainly where the company evolved from an app to platform operator. Customers increasingly build proprietary applications on top of the Now Platform which means switching gout is not just expensive but operationally suicidal. The AI narrative is subtle but important. Instead of trying to build foundation models, they focus on workflow specific intelligence (where businesses return on AI integration). This includes automating ticket routing, predictive issue resolution, and data summarization. These are lucrative and low-latency use cases where enterprise LLMs don’t need to be flashy, but reliable and domain-specific. The AI integration story of ServiceNow creates stickiness without burning cash on vanity R&D.

Industry Overview

Digital Infrastructure vs. SaaS Fatigue: Post-pandemic many CIOs have tightened budgets and become allergic to SaaS add-ons. However, we are seeing a shift of spending towards workflow infrastructure that drives operational leverage. ServiceNow sits in that exact bucket with resilient and sticky categories structurally benefitting the company. This budget gravity gives ServiceNow a relative tailwind: ERP not optional software.

Workflow Fragmentation to Consolidation Platforms: The modern enterprise stack is fragmented: 100+ SaaS tools, scattered data silos, disjointed employee experiences. This fragmentation created the opportunity for “system of action” platforms. These are players who consolidate workflows and connect disjointed systems. ServiceNow is one of the few with the technical depth and go to market scale to materialize on this industry trend. Instead of players like Workday attacking from HR/CRM lens, ServiceNow goes to market via IT, allowing a differentiated strategy.

AI-Enabled Automation as Defensive Spend: While AI is overhyped in the abstract, the enterprise operation need is more like plumbing upgrades than fireworks. Things like automated ticket resolution, knowledge summarization, and incident prediction reduces headcount need and response times. This creates a defensive cost lever and not a speculative bet on ServiceNow's software. Enterprises don't want chat bots, but real automation that makes teams leaner, and ServiceNow is positioning is early and pragmatic.

Peer Comparisons

Comparable Companies

$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
CRM	$230,000	$226,000	21.6x	$49,768	$11,024
WDAY	$62,300	$57,800	27.4x	$9,200	$2,900
SAP	$282,380	$281,184	15.7x	$32,070	$11,032
ORCL	$344,500	$339,800	29.3x	$52,996	$10,160
Service Now	$184,852	$173,350	115.5x	$9,370	$2,294

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
CRM	20.5x	77.6%	28.9%	20.2%	7.9%
WDAY	19.9x	75.0%	11.1%	5.9%	12.6%
SAP	25.5x	75.2%	33.1%	29.1%	27.0%
ORCL	33.4x	70.5%	41.7%	0.0%	8.5%
Service Now	75.6x	78.5%	19.0%	0.0%	18.4%
High	75.57x	78.5%	41.7%	29.1%	27.0%
75th Percentile	33.44x	77.6%	33.1%	20.2%	18.4%
Average	34.99x	75.4%	26.8%	11.0%	14.9%
Median	25.49x	75.2%	28.9%	5.9%	12.6%
25th Percentile	20.50x	75.0%	19.0%	0.0%	8.5%
Low	19.93x	70.5%	11.1%	0.0%	7.9%

Service Now Relative Valuation		
Implied Enterprise Value (25th Percentile)	$	47,029
Implied Enterprise Value (Median)	**$**	**58,470**
Implied Enterprise Value (75th Percentile)	$	76,723
Implied Share Price (25th Percentile)	$	281.40
Implied Share Price (Median)	**$**	**336.40**
Implied Share Price (75th Percentile)	$	424.16

