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ServiceNow (NOW US)

1Q26 results: AI business momentum intact despite ST geopolitical and margin headwinds

ServiceNow announced 1Q26 results: total revenue grew by 22% YoY to US$3.77bn, in line with Bloomberg consensus estimate; non-GAAP operating income was up by 26% YoY to US$1.20bn, also in line with the consensus. Management has lifted FY26 subscription revenue growth guidance to +20.5-21% YoY (previous: +19.5-20% YoY), mainly reflecting the 125bps contribution from the early close of the acquisition of Armis; but also expects the acquisition will lead to 75bps/200bps headwind to FY26 operating/FCF margin, thus lowering FY26 operating/FCF margin guidance to 31.5%/35% (previous: 32%/36%). Nonetheless, management expects the strong AI efficiency gains will normalize the company's margin expansion trajectories from FY27E onwards. We slightly trim our FY26-28E non-GAAP operating income forecast by 0-1%, in view of the short-term margin headwinds. We lower our target price to US$160.0 based on 30x FY26E EV/EBITDA (previous: US$215.0 based on 40x FY26E EV/EBITDA), in light of the decline in sector valuation. We remain constructive on ServiceNow's AI platform capabilities and monetization momentum. The company has raised AI ACV target to US$1.5bn by FY26-end (previous: US$1bn). Maintain BUY.

- **Prudent 2Q26 guidance on geopolitical headwinds.** Subscription revenue was up by 19% YoY in constant currency to US$3.67bn in 1Q26, including 75bps headwind from delayed closings of several large on-premise deals in the Middle East due to the geopolitical headwinds. cRPO grew by 21% YoY in constant currency to US$12.64bn in 1Q26, 100bps above the company guidance. The company closed 16 deals greater than US$5mn in net new ACV in 1Q26, including five deals over US$10mn. For 2Q26E, the company guided cRPO to increase by 19.5% YoY in constant currency, including c.125bps contribution from the acquisition of Armis and showing a slight deceleration in organic cRPO growth.
- **AI ACV target raised.** Now Assist ACV continues to outperform management's expectations, and the company has raised Now Assist FY26-end ACV target to US$1.5bn from US$1.0bn. Now Assist customers spending over US$1mn in ACV grew by over 130% YoY in 1Q26. EmployeeWorks, a unified AI front door launched in Feb 2026, already closed 6 deals above US$1mn in net new ACV; AI Control Tower saw its average deal sizes more than doubled QoQ in 1Q26. The company also achieved steady transformation to a hybrid priding model, with c.50% of net new business now coming from a non-seat-based pricing model as per management.
- **Expect margin to face short-term headwind.** Non-GAAP OPM improved by 0.9ppt YoY to 31.8% in 1Q26, mainly thanks to the AI efficiency gains. The company's internal AI deployment is resolving 90% of employee IT requests. The integration of new businesses like Armis may lead to short-term margin headwind in FY26E, but management is positive on restoring margin expansion trend in FY27E.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (US$ mn)	10,984	13,278	16,175	19,338	22,754
Adjusted net profit (US$ mn)	2,902.0	3,669.0	4,410.9	5,299.0	6,546.5
EPS (Adjusted) (US$)	2.82	3.54	4.25	5.11	6.31
Consensus EPS (US$)	2.82	3.54	4.20	5.02	5.98
P/S (x)	8.0	6.6	5.5	4.6	3.9
P/E (x)	61.2	50.3	52.9	35.2	26.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**US$160.00**
(Previous TP	US$215.00)
Up/Downside	**88.7%**
Current Price	**US$84.78**

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Stock Data

Mkt Cap (US$ mn)	88,171.2
Avg 3 mths t/o (US$ mn)	1,605.0
52w High/Low (US$)	782.39/83.00
Total Issued Shares (mn)	1040.0

Source: FactSet

Shareholding Structure

BlackRock	8.8%
The Vanguard Group	8.7%

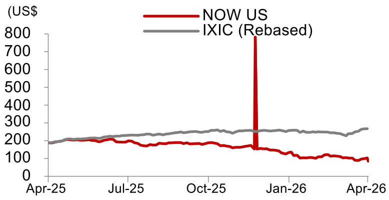
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-19.0%	-27.9%
3-mth	-36.3%	-38.8%
6-mth	-54.4%	-56.7%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: ServiceNow: forecast revision

	Current			Previous			Change (%)		
US$ bn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	16.2	19.3	22.8	16.0	19.1	22.5	1.3%	1.3%	0.9%
Gross profit	11.9	14.4	16.9	12.3	14.8	17.5	-2.8%	-2.7%	-3.2%
Operating profit	5.1	6.2	7.6	5.1	6.3	7.6	-0.4%	-1.1%	-0.5%
Non-GAAP net profit	4.4	5.3	6.5	4.5	5.5	6.6	-2.4%	-3.2%	-0.5%
Non-GAAP EPS (US$)	4.2	5.1	6.3	4.3	5.2	6.3	-1.4%	-2.3%	0.5%
Gross margin	73.8%	74.3%	74.5%	76.9%	77.3%	77.6%	-3.1 ppt	-3.0 ppt	-3.2 ppt
Non-GAAP OPM	31.4%	32.2%	33.4%	32.0%	33.0%	33.9%	-0.5 ppt	-0.8 ppt	-0.5 ppt
Non-GAAP net margin	27.3%	27.4%	28.8%	28.3%	28.7%	29.2%	-1.0 ppt	-1.3 ppt	-0.4 ppt

