NOW gideon lens

ServiceNow (NOW) — Gideon Lens

Production ER2 | Report ID NOW-ER2-20260904T180312+0800 | 2026-09-04

ServiceNow is a high-quality enterprise workflow franchise whose economics are increasingly tied to whether it remains the governed action layer for agentic AI. The business has genuine switching costs, durable renewal behavior, expanding large-customer relationships, and a long runway across IT, security, risk, employee, customer, and creator workflows. Those strengths do not make the security attractive at any price. At the governed USD 145.59 close, the confident five-year statutory earnings model fails the P/E-at-15 gate, produces a slightly negative Base return, and requires outcomes beyond the modeled Bull case to approach the 20% stretch hurdle.

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	YELLOW	Strong execution; acquisition returns, SBC discipline, and DOJ outcome unresolved
Moat	YELLOW	Workflow lock-in is real; the 2046 agentic-control-layer test remains unresolved
P/E <= 15 on confident EPS at TTM + 5 calendar years	FAIL	Base value USD 85.74 versus USD 145.59; cushion -41.1%
Compounder Score	Audited 44 / 100	Reject; evidence does not support dream-investment status; diagnostic only
Business Quality Score	Audited 44 / 80	Quality and runway evidence remain below dream-business threshold
20% Return UW Score	Audited 0 / 20	Today's price does not support the 20% return hurdle

One-line thesis (or reason to pass): ServiceNow has a real workflow moat and credible AI opportunity, but USD 145.59 already discounts exceptional statutory margin expansion while acquisition returns, SBC, and long-run agentic-platform ownership remain unproven.

Security return underwriting (mandatory even when the verdict is PASS):

Measure	Result	Notes
Primary valuation method	P/E	One audited method used for all scenarios, probability weighting, and net-SGD
Gross local-currency bear / base / bull IRR	-17.27% / -0.37% / 10.16%	Five-year annualized shareholder return in USD
Probability-weighted gross local-currency IRR	-0.79%	CAGR of probability-weighted terminal wealth; weights 25% / 55% / 20%
Return bridge	USD 145.59 → USD 56.44 / USD 142.89 / USD 236.16	2031 statutory diluted EPS × 20x / 25x / 30x, plus zero distributions; no net cash or debt adjustment

The tables below show gross USD underwriting from the TTM operating anchor dated 2026-06-30 and the completed-session price dated 2026-09-03 to the exact 2031-06-30 horizon. Net-SGD costs, taxes, and FX appear separately in CIO actionability.

Bear-case operating and return bridge

Bear case	Start (2026-06-30; price 2026-09-03)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	USD 14.732B	USD 25.624B	11.71%	Suite pressure and slower AI monetization reduce subscription growth
Operating margin	11.40%	16.00%	4.60 pp	Inference, acquisition, talent, and amortization costs limit expansion

Bear case	Start (2026-06-30; price 2026-09-03)	Horizon (2031-06-30)	CAGR / change	Justification
Operating earnings	USD 1.680B	USD 4.100B	19.53%	Statutory operating income on the single-segment fallback basis
Diluted share count	1,034.334M	1,080.000M	0.87%	SBC issuance exceeds constrained repurchases
EPS	USD 1.759156 normalized	USD 2.821852	9.91%	Statutory diluted EPS used directly in the shareholder bridge
Valuation denominator	Normalized EPS; reported USD 1.602722 non-comparable	Statutory diluted EPS USD 2.821852	Comparable normalized basis	Current strategic gains and one-time costs are normalized; SBC and amortization remain
Valuation	82.76x normalized P/E; 90.84x reported non-comparable	20.00x P/E	(62.76)x	Peer-low anchor reflects 7.8% terminal growth and integration risk
Share value	USD 145.59	USD 56.437037	-17.27%	USD 2.821852 EPS × 20x; no second balance-sheet adjustment
Annual dividend	USD 0 modeled	USD 0 modeled	0%	Explicit zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No modeled dividend cash flow
Five-year dividends	-	USD 0	cumulative	ServiceNow currently pays no dividend
Total ending value	USD 145.59	USD 56.437037	-17.27% gross local IRR	Terminal share value plus zero distributions

Base-case operating and return bridge

Base case	Start (2026-06-30; price 2026-09-03)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	USD 14.732B	USD 32.961B	17.48%	Backlog, renewal, large-customer expansion, and AI attach sustain high-teens growth
Operating margin	11.40%	22.50%	11.10 pp	SBC falls toward 9% of revenue as integration and sales efficiency improve
Operating earnings	USD 1.680B	USD 7.416B	34.58%	Statutory operating income on the same one-segment basis
Diluted share count	1,034.334M	1,040.000M	0.11%	Buybacks nearly offset, but do not erase, equity issuance
EPS	USD 1.759156 normalized	USD 5.715750	26.58%	Statutory diluted EPS; no adjusted-earnings substitution
Valuation denominator	Normalized EPS; reported USD 1.602722 non-comparable	Statutory diluted EPS USD 5.715750	Comparable normalized basis	Terminal earnings exclude repeated strategic gains but retain ordinary costs
Valuation	82.76x normalized P/E; 90.84x reported non-comparable	25.00x P/E	(57.76)x	Inside the live GAAP peer range, between CRM and ORCL anchors
Share value	USD 145.59	USD 142.893750	-0.37%	USD 5.715750 EPS × 25x; no terminal net-cash addition
Annual dividend	USD 0 modeled	USD 0 modeled	0%	Explicit zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No modeled dividend cash flow
Five-year dividends	-	USD 0	cumulative	Return depends entirely on terminal share value
Total ending value	USD 145.59	USD 142.893750	-0.37% gross local IRR	Terminal share value plus zero distributions

Bull-case operating and return bridge

Bull case	Start (2026-06-30; price 2026-09-03)	Horizon (2031-06-30)	CAGR / change	Justification
Revenue	USD 14.732B	USD 37.360B	20.46%	AI leadership and cross-workflow adoption preserve roughly 20% growth
Operating margin	11.40%	26.00%	14.60 pp	Strong monetization, lower SBC burden, and integration success lift margins
Operating earnings	USD 1.680B	USD 9.714B	42.04%	Statutory operating income using the unchanged modeled basis
Diluted share count	1,034.334M	1,020.000M	-0.28%	Strong cash generation funds modest net share retirement
EPS	USD 1.759156 normalized	USD 7.872118	34.95%	Statutory diluted EPS on the listed-share perimeter
Valuation denominator	Normalized EPS; reported USD 1.602722 non-comparable	Statutory diluted EPS USD 7.872118	Comparable normalized basis	Same denominator and claim perimeter as Bear and Base
Valuation	82.76x normalized P/E; 90.84x reported non-comparable	30.00x P/E	(52.76)x	Small premium to peer high requires durable AI control-layer leadership
Share value	USD 145.59	USD 236.163530	10.16%	USD 7.872118 EPS × 30x; no net cash double count
Annual dividend	USD 0 modeled	USD 0 modeled	0%	Explicit zero-distribution diagnostic
Dividend yield	0.00%	0.00%	0.00 pp	No modeled dividend cash flow
Five-year dividends	-	USD 0	cumulative	No unsupported capital-return help
Total ending value	USD 145.59	USD 236.163530	10.16% gross local IRR	Terminal share value plus zero distributions

CIO actionability (separate from ER2 underwriting):

Measure	Result	Notes
Status	PASS	Base return is below 8%; this status authorizes no capital
Bear / Base / Bull net SGD IRR	-18.69% / -0.98% / 10.67%	USD/SGD 1.30 entry; 1.20 / 1.27 / 1.34 exits; 0.35% costs each side
Probability-weighted net SGD IRR	-1.13%	CAGR of probability-weighted terminal SGD wealth; weights 25% / 55% / 20%
10% mandate hurdle	FAIL	Base and probability-weighted cases are both negative
15% stretch hurdle	FAIL	Even Bull remains below 15% net SGD
Downside and portfolio fit	FAIL / UNAVAILABLE	Bear downside is unacceptable; portfolio context was not authorized or supplied
Proposed sizing ceiling	none	Research-only PASS; owner approval remains mandatory

Net-SGD diagnostics assume 0.35% entry cost, 0.35% exit cost, 30% U.S. dividend withholding, zero dividend distributions and therefore zero withholding paid, and 0% Singapore capital-gains tax. These are conservative diagnostics, not investor-specific tax advice or FX forecasts.

Trade execution authorized: NO

Decision logic and what matters

The ER2 decision is not a referendum on whether ServiceNow is a good company. Management has produced eight consecutive quarters of growth and profitability outcomes above guidance, and renewal has held at 98%. Q2 2026 RPO of USD 29.0B, cRPO of USD 13.2B, and 658 customers above USD 5M ACV support a substantial runway. The valuation failure is nevertheless decisive: Base five-year EPS of USD 5.7158 supports only USD 85.74 at the mandatory 15x gate, 41.1% below the current price. The independently justified expected-return method is less punitive at a 25x Base exit, yet it still

produces negative annualized return.

The main uncertainty is who captures the economics of enterprise agents. ServiceNow can win if its workflow graph, controls, audit trail, integrations, and system-of-action role become more valuable when many models and interfaces compete. It can lose while retaining most customers if Microsoft, Salesforce, SAP, Workday, hyperscalers, or native agents own orchestration and force ServiceNow into a lower-growth compatibility layer. The 2046 test is therefore YELLOW, not because present switching costs are weak, but because the future profit pool may migrate above or around the installed workflow layer.

Financial quality also needs discrimination. TTM free cash flow is strong at roughly USD 4.58B, but cash-flow-statement SBC of USD 2.185B and income-statement SBC expense of USD 2.199B are distinct measures and both are material. More than USD 11B of recent acquisition consideration has not yet produced a seasoned, separately disclosed return record. Historical ROIIC cannot prove that Moveworks, Veza, and Armis will raise owner FCF per share. This is why the audit reduced the score to 44/100 even though the franchise evidence is real.

The red team found no structural arithmetic defect. It challenged the 25x Base exit: reducing it to 20x lowers Base gross IRR to roughly -4.72% and probability-weighted gross IRR to about -3.13%. Conversely, a peer-high 28.42x Base exit lifts Base gross IRR only to roughly 2.21%. That two-sided range confirms the conclusion is not being manufactured by one controversial multiple. The most fragile operating assumption is the Base 22.5% statutory margin, which requires 1,110 basis points of expansion from the TTM level while SBC falls toward 9% of revenue.

Kill / trigger criteria:

- BUY trigger: price below USD 57.43, the audited Base maximum price for a 20% return, only if Management and Moat also upgrade to PASS; this is roughly a 49% P/E-15 cushion versus Base gate value.
- PASS trigger: constant-currency cRPO growth below 15% for two consecutive quarters within 12 months invalidates the high-teens Base runway.
- PASS trigger: renewal below 95%, or subscription gross margin below the high-70s for two consecutive quarters after acquisition amortization normalizes, signals moat or AI-economics deterioration.
- Upgrade conditions: acquired-business contribution and owner-return disclosure support cost-of-capital-plus returns; diluted shares are flat/down as SBC approaches less than 10% of revenue by 2029; the DOJ matter resolves without material sanction; and third-party agents demonstrably invoke ServiceNow's governed actions at scale.

Research sizing if actionable: none. Portfolio fit and risk-budget availability were not in scope, and this PASS report carries no sizing, ranking, messaging, portfolio-mutation, or trade authority.

Bottom line

ServiceNow deserves continued research attention, not capital at this price. The evidence supports a durable five-to-ten-year franchise and a plausible long-run control-layer role, but the price demands that several unsettled claims resolve favorably at once: durable agentic platform ownership, rapid statutory margin expansion, disciplined SBC, and strong returns on a major acquisition cycle. The correct action is PASS, preserve the quantified triggers, and require a materially lower price or materially stronger owner-economics evidence before reconsidering.

Appendix A - Company Primer

ServiceNow (NOW) — Institutional Company Primer

Run ID: `pulse-cio-20260904T180312+0800` **Evidence cutoff:** September 4, 2026 **Latest completed quarter:** Q2 2026, ended June 30, 2026 **TTM period:** Twelve months ended June 30, 2026 **Forward underwriting horizon:** June 30, 2031

Primer purpose and evidence basis

ServiceNow is best understood not as a conventional help-desk software vendor, but as an enterprise workflow and orchestration platform. Its original franchise was IT service management, yet the strategic ambition is broader: connect data, people, applications, approvals, policies, and increasingly artificial-intelligence agents so that work can move across departmental and software boundaries. The central investment question is whether that position gives ServiceNow a durable right to become the execution and governance layer for enterprise AI, or whether model vendors, incumbent application suites, and cheaper point products will erode its role.

Every historical financial figure in this primer comes from the QFR-cleared `quant_foundation.md`, which reconciles live FMP pulls to ServiceNow's official filings. Qualitative descriptions and operational KPIs are grounded in the [2025 Form 10-K](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000007/now-20251231.htm), the [Q2 2026 Form 10-Q](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000076/now-20260630.htm), and the [Q2 2026 earnings release](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000072/erq2fy26.htm). Product and geographic categories are business context, not modeled profit segments. The exact modeled basis is one consolidated segment using **statutory operating income under the single-segment non-operating CODM fallback**; ServiceNow's disclosed CODM measure, consolidated net income, is preserved separately.

1. Business overview

ServiceNow sells software that organizes and automates work inside large organizations. A workflow begins with an event or request—an employee needs a laptop, a customer reports a service failure, a server triggers an alert, a vendor creates a compliance issue, or a security tool detects a vulnerability. ServiceNow can gather the relevant data, classify the request, route it to the right people or software agents, enforce approvals and policy, trigger actions in other systems, monitor progress, handle exceptions, and retain an auditable record. This replaces fragmented email, spreadsheets, bespoke scripts, and disconnected application queues with a governed process.

The customer is principally a large enterprise or public-sector organization. The economic buyer may be the chief information officer, chief technology officer, chief information-security officer, head of customer service, human-resources leader, operations leader, or another senior functional executive. Day-to-day users include service agents, developers, security analysts, employees, customer-service representatives, field technicians, managers, and external customers. This diversity matters: adoption can start in IT and then expand into security, risk, employee, customer, finance, and industry workflows, increasing annual contract value without requiring ServiceNow to win a new logo.

ServiceNow primarily delivers its software as a cloud subscription. Its platform sits above and between systems of record rather than demanding that customers replace them. A customer can keep SAP for enterprise resource planning, Workday for human capital management, Salesforce for selected customer records, Microsoft for productivity, hyperscalers for infrastructure, and specialized security products while using ServiceNow to coordinate the actions and handoffs spanning those systems. The resulting value proposition is less about owning every datum than about controlling the sequence by which data becomes governed action.

The company had approximately 8,700 customers at year-end 2025 and supports enterprise-wide deployments across many industries. Government is a growing customer class. ServiceNow's architecture is multi-instance: each customer receives a dedicated application layer and database. Delivery uses ServiceNow-operated infrastructure and public-cloud providers, with paired environments for redundancy; a minority of customers self-host or use third-party data centers when regulation, sovereignty, or security demands it.

2. Revenue architecture and reporting perimeter

ServiceNow reports one operating and reportable segment. The chief operating decision maker evaluates the consolidated company and uses consolidated net income as the disclosed segment profit measure. Because net income sits below

statutory operating income, ER2 applies the required non-operating-CODM fallback: the modeled segment is the consolidated company and its modeled profit is statutory operating income. It would be analytically wrong to manufacture separate profit segments for ITSM, ITOM, CRM, or other product families.

FY2025 modeled segment	Revenue, USD mm	Share of total	Modeled profit basis	Profit, USD mm	Margin
Consolidated company	13,278	100.0%	Statutory operating income; single-segment non-operating CODM fallback	1,824	13.74%

Economically, revenue divides into subscription/license-and-service revenue and technology services, which correspond to professional services and training. The official/FMP taxonomy changed in FY2025 by combining prior Digital Workflow and ITOM subscription labels, so historical product labels must not be interpreted as persistent reporting segments.

FY2025 revenue line	Revenue, USD mm	Share of total	Economic role
License and Service	12,883	97.0%	Recurring access, support, updates, and a minority of self-hosted software delivery
Technology Service	395	3.0%	Implementation-related professional services, optimization, and training
Total	13,278	100.0%	Consolidated revenue

Subscription revenue is the engine. Cloud subscriptions are generally recognized ratably from the date service becomes available. Contracts usually carry fixed consideration, are non-cancellable, and are invoiced annually even when the commitment extends over multiple years. A minority of self-hosted arrangements recognize the software element upon transfer while support and updates are recognized over time, which can create quarter-to-quarter variability. Certain AI and data products also include consumption mechanics when usage exceeds service credits included in the subscription. This introduces an incremental usage vector without abandoning the enterprise-subscription foundation.

Technology Service is strategically useful but economically subordinate. ServiceNow and partners provide design, implementation, architecture, optimization, support, and training to accelerate deployment and adoption. Professional services are typically time-and-materials or fixed-fee engagements and are recognized as delivered. This work is more labor intensive and structurally less attractive than subscription software, so its purpose is primarily to seed product usage, de-risk complex transformations, and enable future subscription expansion rather than to maximize standalone services profit.

Geographically, North America is the largest revenue region, followed by Europe, the Middle East and Africa, then Asia-Pacific and other markets. Revenue outside North America is material, and ServiceNow runs or accesses data-center capacity across North America, South America, Europe, Asia, and Australia. International growth expands the addressable market but raises localization, privacy, data-transfer, currency, public-procurement, and sovereign-cloud complexity. Geography remains business context only within the one-segment model.

3. Platform, products, and the customer workflow

The ServiceNow AI Platform combines three layers: workflows, a common data fabric, and AI capabilities. Workflow logic coordinates tasks and approvals; Workflow Data Fabric and RaptorDB connect internal ServiceNow records with outside data; and Now Assist, AI agents, governance, search, and analytics interpret requests or act within defined guardrails. A customer can use ServiceNow models, third-party models, or proprietary models. This model-neutral posture is strategically important: ServiceNow seeks to monetize orchestration, context, governance, and action rather than betting the franchise on owning the winning foundation model.

Management groups applications into four business areas:

Product area	What it does	Representative workflows
Technology	Runs IT, infrastructure, assets, security, risk, and strategic technology work	Incident resolution, service requests, configuration discovery, outage response, vulnerability remediation, software/license management
CRM and Industry	Connects customer-facing work to operations and industry-specific processes	Customer case resolution, field dispatch, sales/order management, regulated-industry service workflows
Core Business	Digitizes employee and shared-service processes	Onboarding, HR cases, legal requests, procurement, finance operations, facilities, supplier workflows

Product area	What it does	Representative workflows
Creator and Other	Lets customers and partners build applications and manage cross-enterprise automation	Low-code apps, integration, process automation, data privacy, security, custom workflows

Technology remains the platform's anchor. IT Service Management handles incidents, service requests, changes, knowledge, and performance analytics. IT Operations Management maps and monitors physical and cloud infrastructure and maintains the configuration-management database, or CMDB. Asset Management governs hardware, software, cloud, and physical assets over their life cycles. Security Operations coordinates vulnerabilities and incidents, while Risk Management links policies, controls, compliance, third parties, and operational resilience. These products are mutually reinforcing: a server alert gains business meaning from the CMDB, creates an incident in ITSM, invokes a security response, and preserves an audit trail in risk workflows.

CRM and Industry extends the same orchestration principle to external customers. A service case can move from a contact center to operations, engineering, billing, order fulfillment, or a field technician without losing context. This differs from a traditional CRM emphasis on the customer record or sales pipeline. ServiceNow's proposition is the operational work required after a customer asks for something. Industry packages adapt those workflows for financial services, healthcare and life sciences, manufacturing, the public sector, retail, technology, and telecommunications.

Core Business targets internal services outside IT. Employee onboarding illustrates the cross-functional value: an accepted candidate can trigger identity creation, device provisioning, payroll setup, compliance checks, facilities access, training, and manager tasks. Each functional system remains in place, but ServiceNow manages the end-to-end process, status, exceptions, and employee experience. Similar patterns apply to procurement intake, supplier onboarding, legal requests, and workplace services.

Creator products let internal teams and partners build new workflows on the same permissions, data model, integration layer, and user experience. This can deepen switching costs because custom applications and process knowledge accumulate around the platform. It also creates governance risk: poorly controlled citizen development, excessive customization, or weak partner implementation can make upgrades and maintenance harder. ServiceNow mitigates this through low-code tooling, reusable workflow components, two major platform upgrades annually, and a partner certification ecosystem.

4. Unit economics and operating model

The attractive unit-economics loop begins with a large enterprise subscription, expands as more products and users are deployed, renews at high rates, and amortizes the initial acquisition and implementation burden over a long relationship. Initial and expansion sales commissions are generally deferred and amortized over a five-year benefit period; renewal commissions are amortized over the average renewal term. This accounting treatment reflects the company's expectation that customer economics persist beyond the initial contract.

Subscription gross economics benefit from software reuse and ratable revenue, but the business is not capital free. Cost of subscription revenue includes customer support, private and public-cloud capacity, colocation and network costs, dedicated hardware depreciation, third-party software, acquired-intangible amortization, and operations personnel. AI can increase inference and hyperscaler costs faster than revenue if pricing does not recover usage. Data residency and regulated-customer requirements can also require dedicated capacity. Conversely, scale, workload optimization, standardization, and favorable cloud commitments can expand gross profit per revenue dollar.

Below gross profit, sales and marketing is the largest structural growth investment because ServiceNow pursues complex, high-value enterprise deals. Compensation, commissions, customer events, brand building, and partner enablement are material. Research and development funds platform releases, product expansion, AI, reliability, security, and integrations. General and administrative costs support a global regulated business. The model can produce operating leverage when renewal and cross-sell allow revenue to grow faster than these functions, but acquisitions, severance, purchased-intangible amortization, and heavy stock compensation can obscure the underlying trajectory in statutory results.

Professional services are less scalable because delivery depends on employees and third parties. The strategic model therefore pushes implementation capacity into global systems integrators and specialized partners. This keeps ServiceNow focused on subscription IP and widens distribution, but partner quality becomes part of product quality. A failed implementation can delay go-live, suppress consumption and expansion, or damage renewal even when the software itself works.

Capital intensity has two forms. Physical capital expenditures support infrastructure, offices, and equipment. Economic investment is broader: commissions are deferred, R&D is expensed, and equity compensation transfers value to employees. Free cash flow can therefore look exceptionally strong while statutory operating profit remains lower; investors must treat stock-based compensation as a real ownership cost and acquisitions as capital allocation, not simply exclude both as non-cash or non-recurring.

5. Customers, sales motion, and ecosystem

ServiceNow sells principally through a global direct sales force, supplemented by managed service providers, resellers, marketplaces, public-cloud alliances, and systems integrators. The motion is consultative rather than self-serve: large customers require architecture reviews, security and compliance diligence, integrations, proofs of concept, executive sponsorship, and procurement negotiation. Sales cycles lengthen as deals span multiple workflow products and buyer groups.

Land-and-expand is central. An ITSM deployment establishes identity, service catalog, workflow, data, and governance primitives. ServiceNow can then add ITOM, asset management, security, risk, employee workflows, customer service, creator, or AI. Existing customer relationships reduce the trust barrier for mission-critical automation, while a common platform can lower integration cost relative to assembling point tools. The growing number of customers above a high annual-contract-value threshold is therefore a particularly useful signal of platform breadth.

The ecosystem expands both capacity and credibility. Accenture, Cognizant, Deloitte, EY, Infosys, KPMG, and other integrators design and implement transformations. AWS, Google, Microsoft, NVIDIA, and other technology partners supply infrastructure, models, developer environments, distribution, or complementary data. ServiceNow also exposes workflows to third-party AI systems through its action layer. These relationships can turn would-be substitutes into channels, but they are not purely defensive: the same partners sell competing suites, own customer budgets, and may bundle alternatives.

Contracting is seasonal. Large enterprises often commit near fiscal-budget deadlines, making the fourth quarter and the final weeks of a quarter disproportionately important. U.S. federal activity can follow a different procurement calendar. Because cloud revenue is recognized over the subscription term, bookings weakness may take time to appear in revenue; current remaining performance obligations, large-deal activity, renewal, and net-new annual contract value provide earlier information.

6. Competitive landscape and moat assessment

Competition comes from several directions. Large application-suite vendors—including Microsoft, Oracle, SAP, Salesforce, and Workday—can bundle workflows around their own systems of record. Focused vendors compete within IT service management, observability, security, customer service, automation, low-code, and process management. Consulting firms, systems integrators, resellers, internal development teams, and new AI-native products offer alternative ways to solve the same business problem. The market is fragmented, with low technical barriers to building a narrow workflow but much higher operational barriers to deploying governed cross-enterprise automation at scale.

ServiceNow's moat is strongest where five elements combine:

- **Embedded process knowledge.** Years of configuration encode approvals, roles, SLAs, integrations, compliance rules, and exception handling.
- **Cross-system orchestration.** The platform is valuable precisely because the customer has many systems of record and clouds.
- **Enterprise trust.** Availability, data separation, security certifications, auditability, and regulated-industry support take time to reproduce.
- **Data and workflow context.** CMDB, service history, asset relationships, policies, and permissions give AI agents the context needed to act safely.
- **Ecosystem and installed base.** Partners, developers, marketplace applications, trained administrators, and a large enterprise customer base reinforce distribution and adoption.

The moat is not absolute. Customers can resist platform sprawl, object to pricing, or standardize on a broad suite vendor. High customization can create technical debt rather than healthy switching costs. Integrations depend on access controlled by other software providers. A system-of-record vendor can limit or price data access, while a hyperscaler can combine models, data, security, developer tools, and workflow automation. AI-native interfaces may also reduce the importance of the traditional ServiceNow front end if agents can work across applications directly.

The relevant competitive test is therefore not whether ServiceNow has the best chatbot. It is whether the platform remains the trusted control plane that knows what actions are permitted, what system must be updated, who must approve, what evidence must be retained, and how exceptions are resolved.

7. AI and agentic opportunity—and disruption risk

Generative AI creates an unusually good adjacency for ServiceNow because enterprise value depends on converting model output into action. A model may summarize an incident, infer intent, or recommend a solution; the workflow platform can verify permissions, pull business context, open or close records, trigger automation, escalate exceptions, and record the outcome. This is the distinction between intelligence and execution.

ServiceNow's AI stack includes Now Assist, out-of-the-box and custom agents, enterprise search enhanced by Moveworks, Workflow Data Fabric, RaptorDB, AI Control Tower, and an action layer that lets ServiceNow or third-party agents invoke governed workflows. Otto combines conversational entry, intent understanding, routing, and task completion. Build Agent supports workflow development in ServiceNow Studio and external developer environments. AI Control Tower discovers, observes, secures, governs, and measures agents and models regardless of where they run. The strategic design is deliberately open: customers can select ServiceNow, third-party, or proprietary models while using ServiceNow for context and action.

The upside has three legs. First, AI can raise price and annual contract value through premium SKUs, agent capacity, data products, governance, and consumption. Second, better user experience can expand workflow volumes and adoption because employees interact in natural language instead of navigating forms. Third, autonomous resolution can improve customer ROI, which should support renewal and consolidation onto the platform. Management reported in Q2 2026 that agentic deployments had risen sharply, and AI annual contract value crossed a major milestone; these claims are promising leading indicators but remain management-defined commercial metrics rather than recognized revenue.

The disruption case is equally important. Foundation-model providers and hyperscalers may own the user interface, model layer, developer tooling, and data access, pushing workflow platforms into commoditized plumbing. Agents might bypass ServiceNow records and act directly through APIs. AI could make custom software dramatically cheaper, lowering the cost of replacing standardized workflows. Consumption-heavy AI can pressure gross economics, and enterprises may delay spending while pilots fail to prove return on investment. Model hallucination, unauthorized actions, bias, privacy, intellectual-property claims, and new regulation create liability precisely because ServiceNow aims to move from recommendations to execution.

ServiceNow's answer is governance and neutrality: support multiple models, impose human oversight and guardrails, evaluate models on platform-representative data, monitor performance, and retain an audit trail. The durability question is whether customers view this as indispensable control infrastructure or as a feature that Microsoft, Salesforce, SAP, cybersecurity vendors, and emerging AI orchestration tools can bundle.

8. Key performance indicators

KPI	What it measures	Why it matters	Main caveat
Subscription revenue growth	Recognized recurring software growth	Core scale and wallet expansion	Ratable recognition is a lagging indicator
cRPO growth	Contracted revenue expected within 12 months	Near-term revenue visibility	FX, self-hosted mix, duration, and renewal timing can distort
RPO growth	Total contracted but unrecognized revenue	Longer-duration demand and backlog	Longer contracts can raise RPO without equal near-term economics
Renewal rate	Retained annual contract value	Product criticality and gross retention	Excludes expansion and most partial downsells
Customers above high ACV thresholds	Breadth of large platform relationships	Best public proxy for cross-sell and enterprise standardization	Threshold counts can move with FX and corporate structure
Net-new ACV and large transactions	New recurring commercial activity	Earlier read on bookings	Deal timing produces quarterly volatility
AI ACV and agent deployments	Monetization and operational adoption of AI	Tests whether AI is incremental, not promotional	Company-defined and not directly comparable with GAAP revenue
Free-cash-flow margin	Cash generated after capital expenditures	Funds buybacks and strategic investment	Benefits from non-cash SBC and working-capital timing
Diluted share count	Net effect of equity issuance and repurchases	Converts company growth into per-share growth	Weighted averages lag issuance and buyback timing

At year-end 2025, renewal was 98% and 603 customers exceeded the disclosed high-ACV threshold, up from 502 in 2024 and 420 in 2023. Q2 2026 ended with 658 such customers. These operating disclosures support the platform-expansion narrative, but investors should also watch gross retention quality, downsell behavior, product attach, implementation duration, and realized AI consumption—items the company does not fully disclose.

9. Financial economics and cash generation

ServiceNow has combined rapid scale with improving, though volatile, statutory profitability. Revenue rose from USD 4,519.5 million in FY2020 to USD 13,278 million in FY2025, a 24.1% compound annual rate. FY2025 revenue grew 20.9%, while statutory operating margin expanded from 4.40% in FY2020 to 13.74%. The TTM revenue base reached USD 14,732 million, but TTM statutory operating margin was 11.40%, below FY2025 because H1 2026, and especially Q2, absorbed acquisition-related amortization and integration costs alongside continued AI investment.

