



ANALYST QUICK NOTES

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ServiceNow Inc. (NYSE: NOW: BUY)

Target Price: \$125

Joe Bonner, CFA

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Overview

- We are raising our target price on ServiceNow to \$125 from \$112.
- ServiceNow provides scalable IT services management to enterprises using a subscription-based, software-as-a-service model.

New CEO

- While new CEO John Donahoe, lately of eBay, compliments ServiceNow's technology and stresses continuity, he also sees opportunities in the company's go-to-market strategies.

What Makes ServiceNow an Argus Buy

- The company provides value to customers by making IT services, which touch every area of a business from HR to field sales, more manageable and efficient -- thus lowering the total cost of ownership, a powerful incentive to adoption.
- While the company's flagship product is IT service management, management has been aggressively moving into the adjacent market areas of IT operations management and IT security services often at the behest of customers who discover new use cases that ServiceNow can automate and modernize.
- ServiceNow also has a strong growth opportunity in international expansion since it is under - outside the U.S.

2020 Financial Targets

- The company continues to target revenue of \$4 billion in 2020, a compound growth rate of 30% over the next four years.
 - Non-GAAP gross margin is expected to climb by five percentage points to about 80%.
 - Non-GAAP operating margin is expected to climb 16 percentage points to about 29%.
 - We see these goals as aggressive but also achievable given the company's growth opportunities and financial trajectory.
 - The company grew revenue by 38% and expanded operating margin by 280 basis points in 2016.
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