Source: CMBIGM estimates

Figure 2: ServiceNow: CMBIGM estimates vs consensus

	CMBIGM			Consensus			Diff (%)		
US$ bn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	16.2	19.3	22.8	16.0	19.0	22.5	0.8%	1.8%	1.2%
Gross profit	11.9	14.4	16.9	12.8	15.2	17.9	-6.8%	-5.5%	-5.2%
Operating profit	5.1	6.2	7.6	5.1	6.2	7.5	-0.6%	0.0%	1.3%
Non-GAAP net profit	4.4	5.3	6.5	4.4	5.3	6.5	0.6%	0.0%	0.8%
Non-GAAP EPS (US$)	4.2	5.1	6.3	4.2	5.0	6.0	1.0%	1.6%	5.2%
Gross margin	73.8%	74.3%	74.5%	79.9%	80.0%	79.5%	-6.0 ppt	-5.7 ppt	-5.0 ppt
Non-GAAP OPM	31.4%	32.2%	33.4%	31.9%	32.8%	33.3%	-0.5 ppt	-0.6 ppt	0.1 ppt
Non-GAAP net margin	27.3%	27.4%	28.8%	27.3%	27.9%	28.9%	-0.1 ppt	-0.5 ppt	-0.1 ppt

Source: Bloomberg, CMBIGM estimates

Valuation

We value ServiceNow at US$160.0 per share based on 30x 2026E EV/EBITDA. Our target EV/EBITDA is at a premium to the sector average (20x), which is justified by ServiceNow's strong earnings growth outlook over 2026-2028E and its free cash flow generation capability.

Figure 3: ServiceNow: target valuation

EV/EBITDA Valuation (US$mn)	FY26E
Adjusted EBITDA	5,501
Target 2026E EV/EBITDA (x)	30.0
Target EV	165,037
Net cash	1,633
Target equity valuation	166,671
Valuation per share (USD)	160.0

Source: Company data, CMBIGM estimates

Figure 4: SaaS: valuation comparison

Companies	Ticker	Price (Local)	EV/Sales (x)			EV/EBITDA (x)			Rev CAGR	FCF Margin
			2026E	2027E	2028E	2026E	2027E	2028E	26-28E	2026E
ITSM										
ServiceNow	NOW US	103.1	6.2	5.2	4.4	16.7	14.1	11.9	19%	35.4%
Atlassian	TEAM US	74.0	2.8	2.4	2.0	10.3	8.8	7.3	19%	25.5%
CRM										
Salesforce	CRM US	189.8	3.5	3.2	2.9	8.8	8.0	7.5	10%	34.1%
HubSpot	HUBS US	232.8	2.9	2.5	2.2	12.3	10.0	9.3	17%	20.0%
ERP										
SAP	SAP US	174.0	5.3	4.7	4.2	13.9	12.0	10.4	11%	25.4%
Oracle	ORCL US	187.5	9.5	7.1	4.9	17.5	12.7	8.8	32%	-37.6%
Security										
CrowdStrike	CRWD US	466.7	19.3	15.9	13.1	66.9	52.5	40.1	22%	30.4%
Okta	OKTA US	78.7	3.7	3.4	3.1	13.8	12.3	10.6	9%	27.5%
Average			**6.7**	**5.6**	**4.6**	**20.0**	**16.3**	**13.2**		