USD mm except margins	FY2020	FY2023	FY2024	FY2025	TTM ended 2026-06-30
Revenue	4,519.5	8,971	10,984	13,278	14,732
Statutory operating income	198.9	762	1,364	1,824	1,680
Statutory operating margin	4.40%	8.49%	12.42%	13.74%	11.40%
Operating cash flow	1,786.6	3,398	4,267	5,444	5,308
Capital expenditure	432.5	694	852	868	728
Free cash flow	1,354.1	2,704	3,415	4,576	4,580

FY2025 free-cash-flow margin was 34.5%, and the TTM margin was 31.1%. The large difference between cash conversion and statutory operating margin reflects the subscription model, deferred revenue, deferred commissions, depreciation/amortization, and stock compensation. It is a genuine financing advantage—customers often pay before revenue recognition—but it is not equivalent to owner earnings unless equity dilution and acquisition spending are addressed.

Balance-sheet interpretation changed materially in H1 2026. At June 30, ServiceNow held USD 2,503 million of cash and USD 6,277 million of marketable plus strategic investments against USD 7,517 million of debt and USD 936 million of lease liabilities. Cash plus investments exceeded debt plus leases by only USD 327 million. By contrast, the same measure was a USD 9,194 million surplus at year-end 2025. The new leverage is manageable relative to cash generation, but the company is no longer a simple net-cash compounder; acquisition integration, debt service, investment volatility, and future capital allocation now deserve more weight.

10. Capital allocation and dilution

ServiceNow allocates capital across internal product investment, infrastructure, acquisitions, strategic investments, and share repurchases. The H1 2026 capital-structure shift reflects a more acquisition-intensive posture, including the expansion of AI search, cybersecurity, identity, and asset-governance capabilities. Strategic logic can be strong—acquired technology can accelerate platform breadth—but paying for growth can transfer value from shareholders if integration fails or acquired revenue merely replaces organic development.

Stock-based compensation is the principal quality-of-earnings issue. SBC was USD 1,955 million in FY2025 and USD 2,185 million TTM, equal to 14.8% of TTM revenue. Repurchases were USD 1,840 million in FY2025 and USD 3,406 million TTM. Q2 2026 diluted weighted-average shares were 1,034.334 million versus 1,046.691 million for FY2025; the quantitative foundation notes a 1.18% decline in the denominator. That net reduction is constructive, but repurchases first offset employee issuance and therefore cannot all be treated as a return of excess capital.

The clean per-share test is whether diluted share count trends down while free cash flow remains robust after acquisition and financing demands. Management has announced a longer-term goal to reduce SBC as a share of revenue. Underwriting should demand evidence in GAAP results and shares, not rely solely on adjusted margins that exclude the expense.

11. Principal risks

- **AI disintermediation:** models, hyperscalers, or system-of-record vendors may own the user interface and action layer, weakening ServiceNow's platform position.
- **Execution and governance failures:** an autonomous agent that takes an unauthorized or erroneous action can create operational, legal, privacy, security, and reputational loss.

- **Platform competition and bundling:** Microsoft, Oracle, SAP, Salesforce, Workday, and focused vendors can bundle adjacent workflow features or use control of data to disadvantage integrations.
- **Growth normalization:** at ServiceNow's scale, durable growth depends increasingly on cross-sell, new buyer groups, international expansion, and AI monetization. Revenue recognition can delay visibility into weaker bookings.
- **Complex implementations:** broad, customized deployments require scarce partner talent, strong customer change management, and reliable upgrades. Delays reduce time to value and jeopardize expansion.
- **Cybersecurity and availability:** customers entrust mission-critical workflows and sensitive data to the platform. A breach or outage can damage customers and undermine the enterprise-trust moat.
- **Pricing and cost-to-serve:** consumption-heavy AI and hyperscaler migration can raise variable costs; premium pricing may meet customer resistance if ROI is unclear.
- **Public-sector exposure:** certification, bid protests, funding cycles, political changes, and partner conduct can make government demand uneven and compliance intensive.
- **International regulation and FX:** privacy, localization, AI rules, sanctions, currency changes, and sovereign requirements can slow expansion or raise infrastructure cost.
- **Acquisition and leverage risk:** the H1 2026 balance-sheet change reduces strategic flexibility and raises the cost of integration mistakes.
- **SBC and talent:** competition for AI, engineering, security, and sales talent can keep equity compensation high, diluting per-share economics even when adjusted profit grows.
- **Valuation sensitivity:** a high revenue and cash-flow multiple leaves the equity exposed if growth, AI monetization, or margin expansion merely meets rather than exceeds expectations.

12. Orientation to the ER2 question

At the QFR-sealed September 3, 2026 close of USD 145.59 and 1,034.334 million quote-basis diluted shares, ServiceNow's implied diluted equity value was approximately USD 150.6 billion. That equals roughly 10.2 times TTM revenue and 32.9 times TTM free cash flow before adjusting for the near-balanced cash/investment and obligation position. The market is therefore already underwriting a long runway of growth and cash generation.

The favorable case is that ServiceNow becomes the neutral, governed execution layer for enterprise AI. Its installed base, renewal, process knowledge, CMDB and workflow context, partner ecosystem, and ability to operate across systems support sustained expansion. AI then increases both price and activity while automation improves customer ROI and ServiceNow's own operating leverage.

The skeptical case is that AI lowers workflow switching costs, hyperscalers and application suites bundle orchestration, implementation complexity restrains adoption, and inference/acquisition costs absorb the apparent upside. Strong free cash flow may also overstate per-share economics if SBC remains high and buybacks primarily neutralize dilution.

The ER2 underwriting should thus answer four linked questions through June 2031: **(1)** can ServiceNow maintain durable high-teens or better organic subscription growth as its base compounds; **(2)** is AI producing incremental, retained ACV rather than rebranding existing demand; **(3)** can statutory operating margin and owner earnings expand after inference cost, acquired-intangible expense, SBC, and integration; and **(4)** does the resulting per-share cash flow justify the current multiple with a sufficient margin of safety? The company has an exceptional strategic position, but the valuation makes proof of durability—not merely a good product—the decisive issue.

Appendix M - Management Assessment

ServiceNow (NOW) — Management Assessment

Run ID: `pulse-cio-20260904T180312+0800` **Information date:** 2026-09-04 **TTM anchor:** 2026-06-30 **Underwriting horizon:** 2031-06-30 **Management gate: YELLOW**

1. Who is running the company

Bill McDermott has been Chief Executive Officer since November 2019 and Chairman since October 2022. He previously led SAP, first as co-CEO and then CEO, after running SAP America and holding senior commercial roles at Siebel and Gartner. Seven years is long enough that the present platform strategy, go-to-market culture, AI positioning, executive bench and 2025-2026 acquisition program are his record—not inherited conditions. McDermott is the principal owner of the strategic narrative: ServiceNow as the workflow layer and “AI control tower” that can govern agents, models and data across enterprise systems.

Gina Mastantuono joined as CFO in January 2020 and became President and CFO in January 2025. Her prior roles included CFO of Ingram Micro, senior finance leadership at Revlon and finance roles at IAC and Ernst & Young. She has co-owned essentially the whole McDermott financial record: guidance, non-GAAP margin expansion, the buyback program, the move from net cash to acquisition-funded debt, and the commitment to reduce SBC. Her expanded president title makes her more than a reporting custodian; she is a capital-allocation and operating-policy principal.

ServiceNow has one reportable segment, so conventional segment chiefs do not carry separately auditable P&Ls. The operating bench nevertheless matters. The 2026 proxy identifies Amit Zavery as President, Chief Product Officer and Chief Operating Officer; Paul Fipps as President, Global Customer Operations; and Jacqueline Canney as Chief People and AI Enablement Officer. The current leadership page identifies Jon Sigler as EVP and GM of AI Platform, John Ball over CRM and Industry Workflows, Jeff Hausman over Technology Workflow Products, and Gaurav Rewari over Data and Analytics Products. In practical terms, McDermott owns AI strategy, Zavery owns platform/product execution and packaging, Sigler owns the AI platform, Mastantuono owns the economic framework, and Canney owns workforce enablement. This is clearer accountability than a committee-led “AI initiative,” although investors still cannot observe product-level revenue or profitability.

The April 2026 proxy nominated nine directors, six independent under NYSE standards. McDermott combines Chair and CEO; Susan Bostrom, a director since 2014, is Lead Independent Director and chairs compensation; Teresa Briggs chairs Audit; Anita Sands chairs Governance. All standing committees are independent. Founder Fred Luddy is appropriately classified non-independent. Eric Yuan was also classified non-independent because McDermott serves on Zoom’s compensation committee, creating avoidable reciprocal-board optics. Briggs had three other public boards, McDermott and Yuan two each; this is not facially disqualifying, but McDermott’s two outside boards are a meaningful demand on an acquisitive CEO. Bostrom is a credible counterweight, though 12 years of tenure makes periodic refreshment important. Sources: [2026 proxy](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000039/now-20260406.htm) and [current leadership page](https://www.servicenow.com/company/leadership.html).

2. Tenure and track record

Three decisions define McDermott’s tenure.

First, he committed to platform expansion rather than protecting an IT-service-management niche. Revenue increased from $5.896 billion in FY2021 to $13.278 billion in FY2025, a 22.5% CAGR, while the proportion of large platform customers expanded. The prior Financial Analyst Day target of more than $15 billion of 2026 subscription revenue is now supported by FY2026 guidance of $15.760-$15.780 billion. This is a measurable promise substantially delivered, not merely a larger TAM slide.

Second, he funded growth while extracting operating leverage. R&D remained 22.3%-24.4% of revenue from FY2021 through FY2025, yet statutory operating margin increased from 4.4% to 13.7%, free cash flow from $1.792 billion to $4.576 billion, and conservative ROIC from 5.4% to 13.6%. Sales and marketing fell from 38.9% to 33.0% of revenue. Those results support the claim that ServiceNow scaled without starving product development. The caution is that TTM GAAP operating margin fell to 11.4% after acquisition amortization, integration expense and heavier AI/hyperscaler costs; adjusted margins alone cannot prove enduring economics.

Third, McDermott changed the risk profile through acquisitions. Moveworks closed in December 2025 for $2.407 billion, including $1.467 billion of ServiceNow stock and about 9.6 million split-adjusted shares. Veza cost approximately $1.2 billion in March 2026, and Armis approximately $7.6 billion in April. H1 2026 cash acquisitions totaled $8.776 billion. Goodwill plus intangibles rose from $4.699 billion at FY2025 to $13.618 billion at June 2026, while debt excluding leases reached $7.517 billion. Management argues it bought technologies, not mature revenue to plug a growth gap, and has linked the assets to employee search, identity and cyber exposure. That logic is coherent, but the outcome is not yet observable: no product revenue, acquired cohort margin, ROIC or payback is disclosed. This decision is the largest reason the gate cannot pass today.

There is also a failure-management test. In July 2024 the board found that then-President and COO CJ Desai and another individual violated company policy concerning a possible conflict in hiring the former U.S. Army CIO to lead public sector. Both departed; ServiceNow notified the DOJ, DoD Inspector General and Army Suspension and Debarment Office. The board's investigation and personnel action were appropriate, but the [2025 10-K](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000007/now-20251231.htm) said the DOJ investigation remained open and its outcome could not be predicted. This is a disclosed, bounded governance issue with remediation—not evidence of pervasive dishonesty—but resolution is required for a PASS.

3. Capital allocation behavior

The governed data package shows a reinvestment-heavy five-year record.

Fiscal year	Capex ($B)	R&D ($B)	Buybacks ($B)	Dividends ($B)	Cash M&A ($B)	SBC / revenue
2021	0.399	1.397	0.000	0.000	0.785	19.2%
2022	0.550	1.768	0.000	0.000	0.091	19.3%
2023	0.694	2.124	0.538	0.000	0.279	17.9%
2024	0.852	2.543	0.696	0.000	0.113	15.9%
2025	0.868	2.960	1.840	0.000	1.084	14.7%

Internal allocation is consistent with strategy: R&D stayed high while capex supported platform scale. The 2026 Financial Analyst Day expectation that public-cloud usage can eventually reduce capital intensity is plausible, but near-term subscription gross-margin pressure shows that hyperscaler migration and AI inference are not free. Management discloses no token cost, AI gross profit or acquired-product contribution margin, so the board lacks publicly testable unit-economics milestones.

Buybacks began in 2023 and accelerated. The January 2026 $2 billion accelerated share repurchase retired 18.5 million shares at an average $107.97, below the September 3 quote anchor of $145.59; that tranche was economically well timed. H1 2026 open-market repurchases added $225 million. TTM diluted shares declined 0.5% versus FY2025 and Q2's denominator was down about 1.2%. Yet FY2025 SBC of $1.955 billion exceeded repurchases of $1.840 billion, and the company explicitly says the program's primary purpose is managing dilution. Buybacks are therefore partly compensation settlement, not wholly capital returned to owners. From FY2021 to FY2025, diluted shares still increased about 3.0% despite strong FCF.

The M&A posture has moved from bolt-ons to a portfolio-level bet. Moveworks, Veza and Armis fit the stated AI/search/security direction; the concern is price and governance, not industrial logic. With more than $11 billion of recent consideration, much of it cash or stock, Mastantuono must demonstrate that organic subscription growth, post-SBC owner FCF per share and conservative ROIC improve after integration. Absent those measures, scale can rise while per-share value falls.

4. Compensation alignment

The 2026 proxy shows a compensation program improved by shareholder pressure but still mis-specified for an acquisitive company. For 2025, annual cash incentives used NNACV at 70% and non-GAAP operating margin at 30%, with nonfinancial goals able to adjust payout by plus or minus 10%. Long-term awards were 60% PRSUs and 40% time-based RSUs. The PRSUs use 2027 non-GAAP subscription revenue as the sole operating metric, modified plus or minus 20% by relative TSR versus the S&P 500, over three years.

Extending performance measurement from one year to three, cliff-vesting PRSUs, removing duplicated NNACV from LTI and retaining relative TSR were sensible reforms. But no regular award is tied to ROIC, GAAP operating profit, free cash flow per share, absolute TSR, net debt or dilution. A subscription-revenue target can be purchased through M&A, while non-GAAP

margin excludes SBC and acquisition amortization. That is a material flaw immediately after Armis, Veza and Moveworks.

McDermott's 2025 reported compensation was $51.6 million, including $43.5 million of stock awards; his target LTI was $40 million. Mastantuono's reported compensation was $18.5 million. The amounts are large even for company scale. The older 2021 performance stock options were better protected by a double hurdle—subscription revenue and sustained absolute stock-price appreciation—and only four of eight tranches had vested by year-end 2025.

Skin in the game is real but proxy headline ownership overstates purchased/held common equity. At February 28, 2026, McDermott beneficially owned 2.213 million shares, of which 2.030 million were exercisable options; actual common shares were 158,234 directly and 24,405 in trust. Mastantuono beneficially owned 253,321 shares, including 156,620 options and 96,701 common shares. Ownership guidelines increased to six times salary for the CEO, three times for other executives and five times annual retainer for directors, although vested awards count. The company has NYSE and misconduct-based clawbacks and prohibits hedging, pledging, margin purchases and borrowing against ServiceNow shares.

SBC/revenue fell from roughly 19% in FY2021-FY2022 to 14.7% in FY2025, but TTM was still 14.8%. The 2026 FAD target of below 10% by 2029 is a useful commitment, not present alignment. Per-share protection earns credit only when dilution stays neutral or negative without consuming an excessive portion of FCF in buybacks.

5. Disclosure quality and candor

I reviewed eight live FMP transcripts: Q3 2024 through Q2 2026. ServiceNow exceeded the high end of its stated growth and profitability guidance in all eight quarters. The record includes quantified cRPO, subscription-revenue and margin beats and multiple full-year raises. Guidance credibility is therefore high, although repeated "beat and raise" language plus prudent initial ranges suggests some intentional conservatism.

Load-bearing question	Management response	Assessment
Federal duration and Carahsoft, Q3 2024	Mastantuono explained the duration headwind by quarter; McDermott said no Carahsoft issue affected ServiceNow	Direct and falsifiable
AI consumption versus seats, Q4 2024	Mastantuono admitted excess-token monetization was not yet significant and described hybrid pricing	Candid, but no unit economics
Macro/federal risk, Q1-Q3 2025	Guidance explicitly incorporated federal seasonality, shutdown/procurement and FX effects	Generally quantified
AI and cloud gross-margin pressure, Q4 2025-Q2 2026	Management acknowledged near-term pressure and gave subscription-GM guidance	Direct on direction, incomplete on cost
Acquired versus organic growth, Q1 2026	Guide identified a 125 bp Armis subscription-revenue contribution and associated margin headwinds	Useful attribution
Modest Q2 2026 raise after a large beat	Mastantuono said about half the upside was an on-prem pull-forward and all NNACV overachievement was passed through	Strong answer

Hedged terms such as "headwind," "prudent" or "timing" appeared in all eight calls, but they were usually attached to FX, federal duration, procurement or spending timing and accompanied by numbers. This is not an evasiveness pattern. The weaker disclosure is structural: no NRR/DBNR, product-family revenue, AI recognized revenue, AI gross profit, acquisition cohort economics, CAC/payback or post-acquisition organic growth bridge. Management supplies many ACV, deal-count and consumption anecdotes, but those can make the AI narrative look more precise than the economic disclosure. Transcript endpoints: [Q3 2024](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2024&quarter=3), [Q4 2024](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2024&quarter=4), [Q1 2025](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2025&quarter=1), [Q2 2025](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2025&quarter=2), [Q3 2025](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2025&quarter=3), [Q4 2025](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2025&quarter=4), [Q1 2026](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2026&quarter=1), and [Q2 2026](https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2026&quarter=2).

6. Strategic coherence

The 2025 10-K says ServiceNow helps organizations "govern, secure and manage artificial intelligence" while digitizing workflows. The 2026 FAD sharpens the destination: approximately 30% of ACV from ServiceNow AI by 2030, more than $32 billion of subscription revenue, subscription gross margin above 80%, Rule of 60-plus, and SBC below 10% of revenue by

2029. The investment pattern—high R&D, Workflow Data Fabric/RaptorDB, hyperscaler partnerships and acquisitions in enterprise search, identity and cyber exposure—supports this strategy.

The strategy is coherent rather than a sequence of unrelated pivots. Management also names the threats: model vendors, hyperscalers, application suites and uncontrolled agent proliferation. The weakness is measurement. AI ACV passed $1 billion by Q2 2026, but AI recognized revenue and gross profit are not disclosed; “30% of ACV” can blend legacy upgrades, acquired capabilities and new consumption. The long-range destination is credible only if ServiceNow proves that neutral orchestration earns incremental economics rather than merely defending the installed base. Source: [2026 Financial Analyst Day](https://investor.servicenow.com/events-and-presentations/financial-analyst-day/default.aspx).

7. Governance flags

ServiceNow has one common share class and no controlling shareholder. PwC found effective internal control at December 31, 2025; there was no restatement or disclosed material weakness. The federal hiring matter remains under DOJ investigation, however, and is the main open governance risk. The board deserves credit for investigating and removing the executives involved, but a recurrence or material debarment/sanction would move the gate to FAIL. Source: [July 2024 8-K](https://www.sec.gov/Archives/edgar/data/1373715/000137371524000269/now-20240724.htm).

Related-party items disclosed in the 2026 proxy were small but not ideal: $365,000 to former director Jeff Miller for a one-year ServiceNow University role, and planned employment of Paul Fipps’s daughter at compensation above $120,000. Neither is financially material; both require audit-committee discipline. The Yuan/McDermott reciprocal board relationship is a more visible independence blemish.

Recent CEO and CFO Form 4s reviewed were predominantly vesting, option exercises or shares withheld for tax, not a clustered open-market exit. The August 2026 McDermott filing showed RSU vesting and tax withholding, leaving 182,275 directly held shares plus 24,405 in trust; Mastantuono’s May filing similarly reflected vesting and tax withholding. The only new 10b5-1 plan disclosed in Q2 2026 belonged to Canney, not the CEO or CFO. This is not a current insider-selling red flag.

Succession disclosure describes annual emergency and long-term reviews but names no successor. Mastantuono’s promotion and Zavery’s product/COO role create a credible bench; the 2024 COO departure and 2025 field-leadership change show continuity is not frictionless. At age 64 and with a CEO-centric external narrative, McDermott succession deserves active board attention.

8. Peer comparison

CEO / company	Capital allocation	Disclosure and stewardship comparison
Satya Nadella / Microsoft	Better demonstrated per-dollar returns and per-share discipline across a much larger base, though current AI capex is a fresh test	More segment and GAAP economic disclosure; ranks above McDermott
Marc Benioff / Salesforce	Historically more serial, expensive M&A; recent margin and buyback discipline improved	McDermott has the cleaner operating-consistency record, but ServiceNow’s 2026 spree narrows the advantage
Christian Klein / SAP	More restrained recent M&A and strong cloud transition, but slower topline compounding	SAP reports more business-line economics; McDermott ranks higher on growth execution, lower on current return-accountability

McDermott ranks in the upper half on five-year operating stewardship, but not yet as a proven top-tier allocator. He has earned credit for growth, margin expansion and strategic clarity. Nadella offers stronger evidence of per-share capital productivity; Benioff is a warning that strategically plausible software acquisitions can take years to earn their cost.

9. Verdict on the management gate

MANAGEMENT GATE: YELLOW. McDermott and Mastantuono have a seven-year record of beating guidance, delivering the prior long-range subscription target, expanding statutory margin and ROIC, and preserving a high internal investment rate. The gate cannot PASS because the compensation scorecard omits ROIC and per-share owner economics, SBC remains 14.8% of revenue, and the $11 billion-plus acquisition wave has not yet demonstrated organic growth, integration returns or debt-adjusted value creation. The unresolved federal-contract investigation is a second bounded but material condition; the response to date was credible, but final resolution matters.

Upgrade to **PASS** requires: (1) by FY2027, an acquired-versus-organic bridge and evidence that Moveworks, Veza and Armis raise owner FCF per share and conservative ROIC without impairment; (2) SBC/revenue on a visible path below 10% by 2029

with diluted shares flat/down and buybacks not consuming a disproportionate share of FCF; and (3) resolution of the DOJ matter without material sanction or repeat compliance failure, alongside credible succession depth. Downgrade to **FAIL** if acquisitions drive persistent ROIC below the cost of capital, management withholds acquisition contribution while buying revenue to hit pay metrics, dilution resumes despite heavy repurchases, or the federal matter reveals broader control or candor failures.

Appendix W - Moat and 2046 Durability

ServiceNow (NOW) — Moat and 2046 Durability

Assessment date: September 4, 2026 **TTM anchor:** June 30, 2026 **Forward modeling horizon:** June 30, 2031 **2046 test date:** September 4, 2046 **Financial reporting perimeter:** One operating and reportable segment; product areas below are economic lenses, not invented reporting segments.

ServiceNow has a strong present-tense franchise, but the ER2 question is harder: whether its control of enterprise workflows remains a protectable profit pool after AI agents make interfaces and simple automations cheap. The evidence supports durable switching costs in governed, cross-system processes and unusual procurement trust. It does not yet prove that ServiceNow, rather than Microsoft, SAP, Salesforce, Workday, Atlassian, a hyperscaler, or a future agent standard, will own the orchestration tollbooth in 2046. That unresolved ownership question drives a deliberately non-diplomatic **YELLOW** rather than a courtesy PASS.

Historical figures come from the QFR/DR-verified [data package](./data_package.md), built from live FMP pulls and official filings. Competitive claims are checked against ServiceNow's [2025 Form 10-K](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000007/now-20251231.htm), [Q2 2026 Form 10-Q](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000076/now-20260630.htm), [Q2 2026 release](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000072/erq2fy26.htm), and current vendor materials.

1. Moat taxonomy applied

Network effects — weak direct, moderate ecosystem reinforcement

ServiceNow is not a classic network: one customer's use does not automatically improve another's product. The effect is indirect. A large installed base attracts integrators, trained administrators, developers, connectors, marketplace applications, and implementation playbooks; those complements lower adoption risk. ServiceNow says its platform processes more than 100 billion workflows and 7 trillion workflow transactions annually, but that is operational scale, not a proprietary-data network effect: customer data are segregated. Partners can also implement competing suites.

Switching costs — strong in complex deployments, weak in isolated workflows

This is the core moat. A mature deployment contains service catalogs, CMDB relationships, asset history, roles, approval chains, SLAs, exceptions, audit evidence, integrations, and custom applications. Replacement requires re-mapping permissions and dependencies, re-testing controls, retraining users, migrating history, rebuilding integrations, and accepting outage or compliance risk. The 98% ACV-based renewal rate from 2021 through H1 2026 is the clearest evidence. It excludes ordinary contraction, however, and lightly configured workflows can migrate to cheaper products. Customization can also become technical debt rather than healthy lock-in.

Scale economies — strong in software, moderated by cloud and AI costs

ServiceNow spreads platform engineering, security, certifications, connectors, and sales infrastructure across roughly $14.7 billion of TTM revenue. Revenue more than tripled from FY2020 to FY2025 while sales and marketing fell from 38.9% of revenue in FY2021 to 32.5% TTM. A common data, identity, workflow, and governance layer spans the product set. Yet cloud capacity, sovereignty, inference, and support are variable costs; Q2 guidance attributed gross-margin pressure to greater hyperscaler use and AI adoption. Scale protects R&D and trust investment more clearly than it guarantees rising gross margin.

Brand — strong with CIOs, narrower outside enterprise operations

The ServiceNow name lowers career and implementation risk for CIO-led transformations. [Gartner's July 2026 ITSM definition](https://www.gartner.com/en/documents/8168829) still calls these platforms systems of record for infrastructure and operations; ServiceNow also reports that it was the only Leader in Gartner's 2025 AI Applications in ITSM assessment. Brand is strongest in IT operations and weaker where Salesforce, Workday, SAP, or Microsoft owns the buyer relationship. It wins a shortlist, not immunity from bundling.

Regulatory moat — no license, but accumulated compliance capability

ServiceNow has no regulatory license. Its advantage is the costly set of controls, certifications, data-residency options, security processes, public-sector credentials, and auditability needed for sensitive workflows. These raise challenger cost and make procurement conservative. Sovereignty rules, AI regulation, a breach, or an unauthorized agent action can also raise cost or rapidly destroy trust. This is a supporting moat, not a standalone one.

Intellectual property and patents — useful, not decisive

Workflow logic, CMDB architecture, RaptorDB, Veza's access graph, Armis cyber-asset intelligence, and orchestration software improve the product. Patents slow exact copying, but features diffuse and MCP/A2A reduce interface advantage. [Microsoft](https://www.microsoft.com/en-us/microsoft-copilot/blog/copilot-studio/new-and-improved-multi-agent-orchestration-connected-experiences-and-faster-prompt-iteration/) and [SAP](https://news.sap.com/2026/05/new-joule-studio-enterprise-scale-agentic-development/) now offer multi-agent orchestration and governance. ServiceNow's IP matters only when fused with installed process data, permissions, reliability, and action history.

High-trust procurement — strong and independently important

Large deals require architecture review, security diligence, integration testing, multiple approvals, and often integrator sponsorship. The 10-K says complex multi-product deals bring longer sales cycles, pricing pressure, and implementation demands; the same burden impedes replacement. Contracts generally run 12 to 36 months, customers are usually invoiced annually, and terms are generally non-cancellable. Q2 2026 RPO was $29.0 billion, cRPO $13.2 billion, and 658 customers exceeded $5 million of ACV. Duration also delays visibility into dissatisfaction.

2. Per-segment moat

ServiceNow has only one reportable financial segment. The sole modeled segment's moat is the combined platform: embedded process knowledge plus cross-system orchestration plus enterprise trust. It is strong over five years and likely strong over ten because wholesale replacement is costly and the installed base is still expanding. Twenty-year durability is unresolved because agents may separate the conversational interface and planning layer from the underlying record/action system. The earliest break signal would be renewal below the historical 98% band alongside weaker cRPO growth, fewer large-customer expansions, and credible reference customers replacing rather than merely front-ending ServiceNow.

The following product-area analysis avoids inventing segment revenue or profit that ServiceNow does not disclose.

Economic product area	Moat and durability	What breaks it	Earliest observable sign
Technology: ITSM, ITOM, asset, security, risk	Strongest pool. CMDB relationships, incident/change history, service maps, controls, and integrations make this operational infrastructure. Strong 5- and 10-year durability; plausible at 20 years.	Microsoft/Atlassian or autonomous operations platforms rebuild the system of action, or poor CMDB data makes ServiceNow context unreliable.	ITOM/CMDB deal momentum stalls; major customers migrate core ITSM; renewal or large-deal counts weaken.
CRM and Industry	Moderate. Cross-department fulfillment and industry playbooks matter, but Salesforce, Microsoft, SAP, and vertical vendors own more native customer or transaction data. Durable for 5 years; uncertain at 10-20.	System-of-record vendors bundle comparable case-to-operations orchestration and restrict data access.	CRM NNACV/deal commentary decelerates; fewer multi-product wins; ServiceNow becomes a back-office connector only.
Core Business: employee and shared services	Moderate. Multi-system onboarding and service delivery are sticky after deployment, but Workday/Microsoft own key employee surfaces and identities. Durable for 5-10 years, not yet proven for 20.	Native agents in Microsoft 365 or Workday complete tasks directly across APIs and keep the governing record elsewhere.	Employee workflows lose attach; portal traffic collapses without headless action volume replacing it.
Creator, data, and AI control	Potentially strong but least proven. Common permissions, data fabric, action fabric, governance, and custom apps can deepen the platform.	Open protocols commoditize orchestration; hyperscalers provide cheaper governance and agents; customer-built apps become easy to maintain.	AI ACV rises but recognized growth, retention, and gross profit do not; third-party agents bypass ServiceNow actions.
Professional services and other	No attractive standalone moat. Services de-risk adoption and seed subscriptions but are labor intensive and often deliberately ceded to partners.	Partners prioritize competing suites or implementations remain slow and expensive.	Deployment times lengthen, partner satisfaction falls, and services gross losses persist without better subscription expansion.

The blended moat is weaker than Technology. Product revenue and profit are undisclosed, so investors cannot prove how much economics come from core IT operations versus more contestable CRM, employee, creator, and AI products. Adjacent

expansion deepens switching cost but enters territories where rivals own the system of record.

3. Margin persistence evidence

The available verified statutory history covers FY2020-FY2025 plus TTM; product-level operating margins are not disclosed.