Source: NetAdvantage

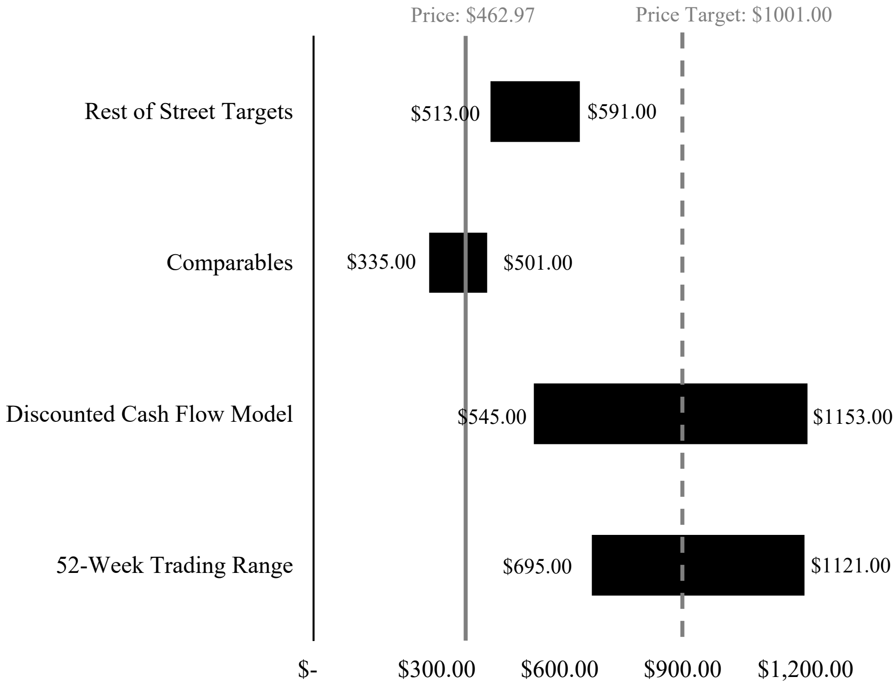
Investment Theses

Acceleration of AI Workflow Adoption and Emergence of AGI-driven Automation: The rapid acceleration of AI into enterprise workflows is reshaping industry, with ServiceNow positioned at the core of this transformation. As organizations increasingly start to adopt gen-AI to automate complex and redundant workflows, ServiceNow's platform which connects disparate systems across all business segments, becomes indispensable.

ServiceNow's Platform Stickiness and Secular Workflow Digitization Tailwinds: ServiceNow benefits from strong secular tailwinds in digital transformation as enterprises continue migrating manual workflows to cloud-based platforms that boost productivity and reduce operational friction. ServiceNow's architecture, high switching costs (~99% renewal rate), and expanding ecosystem of workflow solutions create a deeply embedded platform with long-term recurring revenue visibility.

Price Target & Valuation

Our analysis gives ($NOW) a price target of $1001 and an Equal weight rating.



Potential Downsides to Our Rating

Platform Overreach & Execution Complexity: ServiceNow's expansion beyond IT into HR, customer workflow, and AI raises the risk of execution drag. Each similar module demands new sales and market penetration alongside domain expertise. If expansion dilutes focus or experiences slower ITSM growth the platform could shift from a high-margin cash cow to a bloated suite of uneven adoption. Missteps here could compress growth rates and pressure the multiple.

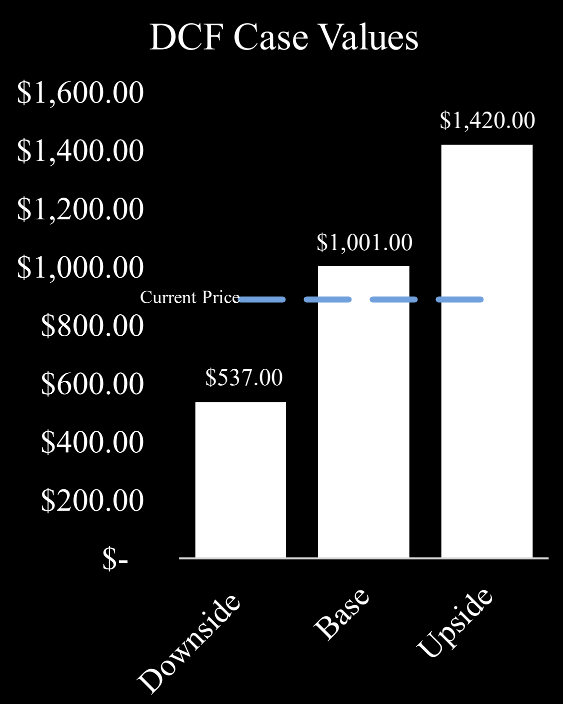
Competitive Encroachment from Hyperscalers: While ServiceNow holds a moat in a niche vertical, hyperscalers and incumbents like Salesforce are increasingly embedding workflow automation into their core platforms. These players can bundle these tools with broader cloud or CRM offerings at a much lower price due to network. This could potentially lead to loss of pricing power for ServiceNow. Given ServiceNow's mission-critical nature, this risk is harder to play out.

Pricing Power & Contract Renewal Risk: ServiceNow's model thrives on consistent upsell and renewal. But as enterprises look to rationalize SaaS spend there's a risk of pushback on contract renewals. Large F500 customers with leverage may pressure ServiceNow into deeper discounts or smaller deal sizes. This is again a narrative of the

Our Price Target: $1001
Our Price target is based on intrinsic valuation, and the assumption of ServiceNow materializing on AI-based cloud demand through their software service offerings

Our Upside Case: $1420
Our upside case is based on the accelerated growth of artificial intelligence, which catalyzes business implementation increasing demand several-fold for ServiceNow products

Our Downside Case: $537
Our downside case is based on the realization of energy bottleneck, and expecting artificial intelligence to hit a stagnant period of no innovation and growth – a severely pessimistic case



former risk – larger players spending R&D to compete with ServiceNow's already embedded software.