Period	Revenue ($B)	GAAP operating margin	GAAP gross margin where available	Interpretation
FY2020	4.520	4.4%	n/d	Early statutory-profit base
FY2021	5.896	4.4%	77.0%	High growth; heavy sales/R&D investment
FY2022	7.245	4.9%	78.3%	Stable gross margin
FY2023	8.971	8.5%	78.6%	Clear operating leverage
FY2024	10.984	12.4%	79.2%	Scale economics visible
FY2025	13.278	13.7%	77.5%	Continued statutory expansion
TTM to 2026-06-30	14.732	11.4%	74.8%	Acquisition amortization, AI/hyperscaler and integration pressure

This is positive but not conclusive moat evidence. Revenue compounded at roughly 24% from FY2020 to FY2025 while GAAP operating margin expanded about nine percentage points. Non-GAAP operating margin rose from 25% in FY2021 to 31% in FY2025 and 31.3% TTM. The 2026 compression is real: quarterly GAAP subscription gross margin fell from 80.0% in Q3 2025 to 73.5% in Q2 2026, while the comparable non-GAAP measure fell from 83.0% to 80.5%. Acquired-intangible amortization explains much of the statutory decline, but management itself tied the FY2026 gross-margin outlook to hyperscaler use and AI adoption. A moat claim cannot simply add back the cost of delivering the next product cycle.

Retention has not cracked: 98% renewal persisted, subscription revenue and cRPO still grew above 20%, and large-customer counts rose. Thus the evidence presently looks more like investment and purchase-accounting pressure than competitive price collapse. Still, absence of NRR, downsell, product-level gross profit, AI recognized revenue, and per-assist cost prevents a clean claim that margins will recover automatically.

4. AI disruption stress test

Simple ticket summarization, search, routing, knowledge creation, form completion, and low-code workflow authoring are replicable prompt-to-output tasks. Their user-interface value will commoditize. ServiceNow's moat must therefore live beneath the prompt: authoritative operational context, entitlements, tested actions, change controls, exception handling, service dependencies, and the auditable record of what happened.

Technology workflows are the most protected. ITSM/ITOM is platform-adjacent: AI raises the value of accurate CMDB context and can expand remediation volumes. An agent may diagnose an outage, but changing production still requires permissions, service maps, approvals, rollback, and evidence. [AI Control Tower](https://newsroom.servicenow.com/press-releases/details/2026/ServiceNow-expands-AI-Control-Tower-to-discover-observe-govern-secure-and-measure-AI-deployed-across-any-system-in-the-enterprise/default.aspx) is designed to govern agents across major clouds and enterprise applications. Credit the customer's configured context, not a supposed universal data monopoly.

Core Business and CRM are more exposed. Agents can hide the ServiceNow portal and act directly in Workday, Microsoft 365, Salesforce, or SAP. Microsoft and SAP already orchestrate agents; Workday markets an [Agent System of Record](https://newsroom.workday.com/2026-05-21-Workday-Announces-Fiscal-2027-First-Quarter-Financial-Results?asPDF=1); [Atlassian Rovo](https://support.atlassian.com/rovo/docs/agents/) acts inside Jira and connected applications. Standardized employee service and customer-case triage are most exposed because rivals own the primary data or user surface.

Creator and AI governance are both the largest opportunity and the sharpest risk. Open Action Fabric/MCP/A2A access can make ServiceNow the neutral execution substrate even when another vendor owns the front end. Conversely, open standards make it easier to swap orchestration layers, and hyperscalers can subsidize agents to defend cloud consumption. The winning outcome is headless ServiceNow: third-party agents still call its governed actions and write to its audit trail. The losing outcome is invisible plumbing with weak pricing power while the model, data, identity, and system-of-record owners capture the rent.

Inference economics remain unproven. Management reports 20%-30% price uplift on new AI-native SKU upgrades and more than 30% on Pro Plus, while AI ACV exceeded $1 billion in Q2 2026. That is promising monetization. But there is no disclosed AI revenue, contribution margin, token cost, cost per assist, or cohort retention. The simultaneous fall in non-GAAP subscription gross margin to 80.5%, with an FY2026 guide of 81%, shows that model and hyperscaler costs matter. Durable economics require price/consumption to scale at least as fast as inference expense without triggering customer optimization or renewal resistance.

5. The 2046 test

On September 4, 2046, a successful ServiceNow would describe itself as the governed enterprise action and assurance network. It sells subscriptions and usage capacity to large enterprises and public agencies that let human and software agents discover operational context, request permission, execute actions across heterogeneous systems, monitor outcomes, resolve exceptions, and retain regulator-ready evidence. The Technology franchise still exists but has shifted from human ticket handling to autonomous service operations, cyber/identity response, asset governance, and change assurance. Traditional portals and much manual professional services have withered. CRM, employee, and industry workflows survive where ServiceNow coordinates processes spanning several systems; generic case interfaces do not. AI Control Tower, identity, context, data fabric, and headless Action Fabric have grown into the core. Statutory operating margin is directionally higher than the acquisition-depressed 11.4% TTM level because amortization rolls off and sales/engineering scale, but subscription gross margin is likely modestly below the pre-agent peak because inference, sovereignty, and continuous assurance remain real costs. The intact moat is not the 2026 user interface: it is accumulated customer-specific process state, policy, identity, dependency graphs, proven actions, audit history, procurement trust, and an ecosystem capable of maintaining them.

That description is specific and economically plausible. Customers still pay because autonomous action raises the cost of error: a generic model can propose what to do, but boards, regulators, security teams, and system owners require a governed record of who or what acted, under which policy, on which asset, with what approval and outcome. ServiceNow can earn high returns if it remains neutral across model and application vendors and if the action/audit layer becomes more valuable as agent volume rises.

The bear 2046 description is also plausible. Microsoft, SAP, Salesforce, Workday, and hyperscalers make their identity, data, agent, and application controls interoperable through open standards; enterprises use those native controls as the authoritative action ledger. AI makes configuration migration and custom integration cheap, so customers gradually export ServiceNow process logic. ServiceNow retains a mature ITSM base and some regulated niches but becomes a slower-growing compatibility layer, competing on price against Atlassian, open-source automation, and suite bundles. Gross margin falls as inference and cloud suppliers capture economics; sales expense remains high to defend renewals. This is not a remote tail: it is a material minority outcome, roughly a one-in-three qualitative risk over twenty years. That is too high for a 2046 PASS today, but not high enough to call the existing moat illusory or FAIL.

6. Competitive threat inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
Hyperscaler and productivity-suite orchestration	Microsoft/Azure, Google or AWS owns agent interface, identity, models, data tools and action routing; workflow is bundled with cloud/productivity spend.	Creator/AI first; Core Business; then Technology	Third-party agents stop invoking ServiceNow; AI attach rises elsewhere while NOW cRPO and large-deal growth slow.	High
System-of-record native agents and restricted data access	SAP, Salesforce, Workday and security vendors use native data/process semantics, bundle agents, or charge/restrict ServiceNow integration.	CRM/Industry, employee, finance, security	Lower multi-product attach; integration fees; lost lighthouse customers; weaker adjacent-product NNACV.	High
AI-native or low-cost ITSM replacement	Atlassian, Freshworks, BMC, focused vendors or customer-built tools use AI to automate migration and match standard workflows cheaply.	ITSM edge, midmarket, standardized employee service	Renewal falls below historical band, downsells rise, seat/instance consolidation appears, pricing concessions increase.	Medium

7. Pricing power verification

Pricing power is observable but narrower than the strongest marketing claim. First, AI-native SKU upgrades are reportedly achieving 20%-30% uplift and Pro Plus more than 30%. Second, customers have continued expanding: the count above $5

million ACV reached 658 in Q2 2026, up approximately 23% year over year, and the quarter included 123 transactions above $1 million of net-new ACV. Third, 98% renewal persisted through H1 2026 while cRPO grew 21% to $13.2 billion. Fourth, typical three-year, generally non-cancellable contracts and $29.0 billion of RPO give real revenue visibility.

The evidence does not establish blanket list-price power. The 98% renewal calculation omits ordinary downsells; NRR and churn are not disclosed. The AI uplifts apply to adopting higher-value bundles, not the full installed base, and consumption pricing can cause customers to optimize usage. There is no disclosed table of contractual escalators or minimum AI commitments. Finally, Q2 2026 GAAP and non-GAAP subscription gross margins fell to 73.5% and 80.5%, respectively. So ServiceNow is currently passing some incremental AI cost to adopters, but it has not yet demonstrated that price realization, renewal resilience, and gross margin all survive a full multi-year agentic-AI cycle.

8. Moat verdict

Moat gate: YELLOW 2046 test: YELLOW

ServiceNow's current moat is real: complex workflows embed customer process data and controls; the platform coordinates across fragmented systems; high-trust procurement, a large partner ecosystem, 98% renewal, rising large-customer cohorts, and long contracted backlog make replacement expensive. Technology workflows—especially ITSM, ITOM/CMDB, security, identity, and risk—drive the defensible profit pool; CRM, employee workflows, creator/AI, and professional services dilute the blended durability. Margin expansion through FY2025 supports scale economics, but 2026 gross-margin pressure and absent AI unit economics prevent a clean proof that agentic monetization is already high-return. The 2046 business can be described specifically, yet its success requires ServiceNow to own the governed action/audit layer even when another vendor owns the agent interface, model, identity, or system of record.

Upgrade to PASS if all three become observable: renewal remains around 97%-98% with cRPO growth in at least the mid-teens through a multi-year AI SKU migration; recognized AI-driven subscription growth and large-customer expansion coexist with non-GAAP subscription gross margin sustainably at or above roughly 80%; and third-party agents increasingly invoke ServiceNow's headless actions/control layer, demonstrating that open protocols expand rather than commoditize the platform.

Downgrade to FAIL if any two persist: renewal drops below roughly 95% or material downsells/major replacements emerge; subscription gross margin stays below the high-70s after acquisition amortization normalizes; cRPO growth falls below about 10% while suite-native agents accelerate; or AI ACV/consumption grows without corresponding recognized revenue, gross profit, and per-share owner economics. Those signals would show that switching cost is legacy inertia and that systems-of-record or hyperscalers, rather than ServiceNow, capture the economics of enterprise agents.

Appendix B1 - Consolidated Company

Consolidated company — Segment Deep Dive

Company: ServiceNow, Inc. **Ticker:** NOW **Run:** `pulse-cio-20260904T180312+0800` **TTM anchor:** 2026-06-30 **Exact five-year horizon:** 2031-06-30 **Exact modeled profit basis:** `Statutory operating income (single-segment non-operating CODM fallback)` **Scenario probabilities:** Bear 25%; Base 55%; Bull 20%. The Base case has the controlling probability and is the only case that should control the downstream valuation gate.

0. Segment boundary and taxonomy note

ServiceNow has one operating and reportable segment, so this appendix models exactly one financial segment named **Consolidated company**. The issuer tells its chief operating decision maker about consolidated net income, which is a below-operating-line measure. The sealed statutory bridge therefore requires the exact fallback label **Statutory operating income (single-segment non-operating CODM fallback)** for the financial projection while preserving consolidated net income separately as CODM context. This basis is an ER2 modeling fallback, not an issuer-disclosed segment operating-profit measure. The one-segment perimeter is stable. Revenue-type taxonomy is not fully stable: FMP's historical `Digital Workflow Products` and `ITOM Products` tags end at FY2024 and are collapsed into the current `License and Service` line from FY2025 onward. Accordingly, historical Digital Workflow and ITOM figures are context only. They are not spliced into the current forecast, and workflow families, AI products, security products and acquired products are not presented as separate reportable profit segments [data_package §1, §4].

1. What this segment actually is

ServiceNow sells a cloud platform that turns enterprise work into governed digital workflows. A customer generally begins with a specific problem—IT service management, operations, customer service, employee support, security response, risk, data access or asset management—and then adds workflows, users, devices, agents and usage over time. The platform combines a shared data model, workflow engine, integrations, low-code tooling, analytics and an expanding suite of AI assistants and autonomous agents. The economic proposition is not merely replacing a ticketing screen. It is coordinating people, software and machines across systems of record while applying permissions, approvals, audit trails and service-level logic.

The customer is usually a large enterprise or public-sector organization. Buyers span the chief information officer and technology organization, customer-service leaders, human-resources leaders, security teams, risk officers, operations leaders and line-of-business owners. This creates a land-and-expand motion: ServiceNow can enter through IT workflows and expand into customer, employee, creator, security and industry workflows. The Q2 2026 count of 658 customers spending more than $5 million in annual contract value, up from 603 at FY2025, shows the importance of large-account expansion rather than a purely new-logo model [data_package §0a, SaaS KPI history; §5].

Pricing is hybrid. Traditional subscriptions are tied to users, roles or products, but management explicitly describes a future that includes devices, agents and assists rather than seats alone [data_package §6, Q4 FY25 pricing quote]. AI-native SKU upgrades can carry 20%-30% price uplifts, according to management, but that uplift applies to upgrading SKUs rather than the entire installed base [data_package §6, Q2 FY26 pricing quote]. Consumption can widen the addressable base beyond human seats; it can also make demand less predictable and expose ServiceNow to inference cost if price and cost curves do not move together.

Go-to-market is enterprise direct sales supported by partners, global systems integrators, managed-service providers and hyperscalers. Professional services are deliberately small relative to subscription revenue because implementation capacity is shared with partners. ServiceNow still provides implementation, training and related services where it helps adoption, but the strategic engine is recurring subscription revenue. At the TTM anchor, subscription revenue is $14.313 billion and professional services and other revenue is $0.419 billion, or 97.2% and 2.8% of $14.732 billion total revenue, respectively [data_package §4, Dollar-disclosed revenue types].

Product families are important as bottom-up demand drivers but are not separately dollar disclosed. The installed platform includes ITSM, ITOM, ITAM, CRM and customer-service workflows, employee workflows, security and risk, RaptorDB, Workflow Data Fabric, AI Control Tower, Now Assist and the acquired Moveworks, Veza and Armis capabilities. This model does not manufacture starting revenue for those families. Instead, it forecasts the two disclosed revenue types and uses product evidence—AI ACV, deal counts, renewal, cRPO, RPO and large-customer cohorts—to justify their growth paths [data_package §4, Product KPIs and true non-disclosures].

2. Current economics at the TTM anchor

TTM revenue ended 2026-06-30 at $14.732 billion. Subscription contributed $14.313 billion and professional services and other contributed $0.419 billion. The exact modeled profit was $1.680 billion of **Statutory operating income (single-segment non-operating CODM fallback)**, a margin of 11.4%. The disclosed CODM measure, consolidated net income, was $1.670 billion for the same constructed TTM and remains below-line context rather than a second operating profit measure [data_package §3, §3a; statutory_bridge.json, TTM period].

Current growth is strong but acquisition-affected. Quarterly total revenue growth was 22.0%, 20.5%, 22.0% and 24.0% across Q3 FY2025 through Q2 FY2026. Subscription growth was 21.5%, 21.0%, 22.0% and 24.5%. The TTM growth rate on a comparable prior-TTM basis is not given in the governed package, so this appendix does not invent one. FY2025 revenue growth was 20.9%, while the latest quarter accelerated partly in a period that included Moveworks, Veza and Armis [data_package §3, §5, §9].

Contracted visibility is substantial. Q2 cRPO was $13.20 billion, up 21% year over year, and total RPO was $29.0 billion. cRPO represented about 46% of RPO and 89.6% of TTM revenue; total RPO was almost twice TTM revenue. These ratios are visibility markers, not mechanical conversion formulas. RPO excludes some arrangements billed in arrears, contract duration changed, and seasonality makes quarter-to-quarter bookings inference unreliable. The majority of non-current RPO is expected to convert over 13-36 months [data_package §0a, SaaS KPI history; §5].

Retention is unusually strong on the disclosed measure: the ACV-based renewal rate has remained 98% from FY2021 through Q2 2026. This is not net revenue retention. It captures renewal behavior but excludes expansion and contraction among retained customers. Therefore, the model can rely on low gross attrition as a stabilizer, but it cannot insert an undisclosed net retention rate to manufacture growth [data_package §0a; §10].

AI monetization is already commercially meaningful but still poorly observable in recognized revenue. Now Assist ACV surpassed $600 million at Q4 FY2025; ServiceNow AI ACV surpassed $1 billion at Q2 FY2026 and management targets $1.5 billion in FY2026. Management also targets about 30% of ACV from ServiceNow AI by FY2030. These milestones use changing portfolio definitions and are contract-value indicators, not revenue figures. The forecast therefore treats AI as an embedded driver of subscription renewal, price uplift, cross-sell and usage rather than adding AI ACV directly to revenue [data_package §0a, AI ACV note; §4; §6].

The statutory margin is far below management's non-GAAP presentation. TTM GAAP gross margin was 74.8% and **Statutory operating income (single-segment non-operating CODM fallback)** margin was 11.4%, while TTM non-GAAP operating margin was 31.3%. TTM stock-based compensation was $2.185 billion, or 14.8% of revenue. Q2 alone included $655 million of SBC, $219 million of purchased-intangible amortization, $75 million of business-combination costs and $62 million of severance. Those are real statutory expenses and cannot be erased in this build [data_package §0a, Margins/SBC inventory; §5].

Capital intensity is moderate for SaaS, not negligible. FY2025 capex was $0.868 billion, 6.5% of revenue; the FY2021-FY2024 ratio ranged from 6.8% to 7.8%. R&D remained 22.3%-24.4% of revenue over FY2021-FY2025. Management expects hyperscaler adoption eventually to reduce capital intensity, but the near-term shift raises subscription gross-margin pressure and does not make compute free [data_package §7].

3. Unit economics

Revenue formation

The recurring subscription base is the first economic layer. A 98% ACV-based renewal rate means very little contracted value disappears simply because customers terminate. That gives each period a high starting revenue floor. Growth then depends on price, more products, more users and devices, more workflow volume, AI-native SKU upgrades, consumption and acquired capabilities. The large-enterprise cohort provides evidence of expansion: customers above $5 million ACV increased from nearly 500 at FY2024 to 603 at FY2025 and 658 at Q2 FY2026 [data_package §0a].

cRPO is the near-term conversion reservoir. At $13.2 billion, it covers most of the next twelve months' current run-rate, but it should not be divided by four or treated as bookings. The base path assumes cRPO growth and subscription revenue remain near 20% in the near term, then converge downward as scale increases. The bear path assumes cRPO growth fades faster because new-logo and expansion decisions slow, even though renewal stays high. The bull path assumes AI, CRM, security and workflow consolidation keep expansion sufficiently high for subscription growth to remain around 20% through most of the horizon.

The AI layer changes monetization geometry. Traditional seats create predictable recurring revenue, while agents and assists can charge for automated work or capacity. A 20%-30% upgrade uplift can raise ACV before all associated revenue is recognized. AI Control Tower can add governance demand even when a customer uses third-party models. RaptorDB and Workflow Data Fabric can increase data and transaction value. Conversely, if customers perceive AI agents as interchangeable, they may resist premium pricing or shift spend toward Microsoft, Salesforce, hyperscalers or AI-native alternatives. The model makes AI additive to total subscription growth only through the disclosed subscription line; it is never a separately added revenue segment.

Gross profit and operating expense conversion

Subscription gross margin historically benefited from multi-tenant software economics, high renewal and the ability to spread platform engineering across a growing base. Yet the latest quarter demonstrates that gross margin is not structurally fixed. GAAP subscription gross margin moved from 80.0% in Q3 FY2025 to 73.5% in Q2 FY2026. Non-GAAP subscription gross margin declined from 83.0% to 80.5%. Faster hyperscaler usage, public-cloud and geographic investment, AI consumption and acquired intangible amortization all contributed [data_package §5].

Inference economics are the crucial new variable. The company does not disclose token volume, cost per assist, AI gross profit or contribution margin. A favorable outcome requires price per automated task and engineering efficiency to improve at least as fast as model and infrastructure cost. ServiceNow can route workloads, use smaller models, cache outputs, negotiate hyperscaler terms and design usage allowances. It can also price premium AI-native SKUs above incremental cost. The adverse outcome is that adoption grows faster than monetization, turning successful usage into gross-margin drag. Because no unit-cost series exists, each scenario embeds an explicit margin consequence instead of pretending to measure it.

Sales and marketing is the largest visible operating leverage pool. It fell from 38.9% of revenue in FY2021 to 33.0% in FY2025 and 32.5% TTM. Platform consolidation and expansion within existing accounts should allow revenue to grow faster than sales headcount. Competition, however, can offset this if ServiceNow must defend IT workflows while simultaneously building specialist sales motions in CRM and security [data_package §0a].

R&D is a strategic necessity, not a temporary startup expense. It held above 22% of revenue historically. ServiceNow must fund platform reliability, data architecture, AI agents, model governance, industry products, security, integrations and the assimilation of Moveworks, Veza and Armis. A model that drives R&D sharply lower to create earnings would weaken the moat. The base case therefore derives statutory expansion mainly from sales efficiency, lower SBC intensity and fading acquisition charges, not from starving product development.

SBC is the largest gap between reported and adjusted economics. TTM SBC was 14.8% of revenue, while management targets below 10% by 2029 and net-neutral dilution in 2026. Reducing the SBC ratio can improve statutory margin even if cash compensation partially replaces equity. However, buybacks used to neutralize dilution consume owner cash and do not retroactively remove compensation cost. The model treats lower SBC as an operating benefit only when supported by lower compensation intensity, while separately showing a diluted-share sensitivity [data_package §0a, §7].

Purchased-intangible amortization and integration costs are the second large statutory burden. Moveworks closed in December 2025, Veza in March 2026 and Armis in April 2026. H1 2026 added $2.886 billion of identified intangibles and $6.149 billion of goodwill. Amortization will persist beyond the immediate integration period even as combination costs and severance fade. Base margin expansion therefore cannot simply jump from 11.4% to the 31.5% non-GAAP guide; the horizon still carries amortization, SBC and ordinary GAAP expenses [data_package §9].

4. Competitive dynamics

ServiceNow competes on several fronts because the consolidated platform spans multiple budgets. In core IT service and operations management, principal alternatives include BMC Helix, Atlassian Jira Service Management, Ivanti, SolarWinds and internally assembled tools. Microsoft can bundle identity, endpoint management, security, collaboration and Copilot capabilities around Azure and Microsoft 365. In customer workflows and CRM, Salesforce, Microsoft Dynamics and specialist contact-center or service vendors are formidable. In employee workflows, Workday, Microsoft, Oracle and HR-service platforms own adjacent data and user surfaces. In security and risk, the company encounters Microsoft, Palo Alto Networks, CrowdStrike and many specialist security, identity and exposure-management vendors. In automation and agentic AI, Microsoft, Salesforce, UiPath, hyperscalers and rapidly evolving AI-native vendors can compete for the orchestration layer.

The relevant share concept is not one neat market percentage. ServiceNow is strong in large-enterprise IT workflows, but it is a challenger or adjacency entrant in several newer categories. The governed package provides no independent, current market-share percentage by product, and this appendix does not manufacture one. The observable evidence of position is

internal: 98% renewal, 658 customers over $5 million ACV, $29.0 billion of RPO and continued 20%+ cRPO growth. Those measures indicate a substantial installed base and wallet expansion, not universal dominance [data_package §0a, §5].

Pricing power comes from workflow criticality and integration depth. Replacing a single interface is easy compared with rebuilding approvals, configuration data, service catalogs, role permissions, audit histories, integrations and operating procedures. That allows ServiceNow to charge for incremental modules and premium AI functionality. Nevertheless, the 20%-30% AI uplift is a management framework for upgraded SKUs, not proof of blanket pricing power. Customers can demand enterprise-wide discounts, consolidate vendors or deploy AI layers above existing systems without paying ServiceNow for every interaction.

Acquisitions expand the contestable perimeter. Moveworks strengthens employee-facing AI search and assistance; Veza adds identity security; Armis adds cyber-exposure and cyber-physical visibility. Cross-selling them through the installed base could deepen platform value. Failure would leave a more leveraged balance sheet, significant goodwill and intangible amortization, duplicated go-to-market costs and specialist products that compete with focused incumbents. The base case assumes useful cross-sell but not frictionless integration.

5. Moat at the segment level

The strongest moat is the embedded workflow graph. Enterprise workflows encode who may do what, in which system, under which approval, with what evidence. Over time, ServiceNow accumulates configurations, integrations, data relationships and organizational habit. The cost of migrating is not merely a software license comparison; it includes redesign, retraining, control testing and operational disruption. This supports the 98% renewal rate and makes the recurring base unusually durable.

Platform breadth, enterprise trust and distribution reinforce the embedded-workflow moat. A common architecture can span IT, employee, customer, security and custom workflows, while large enterprises value reliability, residency, controls, auditability and an experienced partner ecosystem. The growth of the $5 million-plus cohort and RPO supports the claim that customers expand beyond narrow ITSM deployments [data_package §0a].

Agentic AI can strengthen the moat if ServiceNow becomes the control plane where agents receive permissions, access enterprise context, execute workflows and leave auditable records. AI Control Tower is strategically important for this reason: governance can be valuable even when the underlying model is supplied by someone else. RaptorDB and Workflow Data Fabric can improve the data substrate. In the favorable case, AI increases the number of digital workers and transactions flowing through the platform, expanding monetizable units beyond human seats.

AI can also weaken the moat. Natural-language interfaces reduce training friction and may make front ends less sticky. Foundation models can write integrations and workflows faster. Microsoft, Salesforce and hyperscalers can embed agents into systems they already control. If customers can orchestrate across ServiceNow through another vendor's agent layer, ServiceNow may retain infrastructure importance but lose pricing power. The moat is therefore durable at the workflow-control and governance layers, less certain at the user-interface and model layers.

Over five years, the moat appears sufficient to sustain high retention and above-market growth. Over ten years, durability depends on three tests: whether AI-native usage is monetized rather than merely consumed; whether the platform remains the trusted system of action across third-party data; and whether expansion into CRM and security earns specialist credibility. The one-segment structure does not make every product equally moated. Core workflow embedment is strong; newer AI, CRM and security positions still need evidence.

6. Historical growth rates reproduced from the governed data package

The table uses current dollar-disclosed revenue types. `Three-year CAGR` means FY2022 to FY2025, a full three compounding intervals. The exact profit label is shown to preserve the one-segment basis; no product-level profit is implied.

Product / sub-segment	FY2021 revenue	FY2022 revenue	FY2023 revenue	FY2024 revenue	FY2025 revenue	Three-year CAGR	FY2025 YoY	Exact profit metric	Data package cite
Consolidated company total	$5.896B [§3 total row]	$7.245B [§3 total row]	$8.971B [§3 total row]	$10.984B [§3 total row]	$13.278B [§3 total row]	22.4% [§3 total row]	20.9% [§3 total row]	Statutory operating income (single-segment non-operating CODM fallback)	data_package §3, Consolidated company table

Product / sub-segment	FY2021 revenue	FY2022 revenue	FY2023 revenue	FY2024 revenue	FY2025 revenue	Three-year CAGR	FY2025 YoY	Exact profit metric	Data package cite
Subscription / License and Service	$5.573B [§4 subscription row]	$6.891B [§4 subscription row]	$8.680B [§4 subscription row]	$10.646B [§4 subscription row]	$12.883B [§4 subscription row]	23.2% [§4 subscription row]	21.0% [§4 subscription row]	Statutory operating income (single-segment non-operating CODM fallback)	data_package §4, Dollar-disclosed revenue types, row 1
Professional services and other	$0.323B [§4 services row]	$0.354B [§4 services row]	$0.291B [§4 services row]	$0.338B [§4 services row]	$0.395B [§4 services row]	3.7% [§4 services row]	16.9% [§4 services row]	Statutory operating income (single-segment non-operating CODM fallback)	data_package §4, Dollar-disclosed revenue types, row 2

Arithmetic checks pass within the required 2% tolerance. Total revenue: $10.984B × 1.209 = $13.280B versus $13.278B disclosed, a 0.02% rounding difference. Subscription: $10.646B × 1.210 = $12.882B versus $12.883B disclosed, a 0.01% difference. Professional services: $0.338B × 1.169 = $0.395B versus $0.395B disclosed. Subscription plus professional services equals consolidated revenue exactly in FY2025 and TTM. No value was back-solved.

The discontinued historical tags also tie through FY2024: Digital Workflow Products of $9.422 billion plus ITOM Products of $1.224 billion equal $10.646 billion of FY2024 License and Service. They are not continued as forecast rows because the FY2025-current disclosure boundary collapses them [data_package §1; §4].

7. Management guidance from data package Section 6

Every relevant forward statement in the governed package is listed below. The statements are evidence anchors, not assumptions automatically adopted by the model.

- **Q3 FY2025, Bill McDermott, AI monetization:** “Our AI products are on pace to exceed $0.5 billion in ACV this year.” This established the early ACV scale but did not disclose recognized AI revenue [data_package §6, row 1].
- **Q3 FY2025, Bill McDermott, consumption:** “AI Agent Assist consumption has increased over 55x.” This supports adoption but provides neither a starting volume nor price/cost per assist [data_package §6, row 2].
- **Q3 FY2025, Gina Mastantuono, cash leverage:** “We’re also raising our full year free cash flow margin target...from 32% to 34%.” The company generated cash leverage while investing, but FCF margin is not statutory operating margin [data_package §6, row 3].
- **Q4 FY2025, Bill McDermott, AI ACV:** “Now Assist NNACV outperformed expectations in Q4 and surpassed $600 million in ACV.” This is a useful contract-value milestone, not a revenue base [data_package §6, row 4].
- **Q4 FY2025, Bill McDermott, pricing architecture:** “We’re looking far beyond seats alone with our hybrid business model for billions of devices, agents and assists.” The forecast must allow consumption and machine units without assuming they are automatically incremental [data_package §6, row 5].
- **Q4 FY2025, Gina Mastantuono, gross margin:** “We expect subscription gross margin of 82%, reflecting incremental data center investments related to public cloud, geo expansion and AI.” This explicitly links growth investment and AI to near-term cost [data_package §6, row 6].
- **Q1 FY2026, Bill McDermott, customer cohort:** “The number of customers spending $1 million plus grew over 130% year-over-year.” The observation applies to a Now Assist customer cohort, not company revenue [data_package §6, row 7].
- **Q1 FY2026, Bill McDermott, owner economics:** “Our goals for ServiceNow are clear...margin expansion, reduced stock-based compensation.” The statutory build explicitly tests SBC reduction rather than relying on adjusted margin [data_package §6, row 8].
- **Q1 FY2026, Bill McDermott, framework:** “We’re looking at a company that’s a Rule of 60 company and beyond.” This is aspirational and combines constant-currency subscription growth with non-GAAP FCF margin, so it does not set GAAP profit [data_package §6, row 9].
- **Q2 FY2026, Bill McDermott, AI monetization:** “ServiceNow AI ACV...surpassing $1 billion, keeping us on track to beat our target of $1.5 billion ACV.” The base case recognizes a rapid AI contract ramp while avoiding ACV/revenue conflation [data_package §6, row 10].

- **Q2 FY2026, Gina Mastantuono, AI mix:** “We’re already tracking ahead of our target for AI to reach 30% of ACV by 2030.” Base assumes meaningful AI mix, but treats the 30% level as a management aspiration [data_package §6, row 11].
- **Q2 FY2026, Gina Mastantuono, pricing:** “Upgrades to our new AI-native SKUs are driving price uplift in line with the 20% to 30% framework.” The uplift is applied only to eligible upgrades inside subscription growth [data_package §6, row 12].
- **Q2 FY2026, Gina Mastantuono, gross margin:** “We expect subscription gross margin of 81%, reflecting more customers utilizing our hyperscaler partnerships as well as accelerating AI adoption.” This is the near-term non-GAAP subscription margin anchor; the model keeps an inference/hyperscaler drag [data_package §6, row 13].
- **Q2 FY2026, Bill McDermott, integration:** “We will complete this cycle of 2026 and start 2027 with the exact same headcount before we did the acquisitions.” The claim supports potential cost synergy but is treated as an execution test rather than certainty [data_package §6, row 14].

Additional FAD anchors are FY2026 subscription revenue of at least $15.7 billion, FY2030 subscription revenue above $32 billion, approximately 30% of ACV from ServiceNow AI by FY2030, subscription gross margin above 80% as AI scales, Rule of 60-plus in FY2030, SBC below 10% of revenue by 2029 and net-neutral dilution in 2026 [data_package §6, FAD paragraph]. Latest formal FY2026 guidance is tighter: subscription revenue of $15.760-$15.780 billion, 21% constant-currency growth, 81% non-GAAP subscription gross margin, 31.5% non-GAAP operating margin, 35% non-GAAP FCF margin and 1.04 billion diluted shares [data_package §5].

8. Forward growth assumptions

Base case growth assumptions

Product / revenue type	Three-year historical CAGR	Latest disclosed YoY	Management FY+1 guide	Base CAGR TTM to TTM+5y	Exact profit metric	Justification
Subscription / License and Service	23.2%	24.5% Q2 FY26	FY2026 $15.760-$15.780B; 21% CC	17.79%	Statutory operating income (single-segment non-operating CODM fallback)	Growth decelerates 20%, 19%, 18%, 17%, 15% as scale rises; renewal, RPO conversion and AI/CRM/security expansion offset maturation.
Professional services and other	3.7%	8.5% Q2 FY26	No separate guide	3.99%	Statutory operating income (single-segment non-operating CODM fallback)	Growth runs 6%, 5%, 4%, 3%, 2%; partners retain implementation leverage while AI and acquisitions create modest demand.
Consolidated company total	22.4%	24.0% Q2 FY26	Subscription guide controls	17.48%	Statutory operating income (single-segment non-operating CODM fallback)	Weighted output of the two disclosed revenue types; no undisclosed family is added.

Base subscription growth starts at 20%, close to the 21% constant-currency FY2026 guide and Q2 cRPO growth of 21%. It slows one to two points annually because the denominator more than doubles, core IT workflows mature and acquired contributions normalize. This is not a cliff: the 98% renewal rate, $29.0 billion RPO and high-value customer expansion justify a smooth path. The 17.79% five-year CAGR produces $32.451 billion of horizon subscription revenue, slightly above management's $32 billion-plus FY2030 target because the endpoint is six months later, 2031-06-30 [data_package §5-§6].

Agentic AI contributes through higher renewal value, AI-native SKU upgrades and consumption. Base assumes the AI ACV mix approaches management's roughly 30% ambition around 2030, but realized revenue conversion is slower than ACV expansion because contract timing and bundled upgrades matter. AI is one component of subscription growth, not a third forecast row. CRM, security and employee workflows provide cross-sell, while ITSM/ITOM remain the renewal foundation.

Bull case growth assumptions

Product / revenue type	Three-year historical CAGR	Latest disclosed YoY	Management FY+1 guide	Bull CAGR TTM to TTM+5y	Exact profit metric	Justification
Subscription / License and Service	23.2%	24.5% Q2 FY26	FY2026 $15.760-$15.780B; 21% CC	20.79%	Statutory operating income (single-segment non-operating CODM fallback)	Growth runs 23%, 22%, 21%, 20%, 18%; AI monetizes broadly, acquired products cross-sell and RPO conversion remains strong.
Professional services and other	3.7%	8.5% Q2 FY26	No separate guide	5.99%	Statutory operating income (single-segment non-operating CODM fallback)	Growth runs 8%, 7%, 6%, 5%, 4% as complex AI/security deployments create service demand without changing the SaaS model.
Consolidated company total	22.4%	24.0% Q2 FY26	Subscription guide controls	20.46%	Statutory operating income (single-segment non-operating CODM fallback)	The platform sustains near-20% growth at scale; no ACV is added directly to revenue.

The bull case requires ServiceNow to become a control plane for enterprise agents. AI-native SKUs achieve the cited 20%-30% uplift across a large eligible base, assist/device consumption adds units beyond seats, and AI Control Tower monetizes governance across third-party models. Armis, Veza and Moveworks gain distribution through the installed base without material product attrition. cRPO growth stays around or above revenue growth, and $29 billion of RPO converts without customers shortening commitments materially.

This path is demanding. Subscription reaches $36.800 billion at the exact horizon, materially above the FY2030 target even after allowing six extra months. The final growth rate still decelerates to 18%, acknowledging scale. The bull case is assigned only 20% probability because sustaining 20.8% compound growth while integrating acquisitions and defending multiple categories requires exceptional execution.

Bear case growth assumptions

Product / revenue type	Three-year historical CAGR	Latest disclosed YoY	Management FY+1 guide	Bear CAGR TTM to TTM+5y	Exact profit metric	Justification
Subscription / License and Service	23.2%	24.5% Q2 FY26	FY2026 $15.760-$15.780B; 21% CC	11.96%	Statutory operating income (single-segment non-operating CODM fallback)	Growth drops 16%, 14%, 12%, 10%, 8% as AI pricing disappoints, expansion slows and bundled competitors pressure new workloads.
Professional services and other	3.7%	8.5% Q2 FY26	No separate guide	0.99%	Statutory operating income (single-segment non-operating CODM fallback)	Growth runs 3%, 2%, 1%, 0%, -1% as deployments are delayed and partners absorb more work.
Consolidated company total	22.4%	24.0% Q2 FY26	Subscription guide controls	11.71%	Statutory operating income (single-segment non-operating CODM fallback)	Renewal stays high, preventing collapse, but new ACV, consumption and cross-sell weaken.

The bear case does not assume mass churn because a 98% renewal rate and embedded workflows make that inconsistent with evidence. Instead, it attacks expansion: customers renew core modules but defer AI upgrades, negotiate broader discounts and use Microsoft, Salesforce or hyperscaler agents for incremental workloads. ACV milestones convert more slowly into revenue, and RPO growth falls below current rates as contract duration normalizes. Acquisition integration distracts sellers and specialist products fail to cross-sell fully.

The year-one 16% subscription growth is below formal FY2026 guidance because the five-year step begins from the June 2026 TTM and spans a forward twelve months, not ServiceNow's FY2026 guidance period. The fade to 8% is sharper than the base case but occurs gradually over five years, not abruptly. It preserves a large recurring base while reflecting saturation and competition.

Scenario probability rationale

Base receives 55% because management's FY2030 target, current cRPO growth, renewal rate and customer expansion support continued high-teens growth, but scale and current GAAP cost burdens argue against simply extrapolating 24% quarterly growth. Bear receives 25%, above Bull's 20%, because acquisition integration, leverage, AI economics and competition create more ways to miss than to exceed an already ambitious $32 billion-plus target. Bull remains material

because the ACV ramp, consumption evidence and platform control-plane opportunity could support sustained 20% growth. The non-uniform distribution prevents the optimistic tail from dominating, and Base controls the downstream valuation gate.

9. Forward margin assumptions on the exact basis

Statutory operating income (single-segment non-operating CODM fallback)

Case	TTM margin	Year 1 margin	Year 2 margin	Year 3 margin	Year 4 margin	TTM+5y margin	Horizon SBC / revenue assumption	Exact profit metric
Bear	11.4%	11.5%	12.5%	14.0%	15.0%	16.0%	11.5%	Statutory operating income (single-segment non-operating CODM fallback)
Base	11.4%	13.5%	16.5%	19.0%	21.0%	22.5%	9.0%	Statutory operating income (single-segment non-operating CODM fallback)
Bull	11.4%	15.0%	18.5%	22.0%	24.5%	26.0%	7.5%	Statutory operating income (single-segment non-operating CODM fallback)

Every case expands more than 100 basis points, so the mechanism matters. The TTM is depressed by the recent acquisition cycle: Q2 included 16.4% of revenue in SBC, 5.5% in purchased-intangible amortization, 1.9% in combination costs and 1.6% in severance. Those quarterly ratios are not extrapolated, but they demonstrate why the 11.4% TTM statutory margin cannot be compared directly with 31.3% TTM non-GAAP operating margin [data_package §5].

In Base, SBC falls from 14.8% TTM to 9.0% at the horizon, broadly consistent with management's below-10% by 2029 aspiration but not assuming it disappears. Integration and severance costs fade; acquired-intangible amortization persists but becomes a smaller percentage of a revenue base that more than doubles. Sales and marketing gains scale as expansion into existing accounts outgrows seller cost. R&D remains substantial, and inference/hyperscaler cost prevents the model from translating all non-GAAP leverage into GAAP profit. The endpoint 22.5% statutory margin is 11.1 percentage points above TTM but still roughly nine points below the current 31.5% non-GAAP FY2026 guide.

Base subscription gross economics assume near-term pressure followed by stabilization as routing, model efficiency, hyperscaler pricing and AI SKU monetization improve. The FAD's above-80% subscription gross-margin aspiration is non-GAAP; this model does not apply it to consolidated GAAP revenue. It assumes AI revenue eventually carries attractive incremental margins but only after sufficient volume and engineering optimization.

In Bull, SBC reaches 7.5% of revenue, integration is completed on schedule and acquired products cross-sell without duplicative go-to-market cost. AI pricing outpaces inference cost, public-cloud scale lowers capex intensity and subscription gross margin recovers. Sales efficiency improves because one platform sale pulls multiple workflows. The 26.0% statutory endpoint remains below the non-GAAP framework, preserving real SBC and amortization.

In Bear, SBC declines only to 11.5%, above management's target, because retention of AI and security talent stays expensive. Inference and hyperscaler cost pressure persists, discounting limits AI gross profit, and acquisition amortization remains meaningful. Slower growth also reduces sales and R&D leverage. Statutory margin still reaches 16.0% because transient combination costs fade and the recurring model retains some scale benefit. A flat or declining horizon margin would require either severe pricing damage or chronically uneconomic AI consumption, which is possible but not the central bear case given current renewal and gross-margin guidance.

No product-level margin is disclosed, so assigning artificial margins to ITSM, CRM, security or AI would create false precision. The margin forecast is consolidated on the sealed basis. Professional services remain too small to alter the result materially; their slower growth modestly improves mix, but the major drivers are subscription gross profit, SBC, amortization, sales efficiency and R&D discipline.

Dilution and per-share context

Case	TTM diluted shares	TTM+5y diluted-share assumption	Five-year share change	TTM+5y statutory operating income	Statutory operating income per diluted share	Exact profit metric
Bear	1.042B	1.080B	3.6% increase	$4.100B	$3.80	Statutory operating income (single-segment non-operating CODM fallback)
Base	1.042B	1.040B	0.2% decrease	$7.416B	$7.13	Statutory operating income (single-segment non-operating CODM fallback)
Bull	1.042B	1.020B	2.1% decrease	$9.714B	$9.52	Statutory operating income (single-segment non-operating CODM fallback)

These are denominator sensitivities, not EPS forecasts: statutory operating income is pre-interest and pre-tax. Base honors management's net-neutral dilution ambition approximately, while Bear assumes equity compensation and acquisition issuance outpace repurchases. Bull assumes stronger free cash flow supports modest net shrinkage. Buybacks are not free; FY2025 SBC of $1.955 billion exceeded $1.840 billion of repurchases, while H1 2026 included $2.225 billion of repurchases and $1.199 billion of SBC. The 1.04 billion FY2026 diluted-share guide anchors the Base level [data_package §0a, §5, §7].

10. Consolidated company rollup

All values are USD billions except margins. Subscription plus professional services equals total revenue in every row. **Statutory operating income (single-segment non-operating CODM fallback)** equals total revenue multiplied by the displayed margin. Rounding residuals are below 0.01%.

Case / period	Subscription revenue	Professional services revenue	Consolidated revenue	Revenue growth	Exact profit metric margin	Exact profit metric	Profit on exact basis
TTM 2026-06-30	$14.313	$0.419	$14.732	Anchor	11.4%	Statutory operating income (single-segment non-operating CODM fallback)	$1.680
Bear Year 1	$16.603	$0.432	$17.035	15.6%	11.5%	Statutory operating income (single-segment non-operating CODM fallback)	$1.959
Bear Year 2	$18.928	$0.440	$19.368	13.7%	12.5%	Statutory operating income (single-segment non-operating CODM fallback)	$2.421
Bear Year 3	$21.199	$0.445	$21.643	11.7%	14.0%	Statutory operating income (single-segment non-operating CODM fallback)	$3.030
Bear Year 4	$23.319	$0.445	$23.763	9.8%	15.0%	Statutory operating income (single-segment non-operating CODM fallback)	$3.564
Bear TTM+5y	$25.184	$0.440	$25.624	7.8%	16.0%	Statutory operating income (single-segment non-operating CODM fallback)	$4.100
Base Year 1	$17.176	$0.444	$17.620	19.6%	13.5%	Statutory operating income (single-segment non-operating CODM fallback)	$2.379
Base Year 2	$20.439	$0.466	$20.905	18.6%	16.5%	Statutory operating income (single-segment non-operating CODM fallback)	$3.449

Case / period	Subscription revenue	Professional services revenue	Consolidated revenue	Revenue growth	Exact profit metric margin	Exact profit metric	Profit on exact basis
Base Year 3	$24.118	$0.485	$24.603	17.7%	19.0%	Statutory operating income (single-segment non-operating CODM fallback)	$4.675
Base Year 4	$28.218	$0.500	$28.718	16.7%	21.0%	Statutory operating income (single-segment non-operating CODM fallback)	$6.031
Base TTM+5y	$32.451	$0.510	$32.961	14.8%	22.5%	Statutory operating income (single-segment non-operating CODM fallback)	$7.416
Bull Year 1	$17.605	$0.453	$18.058	22.6%	15.0%	Statutory operating income (single-segment non-operating CODM fallback)	$2.709
Bull Year 2	$21.478	$0.484	$21.962	21.6%	18.5%	Statutory operating income (single-segment non-operating CODM fallback)	$4.063
Bull Year 3	$25.988	$0.513	$26.502	20.7%	22.0%	Statutory operating income (single-segment non-operating CODM fallback)	$5.830
Bull Year 4	$31.186	$0.539	$31.725	19.7%	24.5%	Statutory operating income (single-segment non-operating CODM fallback)	$7.773
Bull TTM+5y	$36.800	$0.560	$37.360	17.8%	26.0%	Statutory operating income (single-segment non-operating CODM fallback)	$9.714

The reconstruction is exact at displayed precision. For example, Base TTM+5y revenue is $32.451 billion plus $0.510 billion, or $32.961 billion; applying 22.5% yields $7.416 billion after rounding. Bear produces $25.624 billion at 16.0%, or $4.100 billion. Bull produces $37.360 billion at 26.0%, or $9.714 billion. All discrepancies are presentation rounding, well inside the 1% requirement.

The probability-weighted horizon revenue is approximately $32.01 billion and probability-weighted horizon **Statutory operating income (single-segment non-operating CODM fallback)** is approximately $7.05 billion. Those probability-weighted figures are context only. The Base case, not the weighted average or Bull case, must control the valuation gate.

How the operating paths map to evidence

The first two years have the best contractual visibility. cRPO of $13.2 billion is due within twelve months, and much of the remaining RPO converts over the following 13-36 months. Base aligns near-term growth with cRPO and formal guidance, then decelerates. Bull requires RPO replenishment to remain robust as revenue consumes backlog. Bear assumes replenishment weakens before renewal does.

Years three through five are determined more by agentic-AI monetization and competitive position. Base assumes ServiceNow keeps governance and workflow value while sharing some economics with hyperscalers and model providers. Bull assumes agents and assists expand units dramatically and price remains favorable. Bear assumes usage succeeds technically but monetizes poorly, a particularly dangerous outcome because inference expense rises without commensurate recognized revenue.

The profit path deliberately lags revenue. SBC reduction, integration synergies and sales leverage take time. Acquired amortization continues. This is why Base statutory margin rises in steps from 13.5% to 22.5%, rather than jumping to non-GAAP levels. It also prevents the model from treating management's Rule of 60 aspiration as audited GAAP economics.

11. Key risks and wildcards

- **AI monetization versus AI activity — Bear/Base.** ACV, NNACV, deal counts and consumption can rise faster than recognized revenue. Bundling and free allowances may reduce incremental economics. The key monitoring test is realized subscription growth and cRPO replenishment, not AI press-release milestones.

- **Inference-cost drag — Bear.** Tokens, assists and agent actions may scale faster than price. The lack of disclosed cost per assist makes this a first-order uncertainty. Watch non-GAAP subscription gross margin relative to the 81% FY2026 guide and management's above-80% long-term aspiration, while remembering statutory amortization creates an additional drag.

- **Platform disintermediation — Bear.** Microsoft, Salesforce, hyperscalers or AI-native control planes could own the conversational layer and orchestration, reducing ServiceNow to a lower-value system underneath. Durable advantage requires remaining the governed system of action.

- **Core IT workflow saturation — Bear/Base.** Core renewal can remain high while net expansion slows. At ServiceNow's scale, mature ITSM growth must increasingly be supplemented by CRM, employee, security, data and AI workloads.

- **Acquisition integration — Bear.** Moveworks, Veza and Armis expand the product set but also created significant debt, goodwill, intangibles and amortization. Failure to consolidate headcount or cross-sell would depress both revenue and statutory margin.

- **Pricing resistance — Bear.** The 20%-30% AI-native SKU uplift is not available across all contracts. Customers may negotiate portfolio discounts, demand outcome guarantees or use third-party agents to avoid premium upgrades.

- **RPO duration and conversion — Bear/Base.** Longer average duration can raise RPO without the same near-term revenue effect. cRPO is the cleaner near-term marker, but even cRPO does not equal bookings or cash collection.

- **Retention metric opacity — Bear.** The 98% ACV-based renewal rate is valuable but not NRR. ServiceNow does not disclose contraction within renewed customers. A stable renewal rate could conceal weaker expansion.

- **SBC and buyback economics — Bear/Base.** Management can hold diluted shares flat by spending cash on repurchases while SBC remains high. That protects the denominator but not owner value. Downstream per-share valuation must deduct the opportunity cost of repurchases and respect actual dilution.

- **Statutory/non-GAAP gap — Bear/Base.** Investors may capitalize non-GAAP profit while acquisition amortization and SBC remain economically material. This appendix uses the statutory basis to prevent the gap from being hidden.

- **Balance-sheet constraint — Bear.** At Q2 2026, debt plus leases exceeded cash plus marketable securities by $1.746 billion, following the acquisition cycle. Higher financing needs can reduce repurchase capacity and raise the cost of further M&A [data_package §8].

- **Strategic-investment volatility — All cases.** TTM other income includes $288 million and Q2 non-GAAP reconciliation excluded $273 million of quarterly strategic-investment gains. These gains are below the exact profit basis and must not be capitalized as recurring operating economics [data_package §3a, §8].

- **Execution on headcount synergy — Bull/Base.** Management says it expects to begin 2027 at the same headcount as before acquisitions. Achieving this without losing acquired talent or slowing innovation would materially aid margins; failure moves the outcome toward Bear.

- **Agent governance wildcard — Bull.** If enterprises require a neutral control tower to govern human and machine work across multiple models and systems, ServiceNow's workflow, permissions and audit position may become more valuable than today's seat model implies.

Scenario summary

Case	Segment TTM+5y Revenue	Exact profit metric	Segment TTM+5y Profit Margin	Segment TTM+5y Profit	Probability
Bear	$25.624B	Statutory operating income (single-segment non-operating CODM fallback)	16.0%	$4.100B	25%
Base	$32.961B	Statutory operating income (single-segment non-operating CODM fallback)	22.5%	$7.416B	55%
Bull	$37.360B	Statutory operating income (single-segment non-operating CODM fallback)	26.0%	$9.714B	20%

ServiceNow can remain a high-growth workflow platform without a non-GAAP shortcut. The Base case requires a decelerating 17.5% revenue CAGR, AI contract conversion, renewal durability, genuine SBC reduction and integration leverage. Bear still grows because switching costs and backlog are real, but margin and per-share economics disappoint if AI pricing, inference cost and acquisitions fail to cohere. Bull is possible if ServiceNow becomes the enterprise control plane for agents, yet its lower probability reflects the execution burden embedded in management's ambitions.

Appendix S - Synthesis (Combined Earnings Model)

ServiceNow (NOW) — Synthesis and Combined Earnings Model

This appendix mechanically consolidates the reviewed `Consolidated company` forecast into statutory operating income, net income, and per-listed-share earnings. It does not discover new accounting classifications, introduce a balancing item, or select the security-return valuation method. The forecast begins with the trailing twelve months ended June 30, 2026 and ends exactly five calendar years later on June 30, 2031. All monetary values are USD billions unless stated otherwise. Share counts are millions of quote-basis financial common shares.

1. Anchors and gate status

- Today: **2026-09-04**.
- Fiscal year end: **December 31**.
- TTM anchor: **2026-06-30**, comprising Q3 2025, Q4 2025, Q1 2026, and Q2 2026. The governed construction is FY2025 less H1 2025 plus H1 2026.
- Latest completed fiscal year for historical tie-out: **FY2025**.
- Horizon date: **2031-06-30**, exactly 5.0 calendar years after the TTM end. No row uses FY2025 as the compounding base and no row compounds for six fiscal years.
- Valuation anchor: **USD 145.59 per XNYS:NOW common share**, raw exchange close for the completed September 3, 2026 session. Raw-source SHA-256: `d4ef6afe9295233a51824ae15d2d1b8949691319002ba5c207416a8b4a36077d`. QFR-sealed packet SHA-256: `08d9dcfdbb5e53aad2da3379a8de9d8c2da472ca93ac2c08bd5839b2515172bd`. Actionability expiry: `2026-09-05T04:00:00+08:00`.
- Quote packet validation was rerun at `2026-09-04T19:52:28+08:00` with its expected byte hash and returned `QUOTE_PACKET_VALID`. The packet remained unexpired.
- Reporting currency and quote currency are both USD. The listed unit and financial-statement unit are each one common share. ServiceNow is not a depositary receipt.
- The Q2 2026 financial-statement diluted share anchor is 1,034.334 million. Split factor is 1.0 because the December 2025 five-for-one split predates the June 30, 2026 financial-share basis date. Thus `1,034.334 × 1.0 = 1,034.334` million quote-basis financial shares.
- Depositary ratio is 1.0 and share-class conversion factor is 1.0. Financial shares per listed unit are therefore `1.0 × 1.0 = 1.0`, and 1,034.334 million quote-basis shares equal 1,034.334 million listed-unit equivalents.
- USD per USD FX is 1.0 on September 3, 2026, with source status `IDENTITY_SAME_CURRENCY`.
- Historical statutory bridge SHA-256: `9bffac400988d9ed22fd285cf7085e62a36c65d4d1b1016a4876156626e7f5b0`. The validator returned `STATUTORY_BRIDGE_VALID` with the expected hash. `gate_manifest.json` contains both `DATA PACKAGE VERIFIED — CLEARED FOR WAVE 2` and `STATUTORY BRIDGE VERIFIED — CLEARED FOR FORECASTING`, with no unresolved issue.
- Exact modeled basis: **Statutory operating income (single-segment non-operating CODM fallback)**. ServiceNow discloses consolidated net income as the CODM measure for its one segment. That below-operating endpoint is preserved separately; the model does not relabel it as operating income.

2. Segment-level forward assumptions

The reviewed appendix contains one financial-projection segment. Subscription and professional services are revenue types inside that segment, not separately disclosed profit segments. The following row is reproduced from `appendix_B_consolidated_company.md` Sections 8, 9, and 10.

Segment	Exact profit metric	TTM revenue	Bear TTM+5y revenue	Base TTM+5y revenue	Bull TTM+5y revenue	Bear profit margin	Base profit margin	Bull profit margin
Consolidated company	Statutory operating income (single-segment non-operating CODM fallback)	$14.732B	$25.624B	$32.961B	$37.360B	16.0%	22.5%	26.0%

The segment appendix builds the endpoint from two dollar-disclosed revenue types. Subscription rises from $14.313 billion at the TTM anchor to $25.184 billion, $32.451 billion, and $36.800 billion in Bear, Base, and Bull. Professional services rises from $0.419 billion to $0.440 billion, $0.510 billion, and $0.560 billion. The corresponding consolidated five-year CAGRs are 11.71%, 17.48%, and 20.46%. These rates are reviewed segment outputs and are not re-estimated here.

The operating-income margins are explicitly statutory. Bear assumes slower expansion and persistent AI, hyperscaler, talent, and amortization costs. Base assumes SBC declines from 14.8% of TTM revenue to 9.0%, integration costs fade, and sales efficiency improves, while real inference and purchased-intangible expenses remain. Bull assumes stronger AI monetization and faster SBC decline to 7.5% of revenue. Even Bull remains below management's non-GAAP operating framework, so no adjusted margin is presented as GAAP.

3. Combined revenue build

There is one modeled segment, no corporate revenue line, and no intersegment elimination. The segment sum is therefore the statutory consolidated revenue forecast in each case.

Line	Bear	Base	Bull
Sum of segment TTM+5y revenue	$25.624B	$32.961B	$37.360B
Corporate eliminations	$0.000B	$0.000B	$0.000B
Combined TTM+5y revenue	**$25.624B**	**$32.961B**	**$37.360B**
Implied TTM to TTM+5y CAGR over 5.0 years	11.71%	17.48%	20.46%

The arithmetic is `14.732 × (1 + CAGR)^5`. Using full-precision product paths from the reviewed appendix yields the displayed endpoints; any sub-$0.01 billion difference from applying the rounded CAGR is presentation rounding. Subscription plus professional services equals consolidated revenue exactly at the reviewed precision: Bear `25.184 + 0.440 = 25.624`, Base `32.451 + 0.510 = 32.961`, and Bull `36.800 + 0.560 = 37.360`.

4. Combined statutory operating-income build

The sealed fallback bridge has empty corporate/unallocated and operating-adjustment arrays. Those lines must remain empty forward. The one modeled segment's profit therefore equals consolidated statutory operating income; inserting an acquisition, SBC, amortization, or corporate plug below the segment line would double count costs already embedded in the reviewed statutory margin.

Line	Bear	Base	Bull
Sum of segment TTM+5y profit on sealed common metric	$4.100B	$7.416B	$9.714B
Corporate or unallocated adjustments	$0.000B	$0.000B	$0.000B
Consolidated TTM+5y segment-profit metric	$4.100B	$7.416B	$9.714B
Operating bridge adjustments	$0.000B	$0.000B	$0.000B
Combined statutory TTM+5y operating income	**$4.100B**	**$7.416B**	**$9.714B**
Implied statutory operating margin	16.0%	22.5%	26.0%

The driver ledger in `data_package.md` Section 3a instructs S to forecast operating income as revenue times GAAP operating margin. That treatment is applied without modification. Bear is `25.624 × 16.0% = 4.100` after rounding. Base is `32.961 × 22.5% = 7.416`. Bull is `37.360 × 26.0% = 9.714`. The line label remains the exact fallback label because ServiceNow did not disclose an additive product-profit or segment-operating-profit table.

No forward corporate or operating bridge line is projected because the sealed arrays are empty. This is not an assumption that corporate costs are zero. Corporate costs, SBC, purchased-intangible amortization, cloud expense, sales and marketing, R&D, integration costs, and severance are already included in statutory consolidated operating income and its margin. The empty bridge means only that ServiceNow's source presentation does not put any of those items outside the one-segment statutory OI measure.

5. Tax, below-line, net-income, and EPS build

Interest income and `Other income (expense), net` remain below operating income, exactly as classified in the sealed bridge. TTM other income includes volatile strategic-investment gains, including a $273 million Q2 amount excluded from management's non-GAAP reconciliation. The forecast therefore normalizes that gain rather than compounding $288 million with revenue. Bear carries modest recurring other expense, Base tapers the line toward a $0.100 billion expense, and Bull reaches zero rather than assuming repeated gains. Interest income is forecast separately: acquisition funding depresses Bear liquidity, Base stabilizes and slowly rebuilds it, and Bull's stronger cash generation supports a larger balance. These are scenario rules from the governed forecast-driver ledger, not new accounting classifications.

Tax rates are normalized statutory rates applied to pretax income. Bear uses 24% to reflect less favorable jurisdictional mix and fewer tax benefits. Base uses 22%, modestly above management's 21% long-term non-GAAP reference. Bull uses 21% but receives no unsupported tax benefit. The resulting horizon bridge is complete and uses no residual.

Line	Bear	Base	Bull
Combined TTM+5y statutory OI	$4.100B	$7.416B	$9.714B
Interest income	$0.160B	$0.305B	$0.450B
Other income or expense, net	$(0.250)B	$(0.100)B	$0.000B
Pretax income	$4.010B	$7.621B	$10.164B
Tax rate assumed	24.0%	22.0%	21.0%
Provision for income taxes	$(0.962)B	$(1.677)B	$(2.134)B
Net income	**$3.048B**	**$5.944B**	**$8.030B**
Quote-basis diluted financial shares at TTM+5y	1,080.000M	1,040.000M	1,020.000M
EPS in USD per quote-basis financial share	$2.8219	$5.7158	$7.8721
Financial shares per listed unit	1.0000	1.0000	1.0000
EPS in USD per listed unit	$2.8219	$5.7158	$7.8721
FX, quote USD per reporting USD	1.0000	1.0000	1.0000
EPS in quote currency per listed unit	**$2.8219**	**$5.7158**	**$7.8721**

The required unit identity holds in every case. For Base, `USD 5.94438B ÷ 1,040.000M = USD 5.71575` per quote-basis financial share. Multiplication by `1.0 financial share per listed unit × 1.0 USD per USD` gives USD 5.71575 per listed unit. Bear uses `3.04760B ÷ 1,080.000M = 2.82185185`; Bull uses `8.02956B ÷ 1,020.000M = 7.87211765`.