Projections

Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	10,984	13,000	14,946	17,180	19,744	21.6%
EBITDA	1,867	2,375	2,242	2,727	3,307	21.0%
EBIT	1,397	1,900	1,644	1,976	2,369	19.3%
NOPAT	168	238	305	1,523	1,084	86.2%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	17.0%	18.3%	15.0%	15.9%	16.8%	16.6%
EBIT Margin	12.7%	14.6%	11.0%	11.5%	12.0%	12.4%
Revenue Growth	22.4%	18.4%	15.0%	14.9%	14.9%	17.1%
EBIT Growth	74.6%	36.0%	-13.5%	20.2%	19.9%	27.5%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	64.6x	107.2x	48.9x	40.6x	33.8x	59.0x
EV/Sales	15.8x	13.3x	11.6x	10.1x	8.8x	11.9x
EV/EBITDA	92.8x	73.0x	77.3x	63.6x	52.4x	71.8x
FCF Yield	1.5%	0.9%	2.0%	2.5%	3.0%	2.0%

About $NOW

ServiceNow ($NOW), founded in 2004 operates as a cloud-based enterprise software company. The company provides a platform that enables organizations to streamline and automate IT service management, employee workflows, customer service, and other operational processes across departments. ServiceNow's business is organized into segments including IT workflows, employee workflows, customer workflows, and creator workflows. What makes them unique is its single data model architecture. ServiceNow's key goal is to make the world of work, work better for people. This is through driving productivity, efficiency, and digital transformation and AI-powered workflows.

Disclosures & Ratings

Consortium Research Group is a not for profit and is not a registered investment advisory corporation. Analysts and leadership are current college students pursuing careers in finance and are not registered investment advisors. This is not investment advice. The group does not hold any professional relationships with any reported equities unless otherwise stated. All information contained in reports is public information. **Overweight** means the analyst team believes the stock price will materially outperform the coverage industry benchmark (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry benchmark. **Underweight** means the team expects underperformance relative to the industry benchmark.

Appendix

Service Now

Discounted Cash Flow

Active Case:	**2 Base**
Current Share Price	$888.71

DCF Analysis ($mm)

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Stub						0.78	1.78	2.78	3.78	4.78	5.78
Discount Period						0.11	0.72	1.72	2.72	3.72	4.72
Revenue	4,519	5,896	7,245	8,971	10,984	13,000	16,210	20,095	24,765	30,339	36,946
Revenue Growth	*0%*	*30%*	*23%*	*24%*	*22%*	*18%*	*25%*	*24%*	*23%*	*23%*	*22%*
Professional Services O	233	323	354	291	338	400	460	526	596	673	753
Subscription	4,286	5,573	6,891	8,680	10,646	12,600	15,750	19,569	24,168	29,666	36,193
0.00	0	0	0	0	0	0	0	0	0	0	0
EBIT	199	257	379	800	1,397	1,900	2,269	3,014	3,962	5,158	6,650
EBIT Margin	*4%*	*4%*	*5%*	*9%*	*13%*	*15%*	*14%*	*15%*	*16%*	*17%*	*18%*
Tax Expense	31	19	74	(723)	313	350	454	603	792	1,032	1,330
Effective Tax Rate	*16%*	*7%*	*20%*	*-90%*	*22%*	*18%*	*20%*	*20%*	*20%*	*20%*	*20%*
NOPAT	168.00	238.00	305.00	1,523.00	1,084.00	1,550.00	1,815.52	2,411.39	3,169.88	4,126.10	5,320.27
D&A	290	396	352	477	470	475	648	879	1,176	1,555	2,032
Capex	(419)	(392)	(550)	(694)	(852)	900	(1,248)	(1,572)	(1,969)	(2,450)	(3,030)
Changes in NWC	(671)	(624)	(676)	(841)	(455)	(600)	(778)	(1,025)	(1,337)	(1,729)	(2,217)
UFCF	1,548	1,650	1,883	3,535	2,861	1,725	4,490	5,888	7,652	9,860	12,599
PV of FCF						1,710	4,237	5,127	6,147	7,308	8,615

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	0.94
Risk Free Rate	4.39%
Cost of Equity	8.37%
Weighted Average Cost of Debt	1.53%
Tax Rate	20.00%
Cost of Debt	0.02%
Total Equity	$184,852
Total Debt	($11,502)
Equity/Total Capitalization	98.71%
Debt/Total Capitalization	1.29%
WACC	8.39%

Terminal Value	
Perpetuity Growth Method	
2034 FCF	$12,599
Growth	2.50%
Terminal Value	$214,018
PV of Terminal Value	$146,350
PV of Projection Period	$33,144
PV of Terminal Value	$146,350
Implied TEV	$179,494
(-) Debt	-$8,378
(+) Cash	$3,124
Implied Equity Value	$190,996
Basic Shares Outstanding	208
Implied Share Price	$918.25
Upside/Downside	3.32%

Implied Exit BF EV/EBIT	27.0x

Terminal Value	
Exit Multiple Method	
2034 EBIT	$6,650
EV/EBIT Exit Multiple	36.0x
Terminal Value	$239,412
PV of Terminal Value	$163,715
PV of Projection Period	$33,144
PV of Terminal Value	$163,715
Implied TEV	$196,859
(-) Debt	-$8,378
(+) Cash	$3,124
Implied Equity Value	$208,361
Diluted Shares Outstanding	208
Implied Share Price	$1,001.74
Upside/Downside	12.7%

Implied PGR	0.6%

Blended Share Price	
Perpetutity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	$1,001.74
Upside/Downside	12.72%