Annual statutory earnings bridge

The annual schedule exposes the cadence rather than jumping from TTM to one terminal number. Revenue and OI are reviewed segment outputs. Interest, other income or expense, and tax follow the scenario rules above. Net income is exactly pretax income less the displayed tax provision.

Case and year	Revenue	Statutory OI	Interest income	Other income or expense	Pretax income	Tax rate	Tax provision	Net income	Ending diluted shares	EPS
Bear Year 1	$17.035B	$1.959B	$0.250B	$(0.300)B	$1.909B	24.0%	$(0.458)B	$1.451B	1,043.467M	$1.390
Bear Year 2	$19.368B	$2.421B	$0.220B	$(0.300)B	$2.341B	24.0%	$(0.562)B	$1.779B	1,052.600M	$1.690
Bear Year 3	$21.643B	$3.030B	$0.200B	$(0.300)B	$2.930B	24.0%	$(0.703)B	$2.227B	1,061.734M	$2.098
Bear Year 4	$23.763B	$3.564B	$0.180B	$(0.275)B	$3.469B	24.0%	$(0.833)B	$2.636B	1,070.867M	$2.461
Bear TTM+5y	$25.624B	$4.100B	$0.160B	$(0.250)B	$4.010B	24.0%	$(0.962)B	$3.048B	1,080.000M	$2.822
Base Year 1	$17.620B	$2.379B	$0.280B	$(0.200)B	$2.459B	22.0%	$(0.541)B	$1.918B	1,035.467M	$1.852

Case and year	Revenue	Statutory OI	Interest income	Other income or expense	Pretax income	Tax rate	Tax provision	Net income	Ending diluted shares	EPS
Base Year 2	$20.905B	$3.449B	$0.280B	$(0.175)B	$3.554B	22.0%	$(0.782)B	$2.772B	1,036.600M	$2.674
Base Year 3	$24.603B	$4.675B	$0.290B	$(0.150)B	$4.815B	22.0%	$(1.059)B	$3.756B	1,037.734M	$3.620
Base Year 4	$28.718B	$6.031B	$0.300B	$(0.125)B	$6.206B	22.0%	$(1.365)B	$4.841B	1,038.867M	$4.660
Base TTM+5y	$32.961B	$7.416B	$0.305B	$(0.100)B	$7.621B	22.0%	$(1.677)B	$5.944B	1,040.000M	$5.716
Bull Year 1	$18.058B	$2.709B	$0.320B	$(0.150)B	$2.879B	21.0%	$(0.605)B	$2.274B	1,031.467M	$2.205
Bull Year 2	$21.962B	$4.063B	$0.350B	$(0.100)B	$4.313B	21.0%	$(0.906)B	$3.407B	1,028.600M	$3.312
Bull Year 3	$26.502B	$5.830B	$0.380B	$(0.050)B	$6.160B	21.0%	$(1.294)B	$4.866B	1,025.734M	$4.744
Bull Year 4	$31.725B	$7.773B	$0.420B	$0.000B	$8.193B	21.0%	$(1.721)B	$6.472B	1,022.867M	$6.327
Bull TTM+5y	$37.360B	$9.714B	$0.450B	$0.000B	$10.164B	21.0%	$(2.134)B	$8.030B	1,020.000M	$7.872

5a. Return-method input bridge without method selection

S supplies the inputs and completeness assessment for both PE and EV_NOPAT. It does not choose which method controls shareholder returns. Normalized NOPAT is statutory OI multiplied by one minus the scenario cash-tax rate. The PE earnings denominator and share bridge are complete. The upstream files provide a current capital-structure anchor but no source-bound terminal cash, debt, lease, preferred, NCI, or strategic-investment path. Those terminal balance-sheet inputs are therefore marked unavailable instead of being invented as a net-debt residual. EV_NOPAT cannot control unless the later valuation preflight supplies and hash-binds a complete scenario bridge.

Input	Current or formula anchor	Bear TTM+5y	Base TTM+5y	Bull TTM+5y	Completeness note
Statutory operating income	Reviewed segment model	$4.100B	$7.416B	$9.714B	Complete
Normalized cash tax rate	Scenario tax schedule	24.0%	22.0%	21.0%	Complete
Normalized NOPAT	OI times one minus tax rate	$3.116B	$5.784B	$7.674B	Complete
Terminal cash	$2.503B at 2026-06-30	Unavailable	Unavailable	Unavailable	No upstream terminal path
Terminal marketable securities	$4.204B current total marketable securities	Unavailable	Unavailable	Unavailable	No upstream terminal path
Gross debt excluding leases	$7.517B at 2026-06-30	Unavailable	Unavailable	Unavailable	No upstream terminal path
Lease liabilities	$0.936B at 2026-06-30	Unavailable	Unavailable	Unavailable	No upstream terminal path
Preferred equity	Not separately identified upstream	Unavailable	Unavailable	Unavailable	Must be source-bound before EV control
Minority interest	Not separately identified upstream	Unavailable	Unavailable	Unavailable	Must be source-bound before EV control
Other senior claims	Not separately identified upstream	Unavailable	Unavailable	Unavailable	No residual plug permitted
Separately valued non-operating assets	Strategic investments $2.073B current	Unavailable	Unavailable	Unavailable	Fair-value path is volatile and not forecast upstream
Diluted quote-basis financial shares	Section 6 schedule	1,080.000M	1,040.000M	1,020.000M	Complete
Financial shares per listed unit	Sealed packet factor 1.0	1.0000	1.0000	1.0000	Complete
Diluted listed-equivalent shares	Financial shares divided by factor	1,080.000M	1,040.000M	1,020.000M	Complete
Net income for PE method	Section 5 statutory bridge	$3.048B	$5.944B	$8.030B	Complete

No return multiple is selected here. The P/E 15 test in Section 7 is a separate entry-price gate and does not designate PE as the later security-return method or a 15x exit multiple.

5b. P&C insurer lane

NOT TRIGGERED — issuer is not a P&C insurer or reinsurer. ServiceNow is enterprise workflow software. No `insurer_return_bridge.json` is created.

6. Share-count, SBC, and buyback path

The path begins with the packet's 1,034.334 million quote-basis diluted financial shares, not the 1,041.977 million TTM weighted-average denominator and not stale FY2025 shares. The reviewed appendix's endpoint denominator sensitivities are

preserved: 1,080 million Bear, 1,040 million Base, and 1,020 million Bull.

To keep the share mechanics separate from return-method selection, USD 145.59 is used as a constant mechanical conversion price for both SBC issuance and repurchase retirement. This is not a forecast stock price or exit value. Gross SBC issuance is approximated as annual SBC expense divided by that price, exactly as the S contract permits. Annual SBC expense equals scenario revenue times the reviewed SBC-to-revenue path. Repurchase cash is then the explicit amount needed for the smooth annual path to the reviewed terminal denominator. Every dollar of repurchase cash is visible; no free buyback shortcut is used.

Historical reasonableness is directional, not falsely exact. TTM SBC of $2.185 billion divided by $145.59 approximates 15.008 million gross issued shares. TTM repurchases of $3.406 billion divided by the same price approximate 23.394 million retired shares, for a net 8.387 million reduction. Actual weighted-average share movement differs because grants use historical grant-date values, vest and forfeit over time, the ASR and open-market purchases occurred at different prices, Moveworks issued shares, and weighted-average denominators are timing-sensitive. The approximation correctly shows why spending more on repurchases than SBC can shrink the denominator while SBC remains economically large.

Bear share path

Year	Starting shares	SBC expense	SBC rate of revenue	SBC issuance	Buyback cash	Average price	Shares retired	Ending shares
Year 1	1,034.334M	$2.385B	14.0%	16.381M	$1.055B	$145.59	7.248M	1,043.467M
Year 2	1,043.467M	$2.615B	13.5%	17.959M	$1.285B	$145.59	8.826M	1,052.600M
Year 3	1,052.600M	$2.814B	13.0%	19.325M	$1.484B	$145.59	10.192M	1,061.734M
Year 4	1,061.734M	$2.899B	12.2%	19.913M	$1.569B	$145.59	10.779M	1,070.867M
TTM+5y	1,070.867M	$2.947B	11.5%	20.240M	$1.617B	$145.59	11.107M	1,080.000M

Bear cumulative issuance is 93.818 million shares and cumulative retirement is 48.152 million. `1,034.334 + 93.818 - 48.152 = 1,080.000` million. Cumulative buyback cash is approximately $7.010 billion, below the recent annualized run rate because slower owner cash generation and the acquisition-funded balance sheet constrain repurchases. SBC declines as a revenue percentage but grows in dollars, so the diluted denominator rises 4.4% from the packet anchor.

Base share path

Year	Starting shares	SBC expense	SBC rate of revenue	SBC issuance	Buyback cash	Average price	Shares retired	Ending shares
Year 1	1,034.334M	$2.379B	13.5%	16.338M	$2.214B	$145.59	15.205M	1,035.467M
Year 2	1,035.467M	$2.571B	12.3%	17.661M	$2.406B	$145.59	16.528M	1,036.600M
Year 3	1,036.600M	$2.706B	11.0%	18.589M	$2.541B	$145.59	17.456M	1,037.734M
Year 4	1,037.734M	$2.814B	9.8%	19.331M	$2.649B	$145.59	18.198M	1,038.867M
TTM+5y	1,038.867M	$2.966B	9.0%	20.376M	$2.802B	$145.59	19.242M	1,040.000M

Base cumulative issuance is 92.295 million and retirement is 86.629 million. `1,034.334 + 92.295 - 86.629 = 1,040.000` million. Cumulative buyback cash is approximately $12.612 billion. This path interprets management's net-neutral dilution ambition as approximately flat, not literally zero issuance. The denominator rises 0.55% from the packet anchor because repurchases nearly, but not fully, offset SBC.

Bull share path

Year	Starting shares	SBC expense	SBC rate of revenue	SBC issuance	Buyback cash	Average price	Shares retired	Ending shares
Year 1	1,034.334M	$2.311B	12.8%	15.876M	$2.729B	$145.59	18.743M	1,031.467M
Year 2	1,031.467M	$2.482B	11.3%	17.046M	$2.899B	$145.59	19.913M	1,028.600M
Year 3	1,028.600M	$2.597B	9.8%	17.839M	$3.015B	$145.59	20.706M	1,025.734M
Year 4	1,025.734M	$2.697B	8.5%	18.522M	$3.114B	$145.59	21.389M	1,022.867M
TTM+5y	1,022.867M	$2.802B	7.5%	19.246M	$3.219B	$145.59	22.113M	1,020.000M

Bull cumulative issuance is 88.529 million and retirement is 102.863 million. `1,034.334 + 88.529 - 102.863 = 1,020.000` million. Cumulative buyback cash is approximately $14.976 billion. Stronger owner cash generation funds gross

retirement above issuance, but the 1.4% terminal shrinkage remains modest because SBC is still $2.802 billion at the horizon.

Capital-allocation consistency

Management's appendix shows capex of 6.5% to 7.8% of revenue from FY2021 through FY2025; TTM capex is $0.728 billion. The forecast does not require capex to disappear to fund repurchases. A directionally consistent horizon range is 6.0% of revenue in Bear, 5.2% in Base, and 4.7% in Bull, reflecting management's public-cloud capital-intensity thesis with less realization in Bear. That implies horizon capex of $1.537 billion, $1.714 billion, and $1.756 billion, respectively. The buyback schedules are therefore not funded by pretending that growth infrastructure is free. They remain capital-allocation assumptions that later return work must reconcile with cash generation and the terminal balance sheet.

7. Binary P/E 15 entry-price test

Required terminal EPS is `USD 145.59 ÷ 15 = USD 9.7060` per listed common share. Cushion is `(EPS × 15 - 145.59) ÷ 145.59`. The same packet price, currency, and listed unit are used in all cases.

Case	EPS in USD per listed unit at TTM+5y	EPS times 15	Quote-packet price	Cushion	Pass?
Bear	$2.8219	$42.33	$145.59	-70.9%	FAIL
Base	$5.7158	$85.74	$145.59	-41.1%	FAIL
Bull	$7.8721	$118.08	$145.59	-18.9%	FAIL

P/E 15 gate: FAIL — Base cushion is -41.1%. The confident Base case controls the binary result. Bull also fails, but that is not the decision rule. Passing at today's price would require USD 9.706 of terminal EPS, 69.8% above the Base model's USD 5.716. Alternatively, at 15 times Base terminal EPS, the mechanically supported entry price is USD 85.74 before any separate shareholder-return method, distributions, or capital-structure treatment.

8. Reflexivity check against reported anchors

TTM segment revenue is $14.732 billion, consisting of $14.313 billion subscription and $0.419 billion professional services. Their sum is exactly $14.732 billion, equal to consolidated TTM revenue. The gap is $0.000 billion and 0.00%, inside the 2% threshold.

TTM modeled segment profit on the sealed basis is $1.680 billion. Corporate/unallocated adjustments and operating bridge adjustments are both empty arrays. Therefore `1.680 + 0 + 0 = 1.680` billion statutory OI, exactly matching the consolidated TTM amount. The residual is $0 million, inside the packet's $1 million tolerance and the 2% reflexivity threshold.

FY2025 provides the historical sanity check. Segment revenue is $13.278 billion, equal to consolidated revenue. The sole segment's fallback profit is $1.824 billion, with no corporate or operating bridge adjustments, equal to statutory OI. Interest income of $0.451 billion plus other expense of $0.014 billion takes pretax income to $2.261 billion; tax of $0.513 billion takes net income to $1.748 billion. All sealed residuals are zero.

The forward model preserves the same perimeter. Revenue has no elimination; segment profit equals statutory OI; interest and other remain below line; tax applies only after pretax income. No plug, reclassification, scaling factor, or adjusted-to-GAAP conversion is introduced.

9. Latest interim bridge reconciliation

The cumulative interim bridge is triggered. Comparative H1 periods both run January 1 through June 30, so coverage is like for like. Q3 and Q4 2025 are retained through the FY2025 less H1 2025 subtraction; Q1 and Q2 2026 enter through H1 2026. There is no overlap.

Line	FY2025	Less H1 2025	Plus H1 2026	TTM ended 2026-06-30	Arithmetic status
Revenue	$13.278B	$(6.303)B	$7.757B	$14.732B	PASS
Statutory operating income	$1.824B	$(0.809)B	$0.665B	$1.680B	PASS
Interest income	$0.451B	$(0.231)B	$0.158B	$0.378B	PASS
Other income or expense, net	$(0.014)B	subtract $(0.014)B	$0.288B	$0.288B	PASS
Pretax income	$2.261B	$(1.026)B	$1.111B	$2.346B	PASS
Provision for income taxes	$0.513B	$(0.181)B	$0.344B	$0.676B	PASS

Line	FY2025	Less H1 2025	Plus H1 2026	TTM ended 2026-06-30	Arithmetic status
Net income	$1.748B	$(0.845)B	$0.767B	$1.670B	PASS

The provision is presented as a positive expense in this construction and subtracted in the net-income equation. The TTM diluted weighted-average denominator is calculated separately because share counts cannot be added and subtracted like flow values: `(1,046.691 × 365 - 1,046.712 × 181 + 1,037.206 × 181) ÷ 365 = 1,041.977066` million. `1.670B ÷ 1,041.977066M = USD 1.602722` TTM EPS. Section 6 then properly starts the forward point-in-time path from the packet's Q2 denominator of 1,034.334 million.

10. Sensitivity analysis

The sensitivity holds all other Base assumptions fixed, including $0.305 billion interest income, $(0.100) billion other expense, a 22% tax rate, and 1,040 million terminal shares unless the share row is the variable. Because there is only one modeled financial segment, the segment-revenue test varies the Consolidated company CAGR by 200 basis points. The margin test varies the same segment's exact statutory OI margin by 200 basis points. This is the proper adaptation of the two generic segment sensitivities to a one-segment issuer.

Variable changed	Downside setting	Downside EPS	Base setting	Base EPS	Upside setting	Upside EPS	Base-to-extreme impact
Consolidated revenue CAGR	15.48%	$5.259	17.48%	$5.716	19.48%	$6.207	$(0.457) to $0.491
Statutory OI margin	20.5%	$5.222	22.5%	$5.716	24.5%	$6.210	$(0.494) to $0.494
Terminal diluted share count	1,092M	$5.444	1,040M	$5.716	988M	$6.017	$(0.272) to $0.301
Statutory tax rate	25.0%	$5.496	22.0%	$5.716	19.0%	$5.936	$(0.220) to $0.220

Margin and revenue growth are the dominant modeled variables over the defined ranges. A 200-basis-point statutory margin move changes EPS by about $0.49, and a 200-basis-point CAGR move changes it by roughly $0.46-$0.49. Share count and tax matter, but neither can repair the valuation gate. Even the favorable one-at-a-time settings remain far below the required USD 9.706 EPS.

The most dangerous combined miss is not an abrupt renewal collapse. It is sustained high renewal with weaker expansion, slower AI ACV-to-revenue conversion, persistent inference and hyperscaler costs, and continued SBC issuance. That combination can leave revenue healthy enough to look reassuring while statutory margin and per-share value lag. The observable triggers are cRPO falling below the mid-teens, subscription gross margin remaining below the high 70s after integration effects normalize, SBC failing to move toward 10% of revenue, and buyback dollars rising merely to hold shares flat.

11. Combined earnings summary

Scenario weights are preserved exactly at Bear 25%, Base 55%, and Bull 20%. Base receives the majority weight because formal guidance, cRPO, RPO, renewal, and large-customer expansion support continued high-teens growth. Bear exceeds Bull because acquisition integration, AI economics, leverage, dilution, and suite competition create more credible ways to miss than to exceed an already ambitious growth framework.

Case	Revenue	Statutory OI	OI margin	Net income	EPS in USD per listed unit	Probability	EPS times 15	Versus USD 145.59
Bear	$25.624B	$4.100B	16.0%	$3.048B	$2.8219	25%	$42.33	FAIL by 70.9%
Base	$32.961B	$7.416B	22.5%	$5.944B	$5.7158	55%	$85.74	FAIL by 41.1%
Bull	$37.360B	$9.714B	26.0%	$8.030B	$7.8721	20%	$118.08	FAIL by 18.9%
Probability-weighted output	$32.007B	$7.047B	22.0% implied	$5.637B	$5.4235	100%	$81.35	44.1% below price

The weighted row is an expected operating output, not a fourth scenario and not a substitute for the Base gate. Weighted EPS is `25% × 2.82185185 + 55% × 5.71575 + 20% × 7.87211765 = 5.42355`. Probabilities sum to exactly 100%. The implied weighted margin is weighted OI divided by weighted revenue and is included only as context.

12. Tie-out checks

Check 1 — Reported-financial and statutory-bridge tie-out: PASS

TTM revenue ties exactly: subscription $14.313 billion plus professional services $0.419 billion equals $14.732 billion consolidated revenue. TTM profit ties exactly: $1.680 billion sole-segment profit plus no corporate adjustment plus no operating adjustment equals $1.680 billion statutory OI. FY2025 revenue is $13.278 billion and segment profit is $1.824 billion, both exactly equal to consolidated values. All ten sealed residuals across FY2025 and TTM are zero, inside the $1 million packet tolerance and the 2% reflexivity threshold. Sources: `data_package.md` Sections 2, 3, 3a, and 4; `statutory_bridge.json` periods array.

Check 2 — NI, shares, listed-unit, and FX equal EPS: PASS

Bear: `3.04760B ÷ 1,080.000M × 1.0 × 1.0 = USD 2.82185185`. Base: `5.94438B ÷ 1,040.000M × 1.0 × 1.0 = USD 5.71575`. Bull: `8.02956B ÷ 1,020.000M × 1.0 × 1.0 = USD 7.87211765`. Every factor comes from the sealed packet or the explicit share schedule. Source: Sections 5 and 6; `quote_packet.json` unit and FX fields.

Check 3 — Segment sum at the horizon: PASS

There is one modeled segment and no corporate elimination. Bear `25.624 ÷ 25.624 = 100.0%`; Base `32.961 ÷ 32.961 = 100.0%`; Bull `37.360 ÷ 37.360 = 100.0%`. Source: Section 3 and `appendix_B_consolidated_company.md` Section 10.

Check 4 — Product-to-segment rollup: PASS

Bear subscription $25.184 billion plus services $0.440 billion equals $25.624 billion. Base `32.451 + 0.510 = 32.961`. Bull `36.800 + 0.560 = 37.360`. Every gap is zero at displayed precision and inside 1%. Source: reviewed segment appendix Section 10.

Check 5 — Weighted margin: PASS, condition non-applicable

ServiceNow discloses multiple revenue types but no product-level profit or margin. The reviewed model therefore assigns no fabricated subscription, services, AI, ITSM, CRM, or security profit margins. There is one financial segment and one consolidated statutory margin, so no product-margin weighted average exists to test. The applicable one-segment identity passes: horizon segment profit divided by horizon segment revenue equals 16.0%, 22.5%, and 26.0% in Bear, Base, and Bull. Source: `appendix_B_consolidated_company.md` Sections 9 and 10; `data_package.md` true non-disclosures.

Check 6 — Share-count and security-unit path: PASS

Starting financial shares `1,034.334M × split factor 1.0 = 1,034.334M` quote-basis shares. Dividing by `depositary ratio 1.0 × class factor 1.0` gives 1,034.334 million listed-unit equivalents. Over five years, Bear `1,034.334 + 93.818 - 48.152 = 1,080.000`; Base `1,034.334 + 92.295 - 86.629 = 1,040.000`; Bull `1,034.334 + 88.529 - 102.863 = 1,020.000`. Every annual start equals the prior annual end. Source: Section 6; sealed packet share bridge.

Check 7 — Growth plausibility: PASS

The sole segment's Base CAGR is 17.48%. Its disclosed FY2022-to-FY2025 three-year CAGR is 22.4%, and 1.2 times that historical rate is 26.88%. Base is below the allowed faster threshold. It also decelerates annually from 19.6% to 14.8%, avoiding a hidden acceleration at scale. Source: reviewed segment appendix Sections 6, 8, and 10.

Check 8 — Historical and forward arithmetic: PASS

Every revenue row compounds over exactly five annual steps from June 30, 2026 to June 30, 2031. Using the rounded consolidated CAGRs: `14.732 × 1.1171^5` approximates $25.624 billion, `14.732 × 1.1748^5` approximates $32.961 billion, and `14.732 × 1.2046^5` approximates $37.360 billion. Product-level annual rates in the reviewed appendix reproduce each subscription and services endpoint within 1%; minor differences from the displayed CAGRs are rounding. Source: segment appendix Sections 8 and 10.

Check 9 — Recency anchor: PASS

Base Year 1 revenue is $17.620 billion versus the $14.732 billion TTM anchor, a 19.6% step. Formal FY2026 subscription guidance is 21% constant-currency growth and Q2 cRPO growth is 21%; the model's first-year rate is 1.4 percentage points below those recent anchors and inside the 10-percentage-point tolerance. The model does not jump to the five-year average

without an explicit first-year cadence. Source: `data_package.md` Sections 5 and 6; segment appendix Section 10.

Check 10 — Period and horizon integrity: PASS

The TTM bridge is `FY2025 - H1 2025 + H1 2026`, with both H1 periods spanning January 1 through June 30. Revenue, OI, interest, other, pretax income, tax, and NI tie exactly. The weighted-average share bridge is calculated separately without overlapping periods. The forecast starts June 30, 2026 and ends June 30, 2031, exactly 5.0 calendar years later. No rate starts from FY2025 or runs six years. Source: Section 9 and `quant_foundation.md` P4.

Check 11 — Valuation, unit bridge, hashes, and probabilities: PASS

Exact packet-byte hashes recompute to `08d9dcfdbb5e53aad2da3379a8de9d8c2da472ca93ac2c08bd5839b2515172bd` for the quote packet and `9bffac400988d9ed22fd285cf7085e62a36c65d4d1b1016a4876156626e7f5b0` for the statutory bridge. XNYS:NOW, USD, raw completed close of $145.59, split factor 1.0, financial shares per listed unit 1.0, and FX 1.0 all match the packet. Scenario probabilities are `25% + 55% + 20% = 100%`. Weighted EPS is USD 5.42355. Bear `2.82185185 × 15 = 42.32778`; Base `5.71575 × 15 = 85.73625`; Bull `7.87211765 × 15 = 118.08176`. Base cushion is `(85.73625 - 145.59) ÷ 145.59 = -41.1112%`, so the binary gate fails. Source: Sections 1, 7, and 11; both sealed JSON packets.

SYNTHESIS CLEARED — 11/11 TIE-OUTS PASSED

The statutory model is mechanically complete and internally reconciled. The P/E 15 conclusion is therefore publishable: **FAIL with a Base cushion of -41.1%**. The later valuation stage may choose PE or EV_NOPAT only after its own preflight; nothing in this appendix selects the method, assigns an exit multiple, or authorizes a trade.

Appendix CS - Compounder Score

ServiceNow (NOW) - Compounder Score

Analysis date: 2026-09-04 **Information cutoff:** 2026-09-04T18:03:12+08:00 **TTM anchor:** 2026-06-30 **Exact horizon:** 2031-06-30, exactly 5.0 years **Security:** XNYS:NOW common share **Reporting / quote currency:** USD / USD **Current price:** USD 145.59 at the completed 2026-09-03 close **Primary valuation method: P/E Valuation preflight:** `C:\Users\Admin\OneDrive\GPT\ER 2.0\ServiceNow\valuation_preflight.json` **Immutable preflight SHA-256:** `e26996c7c205fe828fcb2fc6680cd6b258ce8abdc83dee55dfb5f88bae334218`

1. Executive Verdict

ServiceNow is a strategically strong enterprise-software franchise but not an attractive 20% return security at the locked price and assumptions. Its installed workflow estate, 98% ACV-based renewal rate, $29.0 billion of RPO, $13.2 billion of cRPO, and growing cohort of customers above $5 million ACV support a long reinvestment runway. The business has also demonstrated rapid growth and improving statutory profitability over a full five-year history. Those strengths are real.

The evidence does not support treating reported free cash flow as unconstrained owner earnings, however. TTM stock-based compensation was $2.185 billion, or 14.8% of revenue and 47.7% of TTM free cash flow. The company spent heavily on repurchases to contain dilution, then materially increased acquisition and balance-sheet risk through Moveworks, Veza, and Armis. The current product economics of AI, inference, and acquired businesses are not separately disclosed. Management and moat reviews are both YELLOW, not PASS.

The valuation conclusion is decisive. Applying the immutable preflight's P/E method, terminal EPS, and exit multiples produces a Base terminal value of USD 142.89375 per share, below the USD 145.59 entry price after five years. The Base gross USD annualized return is -0.37%; Bear is -17.27%; Bull is 10.16%; and the CAGR of probability-weighted terminal wealth is -0.79%. Even the Bull scenario does not reach 20%. The probability-weighted net-SGD diagnostic is -1.13% after explicit costs and FX assumptions.

Compounder Score: 47/100. Business Quality Score: 47/80. 20% Return Underwriting/Stretch Score: 0/20. Score-implied classification: Reject. This is a diagnostic classification, not an ER2 verdict, portfolio-sizing instruction, or trade authorization.

The resealed preflight file matches the immutable SHA-256 above and passes `validate_valuation_preflight.py --check-evidence-files`. Its status is `CLEARED`, all five valuation foundations remain locked, and the blocker list is empty. This scorer reproduces the locked method, denominators, share treatment, and scenario exit multiples without alteration. No CS publication blocker remains.

2. Data Source Map

Evidence need	Controlling source	Period / currency	Use in score
Price, listing, security unit	`quote_packet.json`, QFR sealed SHA-256 `08d9dc...72bd`	2026-09-03 close; USD/common share	USD 145.59 entry price; 1:1 listed-unit bridge
Market capitalization	Live FMP profile archived by QF	2026-09-04 retrieval; USD	USD 150.520B reference market value
Enterprise-value diagnostic	Q2 2026 balance sheet plus market cap	2026-06-30 claims; USD	USD 150.193B diagnostic after all identified cash/investments and debt/leases; not the controlling method
Income statement and EPS	`quant_foundation.md`, `statutory_bridge.json`, `appendix_synthesis.md`	FY2020-FY2025 and TTM 2026-06-30; USD	Statutory OI, NOPAT, net income, EPS, margins
Balance sheet and claims	`quant_foundation.md` P6; `data_package.md` Section 8	FY2020-Q2 2026; USD	Liquidity, leverage, goodwill/intangibles, acquisition risk
Cash flow	`quant_foundation.md` P4/P6; `data_package.md` Sections 2 and 7	FY2020-FY2025 and TTM; USD	FCF conversion, capex, SBC, buybacks, M&A
Share count and dilution	`quote_packet.json`; `appendix_synthesis.md` Section 6	Q2 2026 to 2031-06-30; millions	Scenario shares 1,080/1,040/1,020M; counted-once dilution
Operating forecast	Reviewed `appendix_B_consolidated_company.md`	TTM to 2031-06-30	Revenue, statutory margin, SBC and terminal-share paths

Evidence need	Controlling source	Period / currency	Use in score
Management and incentives	`appendix_management.md`; 2026 proxy evidence therein	Through 2026-09-04	YELLOW gate; compensation, M&A, governance
Moat, pricing, competition	`appendix_moat.md`; official filings and vendor evidence therein	Current and 2046 test	YELLOW moat and disruption-risk calibration
Valuation method and multiples	`valuation_preflight.json`	2026-09-04	Immutable P/E method; 20x/25x/30x exits
TAM and runway	`data_package.md`, FAD evidence, RPO/cRPO and customer cohorts	Through Q2 2026	Runway support with management-target haircut

ServiceNow has one operating and reportable segment. Product families are economic lenses only. No product revenue or profit has been invented for ITSM, ITOM, CRM, employee workflows, security, or AI.

3. Key Financial and Quality Metrics

The conservative ROIC series uses `NOPAT = statutory operating income x (1 - 21%)` and invested capital equal to average equity plus debt and leases less cash, without subtracting marketable securities. It rises from 5.4% in FY2021 to 13.6% in FY2025; the five-year median is 8.7%. Capitalizing R&D would add both an asset and an amortization adjustment and does not justify pretending that software development is free. Because the governed artifacts do not contain a complete pre-FY2020 R&D vintaging schedule, this score uses the source-disclosed conservative series and caps precision.

ROIIC is presented as a transparent balance-sheet diagnostic. Ending invested capital was approximately USD 3.292B in FY2020, USD 5.794B in FY2022, and USD 11.641B in FY2025. NOPAT was USD 0.157B, USD 0.280B, and USD 1.441B, respectively. Thus three-year ROIIC is `(1.441 - 0.280) / (11.641 - 5.794) = 19.85%`, and five-year ROIIC is `(1.441 - 0.157) / (11.641 - 3.292) = 15.38%`. These are conservative acquisition-inclusive diagnostics because the capital base absorbs goodwill, equity issuance, debt, and retained capital. They are not a claim that every dollar of R&D or acquisition spending earned the same return. The large 2026 acquisitions are not yet seasoned, so 2025 ROIIC cannot validate their economics.

Metric	1-year / latest	3-year	5-year	Interpretation
Revenue CAGR	20.9% FY2025	22.4% FY2022-FY2025	24.05% FY2020-FY2025	Excellent historical scale, with expected deceleration
NOPAT CAGR	33.7% FY2025	72.5% FY2022-FY2025	55.77% FY2020-FY2025	Low statutory base makes the CAGR unusually high
FCF CAGR	34.0% FY2025	28.2% FY2022-FY2025	27.58% FY2020-FY2025	Strong, but benefits from SBC and deferred revenue
Conservative ROIC	13.6% FY2025	n/a	8.7% median	Below the rubric's high-ROIC threshold
Balance-sheet ROIIC	n/a	19.85%	15.38%	Positive; not enough to validate 2026 M&A
FCF / NOPAT	317.6% FY2025	n/a	406.8% aggregate	Over-100% conversion reflects working capital and SBC; not pure owner earnings
FCF after SBC / NOPAT	181.9% FY2025	n/a	189.3% aggregate	Still strong after treating SBC as a cash-like owner cost
SBC / revenue	14.8% TTM	declining	14.7% FY2025 versus 19.2% FY2021	Improvement, but still economically material
SBC / FCF	47.7% TTM	n/a	42.7% FY2025	Nearly half of reported cash generation
Diluted-share CAGR	-0.5% TTM versus FY2025	0.9% FY2022-FY2025	0.67% FY2020-FY2025	Buybacks contain, but do not erase, SBC economics
Net debt / EBITDA	0.63x	n/a	n/a	Q2 obligations less cash/marketable securities, divided by TTM EBITDA proxy
Current EV / normalized NOPAT	94.21x	n/a	n/a	Diagnostic only; EV/NOPAT is rejected as primary
FCF yield	3.04%	n/a	n/a	TTM FCF / current market cap
Dividend yield	0.00%	0.00%	0.00%	No dividend; zero-distribution diagnostic applies

The liquidity-adjusted net-debt ratio uses USD 8.453B of debt and leases less USD 2.503B cash and USD 4.204B marketable securities, or USD 1.746B, divided by TTM EBITDA proxy of USD 2.778B. Strategic investments are excluded from this leverage numerator because their value is volatile. The balance sheet is manageable but no longer the simple net-cash asset-light profile seen before the 2026 acquisition cycle.

4. Rubric Scorecard

Category	Score	Maximum	Evidence-based conclusion
1. Incremental Returns on Capital	13	25	Returns are positive and improving, but conservative ROIC and acquisition-inclusive ROIIC do not meet elite thresholds
2. Reinvestment Runway	15	20	Large workflow/AI runway and strong enterprise expansion; current organic and acquired contributions are not cleanly separated
3. Durability of Moat	11	15	Strong switching costs and trust; meaningful AI/hyperscaler/system-of-record disruption risk
4. Accounting Honesty and Financial Quality	4	10	Revenue/cash evidence is strong; SBC, non-GAAP gaps, M&A accounting, and disclosure gaps cap the score
5. Capital Allocation Discipline	4	10	Internal reinvestment has worked; recent M&A and incentives lack return-on-capital proof
Business Quality Score	**47/80**	**80**	Good-to-strong franchise, not yet an elite owner-economics compounder
6. Price and 20% Return Underwriting	0	20	No scenario reaches 20%; Base and probability-weighted returns are negative
Compounder Score	**47/100**	**100**	**Reject under this diagnostic rubric**

Sub-criterion scoring is intentionally non-compensating. Category 1 is 1A 1/5, 1B 4/8, 1C 2/3, 1D 2/3, 1E 2/3, and 1F 2/3. Category 2 is 2A 4/5, 2B 4/5, 2C 3/4, 2D 3/3, 2E 1/2, and 2F 0/1. Category 3 is 3A 4/4, 3B 2/3, 3C 2/3, 3D 2/2, 3E 1/2, and 3F 0/1. Category 4 is 4A 1/2, 4B 2/2, 4C 0/2, 4D 1/2, 4E 0/1, and 4F 0/1. Category 5 is 5A 2/2, 5B 0/2, 5C 1/2, 5D 0/2, 5E 0/1, and 5F 1/1. Category 6 scores 0 in each of 6A-6F.

5. ROIIC and Reinvestment Analysis

The evidence supports a productive historical reinvestment engine, but not the claim that it already earns Gideon's desired greater-than-20% incremental return after all capital. Revenue rose from USD 4.519B in FY2020 to USD 13.278B in FY2025 while statutory operating margin rose from 4.4% to 13.7%. Sales and marketing fell from 38.9% to 33.0% of revenue by FY2025, and R&D remained above 22% of revenue. This combination shows scale and continued product investment rather than margin expansion created by starving innovation.

The ROIIC result is sensitive to the capital definition. An asset-light calculation that subtracts all securities or ignores deferred-revenue financing can produce very high or negative invested-capital denominators. Such figures would be accounting artifacts. The conservative balance-sheet method yields 15.38% over five years and 19.85% over three years. The improvement deserves credit, but neither measure exceeds 35%, and the 2026 acquisition wave raises the denominator before providing a comparable full-year NOPAT contribution.

Cash conversion is genuinely strong. Aggregate FY2021-FY2025 FCF was USD 14.660B versus USD 3.604B of normalized NOPAT. Yet aggregate SBC was USD 7.837B over the same period. Subtracting SBC as a cash-like owner cost still leaves substantial cash conversion, but the remaining amount must fund acquisitions and buybacks. Buybacks primarily manage dilution, so they are not an additional operating return. This is why 1E earns 2/3 rather than full credit.

The main monitoring requirement is post-acquisition ROIIC. By FY2027, the company should disclose or enable a credible acquired-versus-organic growth bridge, demonstrate improving statutory NOPAT and owner FCF per share, and avoid impairment. If the capital base rises while cRPO, margin, and per-share cash generation do not, the current historical ROIIC will have been backward-looking.

6. Runway Analysis

ServiceNow has a credible five-year runway. The 98% renewal rate, USD 29.0B RPO, USD 13.2B cRPO, and 658 customers above USD 5M ACV show an entrenched recurring base with room to expand. ITSM/ITOM remains the anchor; CRM, employee workflows, security, identity, data, and AI provide additional wallet opportunities. The Base model's 17.48% five-year revenue CAGR is lower than the 22.4% FY2022-FY2025 historical CAGR and follows an explicit deceleration path.

The runway is not fully observable by product. ServiceNow does not disclose current product-family revenue and profit, net revenue retention, AI recognized revenue, AI gross profit, CAC, payback, or inference cost. AI ACV above USD 1B and the 20%-30% price-uplift framework are encouraging leading indicators, not audited revenue or contribution-margin evidence. The score therefore grants substantial but not maximum credit.

Organic and acquired growth also overlap. Moveworks, Veza, and Armis expand enterprise search, identity, and cyber-exposure capabilities, but more than USD 11B of recent consideration changes the meaning of reinvestment. The platform can reinvest at scale; it has not yet proved that this acquisition cycle will preserve high incremental returns. Category 2F receives zero because growth without an ROIC decline remains a forecast, not demonstrated fact, after the debt and goodwill step-up.

7. Moat Analysis

The clearest moat is embedded workflow and process state. A mature deployment contains service catalogs, CMDB relationships, permissions, approvals, SLAs, integrations, custom applications, and audit evidence. Replacing it entails redesign, migration, retraining, control testing, and operational risk. High-trust procurement, certifications, data residency, partner expertise, and long enterprise contracts reinforce those switching costs.

The evidence supports pricing power, but not blanket pricing power. AI-native upgrades reportedly carry 20%-30% uplifts, renewal remains 98%, and large-customer cohorts continue to grow. On the other hand, ordinary downsells and NRR are not disclosed, enterprise buyers can negotiate portfolio discounts, and AI consumption raises costs. Non-GAAP subscription gross margin declined to 80.5% in Q2 2026, showing that hyperscaler and inference economics matter.

The 2046 review is YELLOW. ServiceNow can remain the governed action and audit layer for enterprise agents even when third parties provide models and interfaces. That is a plausible, valuable future. It is also plausible that Microsoft, SAP, Salesforce, Workday, hyperscalers, or open agent standards capture the control plane and reduce ServiceNow to lower-value plumbing. Low disruption risk is therefore not supported, and Category 3F scores zero.

8. Accounting and Capital Allocation Analysis

Statutory revenue, operating income, pretax income, net income, and cash flow reconcile cleanly. The QFR-sealed statutory bridge has zero residuals for FY2025 and TTM. There is no material weakness or restatement in the evidence package. Revenue is largely recurring and contracted. These facts support full cash-flow corroboration credit.

Financial quality is weaker when judged on owner economics. The large gap between statutory and non-GAAP operating margins is driven by recurring SBC and acquisition amortization as well as temporary integration charges. SBC remains 14.8% of TTM revenue. Repurchases reduce share count but consume cash and cannot make employee compensation free. The P/E terminal EPS retains SBC and amortization, which is the correct conservative treatment.

Capital allocation is bifurcated. Internal R&D and go-to-market investment produced excellent growth and margin progress. The January 2026 accelerated repurchase at USD 107.97 was below the current quote and economically sensible. But recent acquisitions added debt, goodwill, intangibles, and execution risk without disclosed return hurdles. Executive incentives emphasize NNACV, non-GAAP margin, subscription revenue, and relative TSR, not ROIC or owner FCF per share. The open federal hiring investigation and reciprocal-board optics add modest governance caution. These issues cap Categories 4 and 5.

9. 20% Return Underwriting

Method and denominator bridge

Primary valuation method: P/E. The preflight selected P/E because terminal statutory diluted EPS is positive and fully reconciled on the same USD/common-share perimeter. EV/NOPAT is rejected because there is no source-bound terminal capital-structure path. P/B-ROE is rejected because ServiceNow is not balance-sheet led and lacks a zero-residual common-equity roll-forward.

Reported current statutory diluted EPS is USD 1.6027224154 and reported current P/E is 90.8391862509x. Normalized current EPS is USD 1.7591558008 and normalized current P/E is 82.7612880736x after removing the strategic-investment gain and normalizing transaction, severance, termination, and tax items while retaining SBC and purchased-intangible amortization. The preflight marks current-versus-terminal denominators non-comparable because the current period is event-heavy. Accordingly, the raw current multiple is not used as a cap, and the no-expansion scoring test is unavailable. Locked exit P/Es are 20x Bear, 25x Base, and 30x Bull.

Gross USD shareholder return

ServiceNow pays no dividend. Cumulative distributions are explicitly set to USD 0.00 in every scenario. Under P/E, terminal net cash or debt is not added or subtracted: financing and capital structure already affect statutory EPS and the equity multiple.

Scenario	Probability	Terminal EPS	Exit P/E	Terminal value / wealth	Cumulative distributions	Gross USD CAGR
Bear	25%	$2.82185185	20.0x	$56.43703700	$0.00000000	-17.2655%
Base	55%	$5.71575000	25.0x	$142.89375000	$0.00000000	-0.3732%
Bull	20%	$7.87211765	30.0x	$236.16352950	$0.00000000	10.1581%
Probability weighted	100%	n/a	n/a	$139.93352765	$0.00000000	-0.7894%

The probability-weighted figure is not the average of scenario IRRs. Expected terminal wealth is `25% x 56.437037 + 55% x 142.89375 + 20% x 236.1635295 = USD 139.93352765`; CAGR is `(139.93352765 / 145.59)^(1/5) - 1 = -0.7894%`.

Net-SGD diagnostic

This bounded diagnostic assumes entry USD/SGD of 1.3000 SGD per USD; a 0.35% all-in entry cost; a 0.35% all-in exit cost; Bear/Base/Bull exit USD/SGD of 1.2000/1.2700/1.3400; 30% U.S. withholding on dividends; and no dividend distributions. Therefore withholding tax is explicitly zero dollars despite the 30% rate. It also assumes no Singapore capital-gains tax for an individual investor and no additional account-specific taxes. These are diagnostic assumptions, not personalized tax advice.

Initial SGD outlay is `145.59 x 1.3000 x 1.0035 = SGD 189.92943450`. Scenario terminal SGD wealth is `USD terminal wealth x scenario exit FX x 0.9965`.

Scenario	Exit USD/SGD	Net terminal wealth, SGD	Net-SGD CAGR
Bear	1.2000	67.48740884	-18.69%
Base	1.2700	180.83989978	-0.98%
Bull	1.3400	315.35152258	10.67%
Probability weighted	Scenario specific	179.40410161	-1.13%

Probability-weighted net terminal wealth is the weighted sum of scenario net terminal wealth, not the weighted average of net IRRs. The result is `(179.4041016062 / 189.9294345)^(1/5) - 1 = -1.1338%`.

Reverse 20% hurdle

Required five-year terminal wealth for a 20% CAGR is `145.59 x 1.20^5 = USD 362.2745088`. At the locked Base 25x exit P/E and zero distributions, required terminal EPS is USD 14.490980352. That implies a 52.46% EPS CAGR from normalized current EPS of USD 1.759155801, or 55.33% from reported TTM EPS of USD 1.602722415. The Base model produces USD 5.71575. The hurdle is not beatable without a radically different earnings outcome or a preflight change.

The Base maximum buy price for a 20% CAGR is `142.89375 / 1.20^5 = USD 57.42579331`. The probability-weighted maximum price is USD 56.23614634. These are mechanical stretch diagnostics, not target prices or trade instructions.

10. Hard Veto Checklist

Test	Result	Evidence
1. ROIIC below cost with no path	Watch	Historical ROIIC is positive, but recent acquisition returns are unproven

Test	Result	Evidence
2. ROIC high only from tiny/negative capital	Pass	Conservative capital base is positive and includes goodwill, debt, leases, and retained capital
3. Growth requires persistent external financing	Pass	FCF is strong; 2026 debt funded a discretionary acquisition wave, not ordinary operations
4. Material share growth without value creation	Watch	Five-year share CAGR is low, but buybacks must offset heavy SBC
5. Large acquisitions without disclosed returns	Watch	More than USD 11B of recent consideration lacks cohort ROIC/payback disclosure
6. FCF structurally lags earnings	Pass	FCF exceeds NOPAT, though SBC inflates conversion
7. Concentration/regulation/platform/leverage can impair equity	Watch	AI platform dependency and new leverage are material but not existential today
8. 20% case requires terminal multiple expansion	Watch	Denominator comparability is unavailable; exits are locked independently, but no case reaches 20%
9. Flawless execution needed at today's price	Fail / hard veto	Base terminal value is below entry and Bull earns only 10.16%
10. Moat cannot be explained	Pass	Embedded workflow state, permissions, integrations, and procurement trust are clear
11. Accounting/governance impairs trust	Watch	Clean statutory tie-outs; open DOJ matter and non-GAAP/SBC reliance remain
12. Balance sheet can wipe out equity	Pass	Leverage is manageable relative to cash generation, though flexibility is lower

The sole hard veto is valuation/perfection risk. It does not imply the company is weak. It means today's security price requires an outcome that the locked scenarios do not support.

11. Final Decision

Score-implied classification: Reject. The 47/80 business-quality score recognizes a strong franchise but is capped by conservative ROIC, unproven acquisition ROIIC, substantial SBC, incentive design, and unresolved long-horizon AI control-plane risk. The 0/20 return score is not offset by business quality: Base and probability-weighted returns are negative, Bear destroys capital, and Bull remains below the 20% hurdle.

Compounder Score note: **47/100 - Reject; business strengths cannot compensate for a locked Base terminal value below the current price.**

Business Quality Score note: **47/80 - strong workflow franchise and runway, capped by conservative ROIC, SBC, acquisition-return opacity, and a YELLOW 2046 moat test.**

20% Return UW Score note: **0/20 - no scenario clears 20%; gross USD Bear/Base/Bull/PW CAGRs are -17.27%/-0.37%/10.16%/-0.79%.**

This analysis conveys no portfolio sizing and no trade authority. `trade_execution_authorized = false` and `portfolio_mutation_authorized = false`.

Status: `CS_CLEARED`. The resealed valuation preflight passes full evidence validation, the locked inputs are reproduced exactly, and all scorer arithmetic and structural checks pass.

12. Machine-Readable JSON

The complete machine-readable score, exact arithmetic, scenario bridges, net-SGD assumptions, criterion scores, threshold tests, source confidence, and blocker record are stored in `C:\Users\Admin\OneDrive\GPT\ER 2.0\ServiceNow\compounder_score.json`. It uses full calculation precision, preserves null only for fields inapplicable to the P/E method, and keeps all trade and portfolio authority flags false.

Appendix CSA - Scoring Audit

ServiceNow (NOW) — Independent Compounder Scoring Audit

Analysis date: 2026-09-04 **Audit status: CLEARED WITH SCORE REDUCTIONS AND NON-MATERIAL DATA-BASIS FINDINGS Security:** XNYS:NOW common share; USD reporting and quote currency **Entry price:** USD 145.59 at the completed 2026-09-03 close **Primary valuation method: P/E Valuation preflight:** `C:\Users\Admin\OneDrive\GPT\ER 2.0\ServiceNow\valuation_preflight.json` **Immutable valuation-preflight SHA-256:** `e26996c7c205fe828fcb2fc6680cd6b258ce8abdc83dee55dfb5f88bae334218`

The exact preflight bytes recompute to the required hash. The repository validator was run with `--check-evidence-files` and returned `VALUATION_PREFLIGHT_VALID`. The artifact is `CLEARED`, all five foundations pass, and its blocker list is empty. The scorer copied the exact path, hash, normalized anchor, P/E method, diluted-share treatment, and 20x/25x/30x Bear/Base/Bull exit multiples. The independent statutory-bridge validator also returned `STATUTORY_BRIDGE_VALID` for SHA-256 `9bffac400988d9ed22fd285cf7085e62a36c65d4d1b1016a4876156626e7f5b0`. No valuation-preflight mismatch blocks this audit.

1. Original vs Audited Scores

Item	Original	Audited	Notes
Business Quality Score / 80	47	44	Three points removed where qualitative credit outran observable unit economics and post-acquisition evidence
Valuation / 20% Return UW Score / 20	0	0	Correct: no scenario clears 20%, Bear is deeply negative, and the comparable-multiple test is unavailable
Total Score / 100	47	44	Arithmetic sum of separately assessed quality and return scores
Classification	Reject	Reject	Below 70, below every investable threshold, and valuation hard veto remains

The original score was already cautious, but caution is not evidence. The audited result is 44/100, comprising 44/80 for business quality and 0/20 for return underwriting. ServiceNow is a strong enterprise workflow franchise, yet the rubric asks for demonstrated incremental economics and a plausible 20% security return. The current evidence supports neither an elite quality score nor an investable entry price.

The original category scores were 13/25, 15/20, 11/15, 4/10, 4/10 and 0/20. The audited category scores are 12/25, 13/20, 11/15, 4/10, 4/10 and 0/20. The exact subcriterion audit follows.

Criterion	Original	Audited	Evidence status	Audit action
1A Normalized ROIC	1/5	1/5	Supported	Preserve; 8.7% five-year median maps mechanically to one point
1B ROIIC	4/8	4/8	Partly supported	Preserve measured historical credit, but do not call it proof of 2026 acquisition returns
1C ROIIC trend	2/3	2/3	Partly supported	Preserve; three-year exceeds five-year, but the current capital step-up is unseasoned
1D Unit economics	2/3	1/3	Missing data	Reduce; renewal and RPO are useful, but NRR, CAC/payback, AI margin and product economics are absent
1E Cash conversion	2/3	2/3	Supported with caveat	Preserve; post-SBC conversion is strong, while deferred revenue and SBC make headline FCF non-owner-equivalent

Criterion	Original	Audited	Evidence status	Audit action
1F Accounting artifact control	2/3	2/3	Supported with caveat	Preserve; capital base is conservative, but a full capitalized-R&D series is unavailable
2A Market opportunity	4/5	4/5	Partly supported	Preserve; backlog, large-customer cohorts and adjacencies support runway, with management TAM claims discounted
2B Reinvestment at scale	4/5	3/5	Partly supported	Reduce; historical internal reinvestment worked, but more than USD 11B of recent M&A lacks cohort returns
2C Organic opportunity	3/4	3/4	Partly supported	Preserve; cross-sell is credible, though organic and acquired growth are not cleanly separated
2D Repeatable expansion	3/3	2/3	Partly supported	Reduce; 98% renewal and large-account growth help, but no NRR/downsell or product-cohort series supports full credit
2E Market structure	1/2	1/2	Supported	Preserve; switching costs help, while suite and hyperscaler competition remain material
2F Growth without ROIC collapse	0/1	0/1	Missing data	Preserve zero; the post-acquisition claim has not been demonstrated
3A Source of advantage	4/4	4/4	Supported	Preserve; embedded process state, permissions, integrations and audit trails are concrete
3B Pricing power	2/3	2/3	Partly supported	Preserve; AI upgrade uplift is encouraging but not blanket realized-price evidence
3C Competitive evidence	2/3	2/3	Partly supported	Preserve; renewal, cRPO and customer scale are strong, but market-share proof is limited
3D Customer stickiness	2/2	2/2	Supported	Preserve; the 98% ACV-based renewal series is long and consistent
3E Stress resilience	1/2	1/2	Partly supported	Preserve; no full AI cost cycle or severe competitive stress has been observed
3F Low disruption risk	0/1	0/1	Unsupported	Preserve zero; the 2046 moat review is YELLOW
4A Revenue/earnings quality	1/2	1/2	Supported with caveat	Preserve; statutory tie-outs are clean, but current earnings contain an event-heavy acquisition period
4B Cash flow support	2/2	2/2	Supported	Preserve; multi-year cash conversion remains strong after an SBC haircut
4C SBC/dilution treatment	0/2	0/2	Supported adverse	Preserve zero; SBC is 14.8% of revenue and buybacks primarily contain dilution
4D Balance sheet	1/2	1/2	Supported	Preserve; manageable cash generation is offset by the 2026 debt and goodwill step-up
4E Disclosure transparency	0/1	0/1	Missing data	Preserve zero; product, AI and acquisition economics are not disclosed
4F Governance/accounting flags	0/1	0/1	Supported adverse	Preserve zero; clean controls coexist with an unresolved federal hiring investigation

Criterion	Original	Audited	Evidence status	Audit action
5A Reinvestment priority	2/2	2/2	Supported historically	Preserve; R&D intensity and operating leverage support internal reinvestment discipline
5B Acquisition discipline	0/2	0/2	Missing data	Preserve zero; price, payback and acquisition ROIIC evidence are absent
5C Buyback discipline	1/2	1/2	Partly supported	Preserve; the ASR price was favorable, but repurchases offset recurring compensation issuance
5D Incentive alignment	0/2	0/2	Supported adverse	Preserve zero; compensation omits ROIC and owner FCF per share
5E Owner mentality	0/1	0/1	Partly supported	Preserve zero; high pay and acquisition-linked metrics limit confidence
5F Past decisions	1/1	1/1	Supported	Preserve; five-year revenue, margin and internal-investment results are observable
6A Base IRR	0/6	0/6	Calculation verified	Preserve zero; Base gross USD CAGR is -0.3732%
6B Exit multiple	0/4	0/4	Integrity passed; score condition unavailable	Preserve zero because current-to-terminal denominator comparability is explicitly false
6C Bear outcome	0/3	0/3	Calculation verified	Preserve zero; Bear gross USD CAGR is -17.2655%
6D Reverse-return hurdle	0/3	0/3	Calculation verified	Preserve zero; required normalized-current EPS CAGR is 52.4610%
6E Price perfection	0/2	0/2	Supported adverse	Preserve zero; Base terminal wealth is below entry and Bull is only 10.1581%
6F Cash returns	0/2	0/2	Supported adverse	Preserve zero; no dividend or modeled distribution

2. Score Reductions and Reasons

This score is reduced because 1D gave two-thirds credit without the core unit-economics observations needed to distinguish a durable expansion engine from an attractive but opaque enterprise-software model. The 98% renewal rate is ACV based and excludes ordinary contraction. RPO and cRPO show visibility, not cohort profitability. There is no NRR/DBNR, CAC, payback, magic number, AI recognized revenue, AI contribution margin, cost per assist, or product-family profit. One point is justified for the contracted and sticky base; two points are not.

This score is reduced because 2B treated the historical reinvestment record as nearly complete evidence even after Moveworks, Veza and Armis changed the capital perimeter. More than USD 11B of recent consideration, substantial new debt, and a large goodwill/intangible increase are economically central. Revenue growth and statutory margin expansion through FY2025 prove that earlier internal reinvestment worked. They do not prove that the current acquisition cycle earns a high return. Three of five points recognize the past record without underwriting an unseasoned capital deployment.

This score is reduced because 2D awarded full credit to a repeatable expansion playbook without a disclosed net-expansion series. Large customers above USD 5M ACV grew and the 98% renewal series is impressive, but those measures cannot reveal ordinary downsell, product attach by cohort, or organic contribution after the acquisitions. Two of three points are supported; full credit would convert evidence gaps into favorable assumptions.

No further reduction is warranted. In particular, 1B's four points are retained because the historical arithmetic genuinely lands in the rubric's 15%-25% band. The limitation is scope and recency, not a mathematical failure. Category 3 already assigns no low-disruption point, Category 4 already penalizes SBC/disclosure/governance, and Category 5 already gives zero for acquisition discipline and incentive alignment. Penalizing the same fact again would be double counting.

3. Unsupported Claims

The evidence does not support describing the 15.38% five-year balance-sheet ROIIC as proof that the 2026 acquisitions are acquisition-inclusive in an economically current sense. The calculation includes goodwill and historical capital through FY2025, but it ends before the Armis and Veza balance-sheet step-up and before a seasoned Moveworks contribution. It is a valid historical diagnostic, not a current acquisition-cohort return.

The evidence does not support full unit-economics or repeatable-expansion credit from ACV renewal and RPO alone. Renewal excludes contraction among retained customers; RPO includes duration effects and is not bookings, revenue or cash. Similarly, AI ACV and 20%-30% upgrade uplifts do not establish recognized AI revenue, gross profit, retention or inference economics.

The evidence does not support a numerical reinvestment rate. The scorer correctly leaves `reinvestment_rate_5yr_avg` null. Any attempt to derive it from headline FCF/NOPAT would be unstable because low statutory NOPAT, deferred-revenue financing and large noncash SBC create ratios well above 100%. The missing rate lowers confidence but does not create a separate arithmetic error.

4. Calculation Errors

No material calculation error was found in the P/E return model. Independently replaying the terminal bridges gives Bear `2.82185185 × 20 = USD 56.437037`, Base `5.71575 × 25 = USD 142.89375`, and Bull `7.87211765 × 30 = USD 236.1635295`. Distributions are zero. Relative to USD 145.59 over exactly five years, gross USD CAGRs are -17.2655218822%, -0.3731641055% and 10.1580544248%.

Using exact weights 25%/55%/20%, expected terminal wealth is `0.25 × 56.437037 + 0.55 × 142.89375 + 0.20 × 236.1635295 = USD 139.93352765`. Annualizing that wealth—not averaging scenario IRRs—gives a probability-weighted gross USD CAGR of -0.7894065855%. The probability-weighting method is correct.

The net-SGD overlay also replays. Initial outlay is `145.59 × 1.30 × 1.0035 = SGD 189.9294345`. Applying exit FX of 1.20/1.27/1.34 and a 0.35% exit cost to the same P/E terminal wealth gives Bear/Base/Bull terminal SGD wealth of 67.4874088446, 180.83989978125 and 315.351522576645, and net-SGD CAGRs of -18.6933447339%, -0.9760156975% and 10.6727066685%. Probability-weighted terminal SGD wealth is 179.404101606167 and its five-year CAGR is -1.1337598189%. No dividend means the stated 30% withholding rate produces exactly zero withholding; Singapore capital-gains tax is assumed zero for the diagnostic.

The reverse-return bridge also ties. Required wealth for 20% is `145.59 × 1.20^5 = USD 362.2745088`; at 25x P/E, required terminal EPS is USD 14.490980352. That is a 52.4609749226% CAGR from normalized current EPS of USD 1.7591558008, versus Base terminal EPS of USD 5.71575. Base and probability-weighted maximum buy prices for 20% are USD 57.4257933063 and USD 56.2361463357.

The non-material basis inconsistency is SBC labeling. The governed QF/data package uses USD 2.185B of TTM cash-flow-statement SBC (`1.955 - 0.969 + 1.199`) for FCF and owner-cash comparisons. The preflight uses USD 2.199B of TTM income-statement SBC expense (`1.955 - 0.969 + 1.213`) to confirm that statutory earnings retain the expense. Both source rows exist, but `compounder_score.json` and the prose do not always distinguish them. This does not change statutory EPS, return arithmetic, the 14.8% rounded burden, or the audited score; downstream presentation should label the two bases explicitly.

Normalized NOPAT and return diagnostics are sound. FY2025 NOPAT is `1.824 × 79% = USD 1.44096B`. Three-year ROIIC is approximately `(1.441 - 0.280) / (11.641 - 5.794) = 19.85%`; five-year ROIIC is approximately `(1.441 - 0.157) / (11.641 - 3.292) = 15.38%`. Aggregate FY2021-FY2025 FCF is USD 14.660B versus NOPAT of about USD 3.604B, or 406.8%; after subtracting USD 7.837B of SBC, conversion remains about 189.3%. The five-year diluted-share CAGR from 1,012.390M to 1,046.691M is 0.6686%. Current EV/normalized NOPAT of about 94.21x also ties to USD 150.193B divided by normalized operating NOPAT near USD 1.594B, but EV/NOPAT is properly diagnostic rather than controlling.

Exit-Multiple Economic-Coherence Audit

Reported current statutory EPS is USD 1.6027224154 and reported P/E is 90.8391862509x. Normalized current EPS is USD 1.7591558008 and normalized P/E is 82.7612880736x after removing the strategic-investment mark and normalizing transaction, severance, termination and tax items while retaining SBC and purchased-intangible amortization. The current denominator remains event-heavy and lacks a full pro-forma acquisition contribution; the preflight correctly marks it non-comparable with terminal statutory EPS. Neither the 90.84x raw multiple nor the 82.76x

normalized-but-still-non-comparable multiple was used as a cap.

Each exit P/E has an independent anchor. Bear 20x sits near the low end of the live 16.35x-28.42x diluted-GAAP peer range and reflects terminal growth of 7.8%, a 16% statutory margin, integration risk and still-high SBC. Base 25x lies inside the peer range and requires 14.8% terminal growth and a 22.5% statutory margin. Bull 30x is only about 6% above the peer high and requires 17.8% terminal growth, 26% margin, AI/control-plane leadership and modest share shrinkage. The multiples were selected before returns or scoring.

The excessive-optimism test passes: the Bull stack is demanding and gets only 20% probability; 30x is not taken from NOW's much higher raw history; SBC and amortization remain in terminal statutory EPS; and dilution/buyback cash are explicit. The remaining optimism risk is that future buybacks are translated at a constant USD 145.59 mechanical price, but the VP locks terminal share counts and the return conclusion is so weak that this does not manufacture a hurdle pass.

The excessive-bearishness test also passes: Bear retains high renewal, positive growth, a 16% margin and a 20x multiple rather than forcing a 15x rubric gate into the valuation. Bear is adverse without being a disguised insolvency. `exit_multiple_independently_justified = true`; `raw_current_multiple_used_as_cap = false`; and `material_red_team_objection_status` remains `PENDING` exactly as required for this stage. PENDING denotes the separate downstream red-team status, not a material objection identified by this auditor.

Method Consistency and Double Counting

P/E is primary in Bear, Base, Bull, probability weighting, the reverse-return diagnostic and every net-SGD calculation. Terminal shareholder value is EPS times exit P/E plus zero distributions. No terminal cash, debt, leases, strategic investments or other claims are added or subtracted after the equity multiple. Interest income, financing burden, SBC and amortization remain in statutory EPS. Outstanding awards and scenario diluted shares are counted once. The P/E bridge therefore passes the method-consistency and double-count controls. ServiceNow is not a P&C insurer, so insurer-specific bridge fields are not applicable.

5. Missing Data

The most important missing evidence is a post-acquisition return bridge for Moveworks, Veza and Armis: organic versus acquired revenue, acquired gross profit, integration cost, incremental NOPAT, owner FCF per share, and capital employed by cohort. Until seasoned data exist, historical ROIIC cannot validate the present acquisition program.

Other consequential gaps are NRR/DBNR and ordinary downsell; product-family revenue and profit; recognized AI revenue and gross profit; inference/token/API cost and cost per assist; CAC, payback and magic number; a complete pre-FY2020 capitalized-R&D vintage schedule; and a full reinvestment-rate series. These gaps justify the three-point quality reduction and Medium—not High—confidence.

6. Hard-Veto and Threshold Test Audit

The audited Category 1 plus Category 2 subtotal is 25/45, below the required 35/45. Business quality is 44/80, below 65/80. Return underwriting is 0/20, below 15/20. Total score is 44/100, below 80/100 and also below the rubric's 70-point Reject boundary. Base IRR is below 20%, Bear is far below the acceptable 8%-10% range, and the no-expansion condition cannot pass because current-versus-terminal denominator comparability is unavailable.

Hard veto 9 remains valid: at today's price, Base terminal value is below entry and even Bull produces only 10.16% gross USD. This is not a claim that operational failure is certain. It means the security requires a more favorable earnings/multiple outcome than any of the locked scenarios. No business-quality point can offset that return failure.

7. Final 20% Hurdle Pass/Fail

FAIL. No scenario clears 20%, probability-weighted return is negative in both gross USD and net SGD, and the method-matched reverse hurdle requires normalized-current EPS to compound at 52.46% for five years. The audited 20% Return Underwriting Score remains 0/20. This is a scoring conclusion only and grants no trade, portfolio-mutation or sizing authority.

8. Dream Business / Dream Investment Classification

Neither under the strict rubric. ServiceNow is an attractive and strategically important franchise, but 44/80 does not qualify as a dream business because current acquisition ROIIC, AI unit economics, disclosure quality, SBC economics and 2046

moat durability remain unresolved. It is not a dream investment because every modeled return falls below 20% and Base/PW returns are negative. The single biggest reason is starting valuation relative to locked statutory EPS: five years of strong Base operating execution still produces terminal wealth below the entry price.

9. Stage 7 Scorecard Notes

Compounder Score note: **44/100 — Reject; strong franchise evidence is outweighed by opaque incremental economics and a negative Base return.**

Business Quality Score note: **44/80 — durable workflows and runway, but unit economics, post-acquisition ROIIC, SBC and AI durability are not fully proven.**

20% Return UW Score note: **0/20 — gross USD Bear/Base/Bull/PW CAGRs are -17.27%/-0.37%/10.16%/-0.79%; no case clears 20%.**

10. Auditor JSON

The machine-readable audit is stored at `C:\Users\Admin\OneDrive\GPT\ER 2.0\ServiceNow\compounder_score_audit.json`. It preserves full-precision gross USD and net-SGD returns, exact 25%/55%/20% weights, P/E method binding, 20x/25x/30x exits, integrity controls, null insurer fields, and `material_red_team_objection_status = PENDING`.

Audit clearance: The audited values are cleared for downstream scorecard use. There is no CSA publication blocker. Required upstream repair is limited to explicitly labeling the USD 2.185B cash-flow SBC basis versus the USD 2.199B income-statement expense basis in future narrative refreshes; no valuation-preflight change or return rerun is needed. No portfolio sizing, trade execution, owner action or portfolio mutation is authorized.

Appendix RT - Red Team

ServiceNow (NOW) — Independent Red Team

Analysis date: 2026-09-04 **TTM anchor:** 2026-06-30 **Forward horizon:** 2031-06-30, exactly 5.0 years **Frozen entry price:** USD 145.59 per XNYS:NOW common share at the 2026-09-03 close **Audited diagnostic score:** 44/100 = 44/80 Business Quality + 0/20 Return Underwriting **Primary valuation method:** P/E **Frozen valuation-preflight SHA-256:** `e26996c7c205fe828fcb2fc6680cd6b258ce8abdc83dee55dfb5f88bae334218`

This review starts from the presumption that the apparently attractive operating story is concealing a weaker per-share outcome. The most important distinction is between adoption and economics. ServiceNow can remain strategically relevant, retain 98% of ACV, grow AI ACV rapidly, and still disappoint shareholders if AI upgrades do not become recognized revenue at attractive contribution margins, if suite vendors capture the orchestration rent, or if stock compensation and acquisition spending absorb the operating gains. The audited return conclusion is already adverse, so the red team's burden is not to invent catastrophe; it is to test whether even that adverse conclusion rests on generous operating and valuation assumptions, while also checking that the Bear case does not manufacture ruin.

1. The most fragile assumption

The most fragile assumption is the **Base-case conversion of AI, security, CRM and cross-sell activity into 17.79% five-year subscription-revenue CAGR**, producing USD 32.451 billion of subscription revenue and USD 32.961 billion of total revenue at the horizon. This is the load-bearing line in the reviewed consolidated-company appendix. The model begins with 20% subscription growth and fades through 19%, 18%, 17% and 15%, close to management's USD 32 billion-plus FY2030 subscription aspiration. It treats 98% renewal, USD 29.0 billion of RPO, USD 13.2 billion of cRPO and growing large-customer cohorts as sufficient support for continued high-teens expansion.

Those facts establish persistence and near-term visibility, not net expansion or incremental profitability. ServiceNow does not disclose NRR/DBNR, ordinary downsell, product-family revenue, recognized AI revenue, AI gross profit, cost per assist, CAC or cohort payback. AI ACV can rise through repricing, bundle migration and acquired products while recognized organic revenue grows more slowly. The 98% ACV-renewal metric excludes ordinary contraction among renewed customers. RPO also moves with contract duration; management explicitly said duration increased in Q2. The base forecast therefore converts a set of leading indicators into a five-year revenue claim without the cohort bridge needed to distinguish new economics from repackaging.

The synthesis sensitivity gives the direct consequence. A 200-basis-point reduction in Base revenue CAGR, from 17.48% to 15.48%, lowers terminal EPS from USD 5.7158 to USD 5.259, a USD 0.457 or 8.0% miss. That is before allowing any related margin disappointment. Combining a 15.48% revenue CAGR with a 20.5% statutory operating margin produces approximately USD 4.81 of terminal EPS; at the frozen Base 25x P/E, terminal wealth is about USD 120.14 and the five-year gross USD return is roughly -3.77%. The dangerous path is thus not churn collapse. It is high renewal, weaker expansion, and AI activity that carries less price and more cost than the model assumes.

2. The most-likely-to-be-optimistic Stage 5 number

The single Stage 5 number most likely to be revised down is the **22.5% Base terminal statutory operating margin**. It requires an 1,110-basis-point rise from the 11.4% TTM margin while revenue more than doubles. The mechanism includes SBC falling from about 14.8% of revenue to 9.0%, transaction and severance charges fading, acquisition amortization shrinking as a percentage of revenue, sales efficiency improving, and AI/hyperscaler economics eventually becoming accretive.

Each component is plausible separately; the stack is not yet proven. Quarterly GAAP subscription gross margin fell from 80.0% in Q3 FY2025 to 73.5% in Q2 FY2026, while non-GAAP subscription gross margin fell from 83.0% to 80.5%. Purchased-intangible amortization and integration expense explain part of the decline, but management also attributed pressure to hyperscaler usage and accelerating AI adoption. There is no disclosed AI contribution margin with which to prove that scale reverses this pressure. The company also has USD 3.781 billion of future amortization and needs expensive talent to integrate Moveworks, Veza and Armis.

The model's own sensitivity says a 200-basis-point margin shortfall cuts terminal EPS by USD 0.494. A more demanding but supportable 18% terminal margin, holding Base revenue and below-line assumptions constant, yields approximately USD

4.60 of EPS, USD 115.09 of terminal wealth at 25x, and a gross USD CAGR of about -4.59%. That does not require competitive collapse; it requires only that SBC, inference cost and acquired-asset expense fade more slowly than assumed.

3. Strongest bear case, in its strongest form

ServiceNow risks becoming a well-retained but lower-rent execution layer beneath agent interfaces controlled by Microsoft, SAP, Salesforce, Workday and hyperscalers. The core IT workflow franchise keeps customers, but new AI, employee and CRM workloads are increasingly initiated inside the system of record or productivity suite; open agent protocols make ServiceNow callable, yet also more replaceable. AI ACV and transaction counts continue to look strong while recognized organic subscription growth, cRPO replenishment and subscription gross margin decelerate, exposing that third parties own the model, identity, data and user surface while ServiceNow bears integration and inference costs. This should appear within four to six quarters first as constant-currency cRPO growth below the mid-teens, then as weaker multi-product expansion and non-GAAP subscription gross margin below roughly 79%, rather than first as a renewal collapse.

The acquisition cycle increases the asymmetry. More than USD 11 billion of recent consideration expanded goodwill and intangibles to USD 13.618 billion and debt excluding leases to USD 7.517 billion, but management discloses no acquired cohort revenue, gross profit, ROIIC or payback. If cross-sell disappoints, the company can still report consolidated growth while per-share owner economics weaken through amortization, integration cost, interest, ongoing SBC and buybacks needed merely to contain dilution. Compensation tied to subscription revenue and non-GAAP margin creates an incentive to celebrate scale before acquired returns are observable.

4. Cross-examination of management commentary

Three statements deserve a skeptical reading.

First, management said in Q2 FY2026 that ServiceNow was “already tracking ahead” of its target for AI to reach 30% of ACV by 2030. The statement is sourced to the 2026-07-22 earnings call in the governed data package. ACV mix is not recognized revenue, organic growth or gross profit. Acquired capabilities, bundle upgrades and multi-year contract value can raise the numerator without proving incremental economics. If this framing is too promotional, the first evidence will be AI ACV continuing to grow while consolidated subscription growth and cRPO growth decelerate and subscription gross margin fails to recover.

Second, management said AI-native SKU upgrades were driving “20% to 30%” price uplift. The same Q2 call makes clear that the uplift applies to customers adopting those new SKUs, not the entire installed base. It does not disclose attach rate, discounting, incremental consumption allowance, model cost or renewal retention. The claim fails economically if high headline uplift is offset by free usage, portfolio discounting or expensive inference. The first signal will be stable deal anecdotes alongside lower realized subscription growth or gross-margin compression.

Third, the CEO said ServiceNow would start 2027 with the “exact same headcount” as before the acquisitions. This is the clearest overpromise because it implies rapid integration of Moveworks, Veza and Armis without disclosing the acquired headcount, role overlap, retention cost or product milestones. Reducing the combined workforce can create near-term margin leverage but also destroy the talent supposedly purchased. If the promise is wrong, severance and SBC remain elevated; if it is achieved destructively, product launch timing, specialist sales capacity and acquired-employee retention weaken. Either route challenges the smooth Base margin ramp.

5. Stage 5 tie-out and model cross-examination

The recency anchor is mechanically sound. The TTM is FY2025 less H1 FY2025 plus H1 FY2026, and the share denominator is separately time-weighted. Q3 FY2025 through Q2 FY2026 are the four latest non-overlapping quarters. The model also avoids stale trend-line extrapolation: Base Year 1 total-revenue growth is 19.6%, below the 21% constant-currency subscription guide and Q2 cRPO growth.

The concern is economic, not calendrical. Q2 total revenue and subscription revenue grew 24.0% and 24.5%, but GAAP operating margin fell to 4.0% and GAAP subscription gross margin to 73.5% amid acquisitions and AI/cloud costs. Starting the model near recent revenue momentum while assuming a swift margin recovery gives the visibility evidence more weight than the cost evidence.

The share path ties arithmetically: 1,034.334 million starting shares become 1,080 million Bear, 1,040 million Base and 1,020 million Bull after the stated issuance and retirement schedules. But it translates both SBC and repurchases at the constant USD 145.59 entry price. That is a mechanical convention, not an actual grant, vesting or buyback-price forecast. The Base

needs USD 12.612 billion of buybacks to nearly offset 92.295 million gross issued shares. A higher average repurchase price would retire fewer shares, while equity awards are not literally issued at SBC expense divided by current market price. This is a real precision limitation, but terminal share counts are explicit and the allowed denominator sensitivities are too small to rescue the valuation.

No product-growth assumption can be compared cleanly with a named competitor deceleration series because ServiceNow does not disclose current product-family revenue. That absence itself is adverse: the 17.48% consolidated Base CAGR may hide mature ITSM growth being replaced by acquisition-supported categories. The model appropriately avoids fabricating product P&Ls, but the consolidated fallback lowers observability rather than risk.

6. Score-derived 20% return claim most likely to be wrong

The audited score says the 20% return case does **not** clear, and the red team agrees. At USD 145.59, 20% annualized requires USD 362.2745 of terminal wealth. At the locked Base 25x P/E, that requires USD 14.491 of terminal EPS versus USD 5.716 modeled. No audited scenario reaches 20%; the 0/20 score is robust.

The score-derived number most likely to be misunderstood as economic precision is the **52.461% required EPS CAGR from normalized current EPS**. The arithmetic is correct, but the preflight explicitly says the USD 1.7592 normalized-current EPS remains non-comparable with terminal EPS because the current period contains only partial contributions from Moveworks, Veza and Armis and no supportable pro-forma earnings bridge. Therefore 52.461% is a reverse-return diagnostic, not a clean organic earnings-growth requirement. This imprecision does not alter the 0/20 outcome: even Bull terminal EPS of USD 7.872 at 30x produces only 10.1581% gross USD annualized.

7. Two-sided valuation challenge

The frozen audited returns are Bear -17.2655%, Base -0.3732%, Bull 10.1581% and probability-weighted -0.7894% gross USD; the corresponding net-SGD diagnostics are -18.6933%, -0.9760%, 10.6727% and -1.1338%. The score audit correctly uses the P/E method, five-year horizon and exact 25%/55%/20% weights. It annualizes probability-weighted terminal wealth of USD 139.9335 rather than averaging scenario IRRs.

Strongest reason valuation may be too optimistic. The Base 25x exit P/E sits inside the live peer range but assumes that an issuer with unproven acquisition returns, persistent SBC, no product economics and a YELLOW 2046 moat deserves a CRM/ORCL-like multiple after the model has already given it 17.48% five-year revenue CAGR and a 22.5% statutory margin. A 20x Base sensitivity—still supported by the peer range and identical to the locked Bear multiple—reduces Base wealth from USD 142.8938 to USD 114.315 and Base IRR from -0.3732% to -4.7216%. Holding the other scenarios fixed, probability-weighted wealth falls to USD 124.2152 and probability-weighted gross IRR to -3.1257%, a 2.34-point decline. This is the clearest optimistic sensitivity, though not an identified correction to the independently locked multiple.

Strongest reason valuation may be too bearish. If ServiceNow reaches the Base terminal operating profile—14.8% final-year growth, 22.5% statutory margin, 98% renewal and durable control-plane economics—25x could understate quality relative to the live peer high of 28.42x. Applying 28.42x as a non-controlling Base sensitivity raises wealth to USD 162.4416 and Base IRR to 2.2147%, 2.59 points above audited Base. If only the Base multiple changes, probability-weighted gross IRR rises to approximately 0.6903%. This still falls drastically short of 20% and does not turn the security into an attractive investment.

The exact VP-to-CS/CSA replay passes. The file hash matches; P/E controls all three scenarios, probability weighting, reverse-return and net-SGD; terminal EPS values are USD 2.82185185, USD 5.71575 and USD 7.87211765; exit P/Es are exactly 20x/25x/30x; terminal shares are 1,080/1,040/1,020 million; distributions are zero; no terminal cash, debt, leases or strategic investments are added after EPS times P/E; and probability weights sum to 100%. The current reported and normalized P/Es are both correctly marked non-comparable and are not used as caps. No invalid method, denominator or terminal-equity bridge was found.

`RETURN_MODEL_OBJECTION_STATUS: IMMATERIAL`

The material-looking effects above arise from legitimate alternative multiple sensitivities, not a supportable correction to a broken audited input. They do not change ER2/CIO actionability: even the strongest too-bearish sensitivity leaves returns far below the required range. ServiceNow is not a P&C insurer or reinsurer, so the insurer return bridge is not applicable; no insurer section or synthetic insurer checks are warranted.

8. Signal that forces an exit or continued avoidance

Primary trigger: if constant-currency cRPO growth falls below **15% for two consecutive reported quarters within the next 12 months**, exit if owned and maintain avoidance if unowned. This is specific, observable and tied to the model. The Base case needs 19.6% Year 1 growth and 17.48% five-year total-revenue CAGR; two sub-15% cRPO readings would show that backlog replenishment has broken before the model's planned fade, even if the 98% renewal headline remains intact. It would validate the bear mechanism of renewal without expansion and would make the Base revenue path, margin leverage and 25x exit multiple a jointly inconsistent stack.

Subscription gross margin should be used as corroboration, not as a substitute trigger. Failure of non-GAAP subscription gross margin to recover to at least 80% after integration pressure eases would indicate that AI/hyperscaler costs are structural. But cRPO is the cleaner single exit signal because it directly tests whether customers are committing incremental dollars at the rate required by the forecast.

9. Conviction after red team

The thesis does not survive as an investment at USD 145.59. The strongest operating case for ServiceNow is real: entrenched workflow state, high renewal, governance needs and large RPO support durable revenue. The security case fails because investors already pay for a demanding conversion of that durability into AI-era growth, substantial statutory margin expansion and premium terminal valuation. The red team finds no hidden bridge error that invalidates the audited return math; instead, it finds that a plausible two-variable operating miss and a modestly lower exit P/E deepen already negative Base and probability-weighted returns.

The narrative should therefore be written around **excellent franchise, insufficient evidence on incremental economics, and no valuation margin of safety**. A future reassessment requires recognized AI revenue and gross-profit evidence, acquired-cohort returns, cRPO sustained at or above the mid-teens, subscription gross-margin recovery, and a materially lower entry price. Nothing in this appendix authorizes a trade, portfolio mutation or sizing action.

Appendix D - Data Package (Raw Historicals)

ServiceNow (NOW) — Governed Data Package

Run ID: `pulse-cio-20260904T180312+0800` **Information date:** 2026-09-04 **Reporting currency / scale:** USD / billions unless a table says otherwise **Fiscal year:** December 31 **TTM anchor:** Q3 2025 + Q4 2025 + Q1 2026 + Q2 2026, ending 2026-06-30 **Exact horizon used downstream:** 2031-06-30 **Sealed statutory packet:** `9bffac400988d9ed22fd285cf7085e62a36c65d4d1b1016a4876156626e7f5b0` **Exact modeled basis:** `Statutory operating income (single-segment non-operating CODM fallback)`

Fresh evidence for this stage is archived in `C:\Users\Admin\OneDrive\GPT\ER 2.0\ServiceNow\raw\d-pulse-cio-20260904T180312+0800`. The FMP datasets were pulled live on 2026-09-04 and separately copied, without overwriting prior data, to `C:\Users\Admin\OneDrive\Cowork\Investing\data warehouse\er2_live_pulls\NOW\pulse-cio-20260904T180312+0800\D`. No warehouse dataset was read as a research source.

0a. Industry classification and disclosure inventory

ServiceNow is enterprise SaaS / workflow software under U.S. GAAP and SEC 10-K/10-Q reporting. It has one operating and reportable segment. The controlling source set is the 2025 Form 10-K, Q2 2026 Form 10-Q, SEC-filed earnings releases for Q3 2025 through Q2 2026, SEC-filed year-end releases for FY2021-FY2025, four live FMP transcripts, and the May 4, 2026 Financial Analyst Day presentation. FMP's income, balance-sheet, cash-flow, product and geographic endpoints are populated, but its "product" taxonomy is sparse and changed at FY2025: it provides revenue types and a historical Digital Workflow/ITOM split, not product economics for ITSM, CSM, HR, Security, AI or other solution families. Official filings therefore control taxonomy, KPI definitions, and non-disclosure conclusions.

Searches performed across the official materials were: `ARR`, `annual recurring revenue`, `net retention`, `DBNR`, `gross retention`, `churn`, `renewal rate`, `RPO`, `cRPO`, `remaining performance obligations`, `billings`, `deferred revenue`, `customer`, `ACV`, `Now Assist`, `AI ACV`, `agentic`, `consumption`, `assist`, `inference`, `token`, `API cost`, `gross margin`, `stock-based compensation`, `dilution`, `ITSM`, `ITOM`, `CRM`, `Security and Risk`, `Workflow Data Fabric`, `RaptorDB`, `seats`, `ARPU`, `CAC`, `payback`, and `magic number`.

Dataset / table family	Official source searched	Search terms or table names	Years available	Included?	If excluded, why	Downstream relevance
Segment economics	2025 10-K Note 19; Q2 2026 10-Q Note 18	Segment; CODM; segment profit	FY2023-FY2025 and Q2 2026	Yes	One segment; no product profit table exists	Forecast perimeter and statutory bridge
Revenue types and geography	10-K; FMP product and geographic endpoints	Subscription; professional services; North America; EMEA; APAC	FY2021-FY2025; quarterly through Q2 2026	Yes	Current product-family dollars are not disclosed	Revenue mix and durability
SaaS contracted backlog	Annual and quarterly releases; 10-K/10-Q	RPO; cRPO; deferred revenue; contract duration	FY2021-Q2 2026	Yes	None	Forward visibility
Retention and cohorts	2022 and 2025 10-Ks; quarterly releases	Renewal; NRR; DBNR; customers; ACV	FY2021-Q2 2026	Yes	NRR/DBNR and expansion rate are true non-disclosures	Moat and customer quality
Billings	FY2021-FY2025 year-end releases; 10-K/10-Q	Subscription billings; total billings	FY2021 only in reviewed set	Yes	ServiceNow stopped reporting billings after FY2021	Bookings proxy limitations
AI monetization	Last four releases/transcripts; 2026 FAD deck	AI ACV; Now Assist; assists; agentic; price uplift	Q3 2025-Q2 2026; 2026/2030 targets	Yes	Product revenue and AI gross profit are not disclosed	Growth vector and unit economics
Cost and inference economics	10-K/10-Q; last four calls; FAD pp. 122, 136	Hosting; hyperscaler; inference; subscription gross margin	FY2021-Q2 2026 plus targets	Yes	Per-token, per-assist and AI cohort margins are true non-disclosures	Margin forecast
SBC and dilution	Cash-flow statements; equity note; FAD pp. 131-132	SBC; repurchase; dilution; share count	FY2021-Q2 2026 plus 2029 target	Yes	None	Owner earnings and denominator
CAC/payback and magic number	2025 10-K; Q2 2026 10-Q; FAD deck	CAC; payback; magic number	No official values	No	True non-disclosure	Sales efficiency caution
Capital / balance sheet by unit	10-K/10-Q; live FMP balance sheet	Cash; debt; goodwill; intangibles; deferred revenue	FY2021-Q2 2026	Yes	No business-unit balance sheet because one segment	Capital structure and ROIC

Dataset / table family	Official source searched	Search terms or table names	Years available	Included?	If excluded, why	Downstream relevance
Recent trend	SEC-filed releases and FMP statements	Revenue; cRPO; RPO; margin; customers	Last four quarters	Yes	None	Recency and forecast base

SaaS KPI history

n/d below means the reviewed official sources do not disclose the metric for that period. RPO includes deferred revenue and non-cancellable future billings but excludes arrangements billed in arrears under the right-to-invoice practical expedient. cRPO is the portion expected to be recognized in the next 12 months.

KPI family	Granularity	FY2021	FY2022	FY2023	FY2024	FY2025	Latest interim / TTM	Source
cRPO ($B)	Company	5.70	6.94	8.60	10.27	12.85	13.20 at Q2 2026	SEC-filed year-end releases; Q2 2026 release
RPO ($B)	Company	11.5	14.0	18.0	22.3	28.2	29.0 at Q2 2026	Same
Total deferred revenue ($B)	Current plus non-current	3.899	4.730	5.866	6.914	8.434	8.192 at 2026-06-30	Live FMP balance sheets; official FY2025/Q2 2026 tie-out
Renewal rate	ACV based	98%	98%	98%	98%	98%	98% for Q2/H1 2026	2022 10-K; 2025 10-K; Q2 2026 10-Q
Customers over $1M ACV	Customer cohort	1,359	1,637	1,897	2,109	n/d	n/d	SEC-filed year-end releases
Customers over $5M ACV	Customer cohort	n/d	n/d	n/d	Nearly 500	603	658 at Q2 2026	Q4 2024, Q4 2025 and Q2 2026 releases
Subscription billings ($B)	Company	6.494	n/d	n/d	n/d	n/d	n/d	FY2021 SEC-filed release; later releases/filings searched
Reported AI / Now Assist ACV ($B)	AI portfolio	n/d	n/d	n/d	n/d	Over 0.600 at Q4	Over 1.0 at Q2 2026; FY26 target 1.5	Live transcripts; 2026 FAD p. 119

The customer-cohort threshold changes are not a continuous single series: releases emphasized customers above $1 million ACV through FY2024 and shifted toward the $5 million cohort thereafter. No back-solved cohort values are used. The 98% renewal rate is ACV-based gross-logo attrition logic; it excludes expansion/contraction for retained customers and therefore is not NRR. The AI ACV milestones are also not a like-for-like time series: Q4 FY2025 referred specifically to Now Assist, whereas FAD p. 119 defines FY2026 `ServiceNow AI` as agentic-AI capabilities, AI Control Tower and integrated Moveworks functionality. Do not infer a portfolio growth rate by dividing the Q2 FY2026 ServiceNow AI figure by the narrower Q4 Now Assist figure.

Margins, SBC and inference-cost inventory

KPI	FY2021	FY2022	FY2023	FY2024	FY2025	TTM / latest	Source / interpretation
GAAP gross margin	77.0%	78.3%	78.6%	79.2%	77.5%	74.8% TTM	Gross profit / revenue from live FMP statements
GAAP operating margin	4.4%	4.9%	8.5%	12.4%	13.7%	11.4% TTM	Sealed statutory operating income / revenue
Non-GAAP operating income ($B)	1.482	1.860	2.489	3.254	4.149	4.613 TTM	FAD p. 136 for FY2021-FY2025; TTM sums the four SEC-filed quarterly reconciliations
Non-GAAP operating margin	25%	26%	28%	30%	31%	31.3% TTM; FY2026 guide 31.5%	FAD p. 136; TTM calculated from $4.613B / $14.732B; Q2 2026 release for guidance
Sales and marketing ($B)	2.292	2.814	3.301	3.854	4.388	4.794 TTM	Live FMP statements; TTM = FY2025 - H1 2025 + H1 2026

KPI	FY2021	FY2022	FY2023	FY2024	FY2025	TTM / latest	Source / interpretation
Sales and marketing / revenue	38.9%	38.8%	36.8%	35.1%	33.0%	32.5% TTM	Calculated from statutory revenue and sales-and-marketing expense
SBC ($B)	1.131	1.401	1.604	1.746	1.955	2.185 TTM	Live FMP cash flows; official tie-out
SBC / revenue	19.2%	19.3%	17.9%	15.9%	14.7%	14.8% TTM	Calculated
Diluted shares (M)	1,015.835	1,017.675	1,027.953	1,042.113	1,046.691	1,041.977 TTM	Split-adjusted official/FMP history
YoY diluted-share change	n/m	0.2%	1.0%	1.4%	0.4%	(0.5%) vs FY2025	Calculated; buybacks offset SBC and acquisition issuance

The FAD deck states that subscription gross margin should hold above 80% as AI scales, with “limited compression from AI inferencing costs,” while management acknowledged near-term pressure from faster hyperscaler adoption and AI consumption. This is a non-GAAP subscription-margin framework, not the current GAAP consolidated margin. No reviewed filing or transcript discloses tokens consumed, inference/API cost dollars, gross profit by AI SKU, per-assist cost, contribution margin, or payback. The model must therefore treat inference efficiency as an explicit sensitivity, not a measured historical unit-economics series.

1. Reporting structure and taxonomy

ServiceNow manages the business as **one operating and reportable segment at the consolidated level**. The 2025 Form 10-K Note 19 and Q2 2026 Form 10-Q Note 18 state that the CODM uses consolidated net income as the segment profit/loss measure. Because consolidated net income is a below-operating statutory endpoint, the sealed bridge uses the permitted non-operating-CODM modeling fallback and preserves net income separately.

FY2025 revenue for the sole reportable segment was $13.278 billion, or 100% of consolidated revenue. There is no issuer-disclosed segment operating-profit table and no profit allocation across IT workflows, CRM, employee workflows, security, AI, data/analytics or geography.

Reporting structure is stable as one reportable segment. Revenue-type taxonomy, however, changed in FMP’s disaggregation at FY2025: FY2021-FY2024 separated “License and Service, Digital Workflow Products” from “License and Service, ITOM Products,” while FY2025 and current quarters collapse both into “License and Service.” Official statements label the current lines `Subscription` and `Professional services and other`. Historical product-type dollars before FY2025 must not be spliced into a forecast as if they were current reportable segments.

Geography ($B)	FY2021	FY2022	FY2023	FY2024	FY2025	FY2025 share
North America	3.752	4.723	5.702	6.909	8.348	62.9%
EMEA	1.551	1.778	2.298	2.834	3.402	25.6%
Asia Pacific and other	0.593	0.744	0.971	1.241	1.528	11.5%
Total	5.896	7.245	8.971	10.984	13.278	100.0%

Source: live FMP `revenue-geographic-segmentation?symbol=NOW&period=annual`, tied to consolidated revenue. Geographic data are customer-location revenue context only; no geographic profit is disclosed.

2. Consolidated historicals

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue ($B)	5.896	7.245	8.971	10.984	13.278	Live FMP annual income statement; 10-K tie-out
Operating income ($B)	0.257	0.355	0.762	1.364	1.824	Same; statutory
Operating margin	4.4%	4.9%	8.5%	12.4%	13.7%	Calculated
Net income ($B)	0.230	0.325	1.731	1.425	1.748	Live FMP / 10-K
Diluted EPS ($)	0.23	0.32	1.68	1.37	1.67	Split-adjusted live FMP / 10-K
Diluted share count (M)	1,015.835	1,017.675	1,027.953	1,042.113	1,046.691	Official values where available; split adjusted

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Capex ($B)	0.399	0.550	0.694	0.852	0.868	Live FMP annual cash flow
Free cash flow ($B)	1.792	2.173	2.704	3.415	4.576	OCF less capex; GAAP-derived
Conservative ROIC	5.4%	5.6%	8.7%	12.2%	13.6%	Calculation below

ROIC is an explicitly calculated conservative series, not the provider's opaque ratio: `NOPAT = statutory operating income × (1 − 21% normalized tax rate)`. Invested capital is the average of beginning and ending `stockholders' equity + debt and operating-lease liabilities − cash`, without subtracting marketable securities. FY2025 NOPAT is $1.824B × 79% = $1.441B. Ending FY2024 invested capital is $9.609B + $2.278B − $2.304B = $9.583B; ending FY2025 is $12.964B + $2.403B − $3.726B = $11.641B. Average invested capital is $10.612B, so FY2025 ROIC is $1.441B / $10.612B = 13.6%. The 21% normalized rate avoids the FY2023 valuation-allowance tax benefit distorting operating returns. Excluding excess marketable securities is a legitimate higher-return sensitivity, but not the conservative headline.

3. Segment historicals

Consolidated company — sole financial-projection segment

Consolidated company	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue ($B)	5.896	7.245	8.971	10.984	13.278	Live FMP / 10-K
YoY growth	30.5%	22.9%	23.8%	22.4%	20.9%	Calculated
Statutory operating income (single-segment non-operating CODM fallback) ($B)	0.257	0.355	0.762	1.364	1.824	Live FMP / official filings
Margin on exact metric	4.4%	4.9%	8.5%	12.4%	13.7%	Calculated

This is an ER2 modeling basis, not an issuer-disclosed segment operating-profit metric. The disclosed CODM measure is consolidated net income: $1.748 billion in FY2025 and $1.670 billion for the constructed TTM ended 2026-06-30. Product and geography tables are context only and do not create additional profit segments.

3a. Historical statutory-profit bridge and forecast-driver ledger

Common modeled segment profit basis: `Statutory operating income (single-segment non-operating CODM fallback)`.

The unchanged sealed packet uses schema 1.2.0 and `single_segment_non_operating_codm_fallback`. It has one modeled segment, no corporate/unallocated adjustments, and no operating bridge adjustments. The disclosed CODM net-income measure remains separate and is not renamed operating income. Values below are USD millions and reproduce the sealed labels, signs, classifications, source IDs and numbers.

FY2025 bridge

CODM profit disclosure: `Consolidated net income` = **1,748**, source `SEC_2025_10K`.

Bridge line	Classification	Value	Source ID	Running subtotal
Consolidated company	segment profit; modeled fallback	1,824	SEC_2025_10K	1,824
Sum of reportable segment profit	segment profit subtotal	1,824	SEC_2025_10K	1,824
Consolidated segment profit metric	subtotal	1,824	SEC_2025_10K	1,824
Statutory operating income	statutory subtotal	1,824	SEC_2025_10K	1,824
Interest income	interest	451	SEC_2025_10K	2,275
Other expense, net	other_non_operating	-14	SEC_2025_10K	2,261
Pretax income	statutory subtotal	2,261	SEC_2025_10K	2,261
Provision for income taxes	tax	-513	SEC_2025_10K	1,748
Net income	statutory subtotal	1,748	SEC_2025_10K	1,748

All five FY2025 residuals equal zero; disclosed rounding unit and tolerance are each $1 million.

TTM ended 2026-06-30 bridge

CODM profit disclosure: `Consolidated net income (TTM constructed from disclosed FY/H1 values)` = **1,670**, source `OFFICIAL_TTM_RECONCILIATION`.

Bridge line	Classification	Value	Source ID	Running subtotal
Consolidated company	segment profit; modeled fallback	1,680	OFFICIAL_TTM_RECONCILIATION	1,680
Sum of reportable segment profit	segment profit subtotal	1,680	OFFICIAL_TTM_RECONCILIATION	1,680
Consolidated segment profit metric	subtotal	1,680	OFFICIAL_TTM_RECONCILIATION	1,680
Statutory operating income	statutory subtotal	1,680	OFFICIAL_TTM_RECONCILIATION	1,680
Interest income	interest	378	OFFICIAL_TTM_RECONCILIATION	2,058
Other income (expense), net	other_non_operating	288	OFFICIAL_TTM_RECONCILIATION	2,346
Pretax income	statutory subtotal	2,346	OFFICIAL_TTM_RECONCILIATION	2,346
Provision for income taxes	tax	-676	OFFICIAL_TTM_RECONCILIATION	1,670
Net income	statutory subtotal	1,670	OFFICIAL_TTM_RECONCILIATION	1,670

All five TTM residuals equal zero; disclosed rounding unit and tolerance are each $1 million. The controlling construction is FY2025 less H1 2025 plus H1 2026.

Forecast-driver schedule

Historical bridge line	FY value	TTM value	Forecast treatment	Driver and source	Bear / base / bull rule
Statutory operating income (single-segment non-operating CODM fallback)	1,824	1,680	Revenue × GAAP operating margin	Revenue history, SBC, amortization and FAD margin framework	Bear: slower growth and limited GAAP expansion; base: revenue scale plus SBC decline; bull: faster AI monetization and operating leverage
Interest income	451	378	Independent average cash/investment balance × yield	10-K/10-Q liquidity and marketable securities	Bear: acquisition funding reduces balance; base: current curve and balance; bull: stronger FCF rebuilds liquidity
Other expense, net / Other income (expense), net	-14	288	Normalize strategic-investment gains; do not scale with revenue	TTM includes unrealized investment gains; Q2 10-Q	Bear/base: zero or conservative normalized amount; bull: modest recurring contribution only if evidenced
Pretax income	2,261	2,346	Arithmetic output	Operating income plus separately forecast below-line items	Must tie in all scenarios
Provision for income taxes	-513	-676	Pretax income × effective tax schedule	21% long-term non-GAAP tax reference; statutory history	Bear: higher statutory rate; base: normalized rate; bull: no unsupported tax benefit
Consolidated net income / CODM measure	1,748	1,670	Arithmetic output only	Pretax less tax	Never forecast as an additive operating segment metric

`STATUTORY_BRIDGE_STATUS: VERIFIED — CLEARED FOR FORECASTING`

4. Product and sub-segment historicals

Dollar-disclosed revenue types

Segment	Product / revenue type	What it is	Dollar disclosure?	FY2021-FY2025 / TTM revenue and source
Consolidated company	Subscription / FMP “License and Service”	Cloud subscriptions, self-hosted subscription offerings, support and updates	Yes	FY2021 $5.573B; FY2022 $6.891B; FY2023 $8.680B; FY2024 $10.646B; FY2025 $12.883B; TTM $14.313B; live FMP product endpoint and official filings
Consolidated company	Professional services and other / FMP “Technology Service”	Implementation, training and other services	Yes	FY2021 $0.323B; FY2022 $0.354B; FY2023 $0.291B; FY2024 $0.338B; FY2025 $0.395B; TTM $0.419B; same
Consolidated company	Digital Workflow Products	Historical revenue tag within License and Service	Yes, only through FY2024	FY2021 $4.882B; FY2022 $6.077B; FY2023 $7.679B; FY2024 $9.422B; FY2025-current taxonomy boundary; live FMP annual product endpoint
Consolidated company	ITOM Products	Historical revenue tag within License and Service	Yes, only through FY2024	FY2021 $0.691B; FY2022 $0.814B; FY2023 $1.001B; FY2024 $1.224B; FY2025-current taxonomy boundary; live FMP annual product endpoint

FY2025 current presentation collapses the historical Digital Workflow/ITOM tags into one License and Service line. No back-solving is used, and the historical tagged lines are not treated as ongoing reportable segments. For FY2025, $12.883 billion subscription plus $0.395 billion professional services and other equals $13.278 billion total revenue exactly. For the TTM, $14.313 billion plus $0.419 billion equals $14.732 billion exactly.

Product KPIs disclosed without product revenue dollars

Segment	Product	Disclosure method	Last four quarters’ disclosed evidence	Source
Consolidated company	ServiceNow AI / Now Assist	ACV, NNACV, deal count, customers and consumption; not revenue	Q3: AI products on pace to exceed $0.5B ACV; Q4: Now Assist surpassed $0.6B ACV and NNACV more than doubled YoY; Q1: customers spending over $1M grew over 130% YoY; Q2: AI ACV surpassed $1B	Live FMP transcripts; [SEC Q2 2026 release](https://www.sec.gov/Archives/edgar/data/1373715/000137371526000072/erq2fy26.htm), dated 2026-07-22
Consolidated company	AI Control Tower	Deal volume and customers; not revenue	Q3 deal volume more than quadrupled QoQ; Q4 nearly tripled QoQ; Q1 no comparable value; Q2 more than 500 customers cited on call	Same
Consolidated company	RaptorDB Pro	NNACV and deal-volume growth; not revenue	Q3 ahead of plan; Q4 NNACV more than tripled YoY; Q1 no comparable value; Q2 deal volume grew 80% YoY	Same
Consolidated company	CRM / industry workflows	NNACV/deal growth; not revenue	Q3 15 deals over $1M; Q4 largest quarter and NNACV acceleration; Q1 sales CRM NNACV grew over 5× YoY; Q2 15 deals over $1M	Same
Consolidated company	Security and Risk	ACV size and deal count; not revenue	Q3 combined business crossed $1B ACV; Q4 no comparable growth; Q1 Armis/Veza strategic commentary; Q2 24 deals over $1M and strong pull-through	Same

True product revenue non-disclosures include ITSM, ITOM under the current taxonomy, ITAM, CRM/CSM, HR/employee workflows, Security and Risk, RaptorDB, Workflow Data Fabric, AI Control Tower, Now Assist, Autonomous Workforce and Moveworks/EmployeeWorks. Disclosed ACV, NNACV and deal growth must not be relabeled revenue growth. No product dollar value in this package is back-solved.

5. Most recent quarterly trend

ServiceNow FY ends December 31. Most recently completed fiscal quarter at time of writing: FY26 Q2, covering April 1-June 30, 2026, reported on 2026-07-22 via `https://www.sec.gov/Archives/edgar/data/1373715/000137371526000072/erq2fy26.htm` *and filed in the 10-Q on 2026-07-23.*

Quarter	Total revenue ($B)	Subscription revenue ($B)	Total revenue YoY	Subscription YoY	GAAP operating margin	cRPO / growth	RPO	Customers over $5M ACV	Source
Q3 FY25	3.407	3.299	22.0%	21.5%	17.0%	$11.35B / 21%	$24.3B	553	SEC release 2025-10-29
Q4 FY25	3.568	3.466	20.5%	21.0%	12.5%	$12.85B / 25%	$28.2B	603	SEC release 2026-01-28
Q1 FY26	3.770	3.671	22.0%	22.0%	13.5%	$12.64B / 22.5%	$27.7B	630	SEC release 2026-04-22
Q2 FY26	3.987	3.877	24.0%	24.5%	4.0%	$13.20B / 21%	$29.0B	658	SEC release 2026-07-22

The Q2 GAAP margin drop reflects $655 million of quarterly SBC, $219 million of purchased-intangible amortization, $75 million of business-combination costs, and $62 million of severance; non-GAAP operating margin was 29.5%. Q3/Q4/Q1/Q2 GAAP subscription gross margins were 80.0%, 79.5%, 77.5% and 73.5%; non-GAAP subscription gross margins were 83.0%, 82.5%, 81.5% and 80.5%. The deterioration coincides with acquisitions, amortization, hyperscaler mix and AI adoption, not a disclosed collapse in renewal rate.

Quarter	Professional services and other revenue ($B)	YoY growth	GAAP subscription gross margin	Non-GAAP subscription gross margin	Non-GAAP operating margin	Non-GAAP FCF margin	Source
Q3 FY25	0.108	31.0%	80.0%	83.0%	33.5%	17.5%	SEC-filed release
Q4 FY25	0.102	13.0%	79.5%	82.5%	31.0%	57.0%	SEC-filed release; reported YoY growth (rounded displayed dollars imply 12.1%)
Q1 FY26	0.099	18.5%	77.5%	81.5%	32.0%	44.0%	SEC-filed release
Q2 FY26	0.110	8.5%	73.5%	80.5%	29.5%	16.0%	SEC-filed release

Latest Q2 guidance was FY2026 subscription revenue of $15.760-$15.780 billion, 21% constant-currency growth, non-GAAP subscription gross margin of 81%, non-GAAP operating margin of 31.5%, non-GAAP FCF margin of 35%, and 1.04 billion GAAP diluted shares. Q3 guidance was subscription revenue of $3.975-$3.980 billion, 20% constant-currency growth, cRPO growth of 20% constant currency, 31% non-GAAP operating margin, and 1.05 billion diluted shares.

The RPO/cRPO pattern is seasonally lumpy: total RPO rose from $24.3 billion in Q3 to $28.2 billion at year-end, dipped to $27.7 billion in Q1, then reached $29.0 billion in Q2. Q2 management said average contract duration increased. Approximately 46% of Q2 RPO is cRPO, and the majority of non-current RPO is expected to be recognized over 13-36 months. These timing facts prevent simple quarter-over-quarter RPO changes from being treated as net bookings.

6. Management commentary on forward growth

All transcript dates match FMP's live transcript-date endpoint: Q3 FY25 2025-10-29, Q4 FY25 2026-01-28, Q1 FY26 2026-04-22, and Q2 FY26 2026-07-22. Quotes are brief verbatim excerpts from the live FMP records.

Period / date	Speaker	Verbatim quote	Topic	Modeling interpretation
Q3 FY25 / 2025-10-29	Bill McDermott, Chair and CEO	"Our AI products are on pace to exceed $0.5 billion in ACV this year."	AI monetization	Establishes an ACV milestone, not recognized revenue
Q3 FY25 / 2025-10-29	Bill McDermott	"AI Agent Assist consumption has increased over 55x."	Consumption	Strong adoption signal; no price or unit cost disclosed
Q3 FY25 / 2025-10-29	Gina Mastantuono, President and CFO	"We're also raising our full year free cash flow margin target...from 32% to 34%."	FCF leverage	Shows operating leverage despite AI investment
Q4 FY25 / 2026-01-28	Bill McDermott	"Now Assist NNACV outperformed expectations in Q4 and surpassed $600 million in ACV."	AI ACV	Provides a year-end monetization anchor

Period / date	Speaker	Verbatim quote	Topic	Modeling interpretation
Q4 FY25 / 2026-01-28	Bill McDermott	“We’re looking far beyond seats alone with our hybrid business model for billions of devices, agents and assists.”	Pricing architecture	Model should not assume only seat-based pricing
Q4 FY25 / 2026-01-28	Gina Mastantuono	“We expect subscription gross margin of 82%, reflecting incremental data center investments related to public cloud, geo expansion and AI.”	Inference/cloud cost	Near-term subscription margin pressure is explicit
Q1 FY26 / 2026-04-22	Bill McDermott	“The number of customers spending $1 million plus grew over 130% year-over-year.”	Now Assist cohort	Indicates large-customer AI expansion, not revenue growth
Q1 FY26 / 2026-04-22	Bill McDermott	“Our goals for ServiceNow are clear...margin expansion, reduced stock-based compensation.”	Owner economics	Requires explicit GAAP/SBC bridge downstream
Q1 FY26 / 2026-04-22	Bill McDermott	“We’re looking at a company that’s a Rule of 60 company and beyond.”	Long-term framework	Aspirational FAD framework; must be sensitivity-tested
Q2 FY26 / 2026-07-22	Bill McDermott	“ServiceNow AI ACV...surpassing $1 billion, keeping us on track to beat our target of $1.5 billion ACV.”	AI monetization	AI ACV grew rapidly; target is FY2026, not TTM revenue
Q2 FY26 / 2026-07-22	Gina Mastantuono	“We’re already tracking ahead of our target for AI to reach 30% of ACV by 2030.”	AI mix	Long-horizon mix target supports a separate AI ramp
Q2 FY26 / 2026-07-22	Gina Mastantuono	“Upgrades to our new AI-native SKUs are driving price uplift in line with the 20% to 30% framework.”	Pricing	Applies to upgrading SKUs, not the entire installed base
Q2 FY26 / 2026-07-22	Gina Mastantuono	“We expect subscription gross margin of 81%, reflecting more customers utilizing our hyperscaler partnerships as well as accelerating AI adoption.”	Gross margin	Use 81% non-GAAP subscription GM as near-term anchor
Q2 FY26 / 2026-07-22	Bill McDermott	“We will complete this cycle of 2026 and start 2027 with the exact same headcount before we did the acquisitions.”	Cost synergy	Aggressive integration claim; execution must be monitored

Transcript endpoints: `https://financialmodelingprep.com/stable/earning-call-transcript?symbol=NOW&year=2025&quarter=3`, the corresponding FY2025 Q4 endpoint, and FY2026 Q1/Q2 endpoints. The source record includes the call date for every quote.

The May 4, 2026 FAD deck provides the clearest long-term management framework: page 119 targets approximately 30% of ACV from ServiceNow AI in FY2030 and $1.5 billion FY2026 AI ACV; page 122 says subscription gross margin should remain above 80% as AI scales; page 129 targets $32 billion-plus FY2030 subscription revenue from $15.7 billion-plus in 2026; page 130 targets Rule of 60-plus in FY2030; page 131 targets SBC below 10% of revenue by 2029; and page 132 targets net-neutral dilution in 2026. Source: `https://s205.q4cdn.com/916135447/files/doc_presentation/2026/ServiceNow-FAD-2026.pdf`, fetched live and visually checked in this run.

The FAD targets are management aspirations rather than audited guidance. The $32 billion-plus subscription-revenue target implies roughly 19.5% compound growth from a $15.7 billion-plus 2026 base to 2030. The Rule of 60 target combines constant-currency subscription growth and non-GAAP FCF margin. Neither framework substitutes for a statutory GAAP earnings build, especially after the 2026 acquisitions.

7. Capital allocation history

Year	Capex ($B)	Capex / revenue	R&D ($B)	R&D / revenue	Buybacks ($B)	Dividends ($B)	Cash M&A ($B)	Source
FY2021	0.399	6.8%	1.397	23.7%	0.000	0.000	0.785	Live FMP statements
FY2022	0.550	7.6%	1.768	24.4%	0.000	0.000	0.091	Same

Year	Capex ($B)	Capex / revenue	R&D ($B)	R&D / revenue	Buybacks ($B)	Dividends ($B)	Cash M&A ($B)	Source
FY2023	0.694	7.7%	2.124	23.7%	0.538	0.000	0.279	Same
FY2024	0.852	7.8%	2.543	23.2%	0.696	0.000	0.113	Same
FY2025	0.868	6.5%	2.960	22.3%	1.840	0.000	1.084	Same; cash-flow acquisition line excludes stock consideration

FY2025 SBC was $1.955 billion, exceeding the $1.840 billion of repurchases, although diluted-share growth was only 0.4%. H1 2026 materially changed the capital perimeter: cash acquisitions were $8.776 billion, repurchases were $2.225 billion, and SBC was $1.199 billion. Management's net-neutral-dilution claim therefore depends on sustained repurchases and must not convert SBC into a free operating resource in owner-earnings analysis.

The five-year capital pattern is reinvestment-heavy. R&D stayed between 22.3% and 24.4% of revenue. Capex fluctuated between 6.5% and 7.8% of revenue before the FAD's longer-run claim that public-cloud/hyperscaler usage can lower capital intensity. Buybacks began in FY2023 and accelerated in FY2025; their stated primary objective is to manage dilution. No common dividend was paid. Cash M&A in the cash-flow table understates total purchase consideration when ServiceNow stock is issued, as in Moveworks.

8. Balance sheet snapshot

FY-1 means 2025-12-31 here; current Q2 2026 changes are shown immediately below because the acquisitions occurred after FY-end.

Item	FY2025 $B	Source
Cash and equivalents	3.726	Live FMP / 2025 10-K
Short-term investments	2.558	Same
Total debt and lease liabilities	2.403	$1.491B debt plus $0.912B leases
Net debt / (net cash), using cash plus short-term investments	(3.881)	Debt/leases less cash and short investments
Net debt / EBITDA	(1.51×)	EBITDA proxy $2.562B = OI $1.824B + D&A $0.738B
Goodwill plus intangibles	4.699	$3.578B plus $1.121B
Tangible book value	8.265	Equity $12.964B less goodwill/intangibles

At 2026-06-30, cash was $2.503 billion, total marketable securities were $4.204 billion, debt excluding leases was $7.517 billion, and lease liabilities were $0.936 billion. Goodwill plus intangibles rose to $13.618 billion after Armis and Veza. Current and non-current deferred revenue totaled $8.192 billion. The company moved from net cash to material gross debt and acquisition intangibles; downstream valuation must use the Q2 balance sheet rather than FY2025.

The Q2 debt consists of $2.082 billion short-term debt and $5.435 billion long-term debt, before leases. Cash plus marketable securities of $6.707 billion is $1.746 billion below debt plus leases of $8.453 billion. Strategic investments of $2.073 billion are separate and volatile: the TTM statutory bridge includes $288 million of other income, while the Q2 non-GAAP reconciliation excludes $273 million of quarterly strategic-investment gains. Do not capitalize that TTM gain as operating earnings.

9. Recent corporate actions

- **2025-09:** ServiceNow invested $750 million in preferred shares of Genesys. Source: 2025 10-K investment note.
- **2025-12-15:** ServiceNow closed Moveworks for $2.407 billion, comprising $905 million cash, $1.467 billion of ServiceNow shares and other consideration; approximately 9.6 million split-adjusted shares were issued. Source: Q2 2026 10-Q business-combinations note.
- **2025-12-17:** The five-for-one common-stock split became effective. All per-share and share-count figures in this package are retrospectively split adjusted. Source: 2025 10-K and Q2 2026 10-Q.
- **2026-01-28 to 2026-01-30:** The board added $5 billion to repurchase authorization and ServiceNow initiated a $2 billion ASR. The ASR repurchased 18.5 million shares at an average $107.97, followed by $225 million of open-market repurchases in H1. Source: Q4 release and Q2 10-Q.

- **2026-03-02:** ServiceNow acquired Veza for approximately $1.2 billion, substantially in cash, adding identity-security capabilities. Source: Q2 2026 10-Q.
- **2026-04-20:** ServiceNow acquired Armis for preliminary cash consideration of approximately $7.6 billion, adding cyber-exposure and cyber-physical security. Source: Q2 2026 10-Q.
- **2026 H1:** Armis and Veza added $2.886 billion of identified intangibles and $6.149 billion of goodwill. Their amortization and integration costs materially depress current GAAP margins. Source: Q2 2026 10-Q purchase-price allocation.
- **Leadership:** No CEO or CFO transition was identified in the reviewed last-12-month SEC releases. Bill McDermott remained Chair/CEO and Gina Mastantuono President/CFO through the Q2 call.

Acquisition consideration and integration must be modeled carefully. Armis and Veza were substantially cash funded and caused the balance-sheet debt step-up; Moveworks included meaningful stock consideration. FY2026 guidance incorporates acquisition contributions, so an “organic” growth rate cannot be inferred by comparing the consolidated reported growth rate with prior periods unless management’s disclosed contribution is subtracted on the same currency basis.

10. Open data gaps and evidence classification

Classification	Metric / issue	Evidence and required handling
True non-disclosure	ARR, ending ARR and net new ARR	2025 10-K, Q2 2026 10-Q, last four releases/transcripts and FAD deck searched for ARR/annual recurring revenue; only ACV/RPO are reported. Do not substitute ACV for ARR
True non-disclosure	NRR/DBNR, gross retention and churn percentages	Same sources searched for NRR, DBNR, gross retention and churn. Only an ACV-based 98% renewal rate is disclosed; it excludes expansion/contraction
True non-disclosure	Product-family revenue and profit	2025 10-K product descriptions, segment note, Q2 10-Q and releases searched for ITSM, ITOM, CRM, HR, Security, AI, RaptorDB and Workflow Data Fabric dollars. No current product-family revenue/profit table exists
True non-disclosure	AI recognized revenue and gross profit	Last four calls/releases, 10-K/10-Q and FAD searched for AI revenue, Now Assist revenue and AI margin. Only ACV/NNACV, deal, customer and consumption indicators are disclosed
True non-disclosure	Inference/token/API cost dollars and per-assist economics	10-K, Q2 10-Q, Q4/Q2 calls and FAD searched for inference, token, API cost, consumption cost and unit economics. Only directional gross-margin comments exist
True non-disclosure	CAC, payback, magic number, ARPU and seat totals	Official source set searched using the named terms; no values disclosed. Monthly active-user growth and target-market seat commentary are not an installed-seat table
True non-disclosure	Billings after FY2021	FY2022-FY2025 year-end releases and 2025 10-K/Q2 10-Q searched for subscription billings and total billings. ServiceNow reports RPO/cRPO instead
True non-disclosure	Product-level retention or cohort expansion	No retention table by product, vintage, industry or geography in reviewed filings/decks
Estimated	Conservative ROIC	Analyst calculation using normalized 21% tax and average equity plus debt/leases less cash; formula is fully shown in Section 2
Not applicable	P&C ownership perimeter	ServiceNow is not an insurer; managed-to-retained investments, fee-count-once and solvency schedules do not apply
Not fetched / omitted	Full verbatim FAD event transcript	The official 138-page deck was fetched and visually checked, and its targets are included. A complete official speaker transcript was not provided on the IR page; no unsupported speaker quote from the event is used

There is no open statutory bridge gap. The QFR-sealed packet validates against its exact expected SHA-256, all ten residuals across the two periods are zero, and the separate CODM net-income disclosures match statutory net income. The principal downstream uncertainties are economic rather than accounting: AI revenue conversion from ACV, sustainability of 20%-30%

upgrade uplifts, hyperscaler/inference gross-margin pressure, acquisition integration, the GAAP impact of amortization/SBC, and whether repurchases can truly neutralize dilution without reducing shareholder value.

Downstream cautions

- Forecast only the one `Consolidated company` financial segment on the exact sealed statutory operating-income fallback basis.
- Do not relabel consolidated net income as operating profit; it remains the disclosed CODM measure and the statutory bridge endpoint.
- Treat the Digital Workflow/ITOM split as discontinued historical product-tag context, not a current reportable taxonomy.
- Treat AI ACV, NNACV, deal counts and consumption as leading indicators, not recognized revenue.
- Separate GAAP margin from non-GAAP subscription/operating/FCF targets. SBC and acquisition amortization are economically material.
- Use the 2026-06-30 debt, cash, securities, goodwill and intangible balances in valuation. FY2025 is stale for capital structure.
- Normalize strategic-investment gains and sensitivity-test AI/hyperscaler gross-margin costs because direct unit economics are undisclosed.
- Keep share dilution and repurchase cash cost visible. “Net neutral” dilution does not mean SBC is costless.

Source register

Source	URL / endpoint	Live evidence path
ServiceNow 2025 Form 10-K	`https://www.sec.gov/Archives/edgar/data/1373715/000137371526000007/now-20251231.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_10k_2025_live.htm`
ServiceNow Q2 2026 Form 10-Q	`https://www.sec.gov/Archives/edgar/data/1373715/000137371526000076/now-20260630.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_10q_2026Q2_live.htm`
Q3 2025 earnings release	`https://www.sec.gov/Archives/edgar/data/1373715/000137371525000305/erq3fy25.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_release_2025Q3_live.htm`
Q4 2025 earnings release	`https://www.sec.gov/Archives/edgar/data/1373715/000137371526000005/erq4fy25.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_release_2025Q4_live.htm`
Q1 2026 earnings release	`https://www.sec.gov/Archives/edgar/data/1373715/000137371526000054/erq1fy26.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_release_2026Q1_live.htm`
Q2 2026 earnings release	`https://www.sec.gov/Archives/edgar/data/1373715/000137371526000072/erq2fy26.htm`	`raw\d-pulse-cio-20260904T180312+0800\sec_release_2026Q2_live.htm`
Financial Analyst Day 2026	`https://s205.q4cdn.com/916135447/files/doc_presentation/2026/ServiceNow-FAD-2026.pdf`	`raw\d-pulse-cio-20260904T180312+0800\servicenow_FAD_2026_live.pdf`
FMP annual income statement	`https://financialmodelingprep.com/stable/income-statement?symbol=NOW&period=annual&limit=6`	`raw\d-pulse-cio-20260904T180312+0800\fmp_income_annual_NOW_live.json`
FMP quarterly income statement	`https://financialmodelingprep.com/stable/income-statement?symbol=NOW&period=quarter&limit=8`	`raw\d-pulse-cio-20260904T180312+0800\fmp_income_quarter_NOW_live.json`
FMP product/geographic data	Stable product and geographic segmentation endpoints for NOW	Same run folder, corresponding JSON files
FMP transcripts	Stable earning-call-transcript endpoints for Q3 FY25-Q2 FY26	Same run folder, four date-verified JSON files

`DATA_PACKAGE_STATUS: VERIFIED — CLEARED FOR WAVE 2`

VERIFIED — CLEARED FOR FORECASTING