Source: Bloomberg, CMBIGM
Note: data are as of 22 Apr 2026

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Revenue	**8,971**	**10,984**	**13,278**	**16,175**	**19,338**	**22,754**
Cost of goods sold	(1,921)	(2,287)	(2,983)	(4,234)	(4,978)	(5,807)
Gross profit	**7,050**	**8,697**	**10,295**	**11,941**	**14,361**	**16,947**
Operating expenses	**(6,288)**	**(7,333)**	**(8,471)**	**(10,190)**	**(11,568)**	**(12,979)**
Selling expense	(3,301)	(3,854)	(4,388)	(5,176)	(5,941)	(6,710)
Admin expense	(863)	(936)	(1,123)	(1,375)	(1,450)	(1,502)
R&D expense	(2,124)	(2,543)	(2,960)	(3,639)	(4,177)	(4,767)
Operating profit	**762**	**1,364**	**1,824**	**1,751**	**2,793**	**3,968**
Other income	(56)	(45)	(14)	97	116	114
Interest expense	302	419	451	323	290	228
Pre-tax profit	**1,008**	**1,738**	**2,261**	**2,172**	**3,199**	**4,309**
Income tax	(723)	313	513	510	704	948
After tax profit	**1,731**	**1,425**	**1,748**	**1,661**	**2,495**	**3,361**
Net profit	**1,731**	**1,425**	**1,748**	**1,661**	**2,495**	**3,361**
Adjusted net profit	**2,215**	**2,902**	**3,669**	**4,411**	**5,299**	**6,546**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Current assets	**7,777**	**9,187**	**10,471**	**11,474**	**14,133**	**18,417**
Cash & equivalents	1,897	2,304	3,726	3,124	4,027	7,533
Account receivables	2,036	2,240	2,627	3,072	3,526	3,983
Prepayment	403	668	970	1,146	1,329	1,517
Financial assets at FVTPL	2,980	3,458	2,558	3,325	4,323	4,323
Other current assets	461	517	590	806	928	1,061
Non-current assets	**9,610**	**11,196**	**15,567**	**18,140**	**20,297**	**22,750**
PP&E	1,358	1,763	2,289	3,084	4,007	5,055
Right-of-use assets	715	693	806	806	806	806
Deferred income tax	1,508	1,385	1,056	1,056	1,056	1,056
Investment in JVs & assos	3,203	4,111	5,313	6,641	7,637	8,783
Intangibles	224	209	1,121	1,121	1,121	1,121
Goodwill	1,231	1,273	3,578	3,578	3,578	3,578
Other non-current assets	1,371	1,762	1,404	1,854	2,092	2,350
Total assets	**17,387**	**20,383**	**26,038**	**29,614**	**34,431**	**41,167**
Current liabilities	**7,365**	**8,358**	**10,443**	**12,877**	**15,089**	**17,790**
Short-term borrowings	0	0	0	0	0	0
Account payables	126	68	204	281	320	362
Lease liabilities	89	102	112	112	112	112
Contract liabilities	5,785	6,819	8,314	10,117	12,096	14,568
Accrued expenses	1,365	1,369	1,813	2,367	2,561	2,748
Non-current liabilities	**2,394**	**2,416**	**2,631**	**2,665**	**2,695**	**2,733**
Long-term borrowings	1,488	1,489	1,491	1,491	1,491	1,491
Deferred income	81	95	120	154	184	222
Other non-current liabilities	825	832	1,020	1,020	1,020	1,020
Total liabilities	**9,759**	**10,774**	**13,074**	**15,542**	**17,784**	**20,523**
Share capital	0	0	0	0	0	0
Capital surplus	5,661	7,407	9,014	8,461	8,541	9,177
Retained earnings	1,967	2,202	3,950	5,611	8,106	11,467
Total shareholders equity	**7,628**	**9,609**	**12,964**	**14,072**	**16,647**	**20,644**
Total equity and liabilities	**17,387**	**20,383**	**26,038**	**29,614**	**34,431**	**41,167**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (US$ mn)						
Operating						
Profit before taxation	**1,008**	**1,738**	**2,261**	**2,172**	**3,199**	**4,309**
Depreciation & amortization	562	564	738	418	527	658
Tax paid	(723)	313	513	510	704	948
Change in working capital	(101)	(65)	29	1,181	1,244	1,704
Others	2,652	1,717	1,903	1,406	1,397	1,290
Net cash from operations	**3,398**	**4,267**	**5,444**	**5,686**	**7,070**	**8,908**
Investing						
Capital expenditure	(300)	(254)	(312)	(445)	(454)	(457)
Acquisition of subsidiaries/ investments	(717)	(713)	(758)	(666)	(361)	(391)
Net proceeds from disposal of short-term investments	(1,112)	(1,279)	268	(2,096)	(1,994)	(1,146)
Others	(38)	(255)	(887)	(102)	(636)	(859)
Net cash from investing	**(2,167)**	**(2,501)**	**(1,689)**	**(3,309)**	**(3,444)**	**(2,852)**
Financing						
Net borrowings	0	0	0	0	0	0
Others	(803)	(1,343)	(2,340)	(2,980)	(2,724)	(2,550)
Net cash from financing	**(803)**	**(1,343)**	**(2,340)**	**(2,980)**	**(2,724)**	**(2,550)**
Net change in cash						
Cash at the beginning of the year	1,470	1,897	2,304	3,726	3,124	4,027
Exchange difference	1	(17)	7	0	0	0
Cash at the end of the year	**1,897**	**2,304**	**3,726**	**3,124**	**4,027**	**7,533**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	23.8%	22.4%	20.9%	21.8%	19.6%	17.7%
Gross profit	24.3%	23.4%	18.4%	16.0%	20.3%	18.0%
Operating profit	114.6%	79.0%	33.7%	(4.0%)	59.5%	42.1%
Net profit	432.6%	(17.7%)	22.7%	(5.0%)	50.2%	34.7%
Adj. net profit	43.6%	31.0%	26.4%	20.2%	20.1%	23.5%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	78.6%	79.2%	77.5%	73.8%	74.3%	74.5%
Operating margin	8.5%	12.4%	13.7%	10.8%	14.4%	17.4%
Adj. net profit margin	24.7%	26.4%	27.6%	27.3%	27.4%	28.8%
Return on equity (ROE)	27.3%	16.5%	15.5%	12.3%	16.2%	18.0%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.1	1.1	1.0	0.9	0.9	1.0
Receivable turnover days	82.8	74.4	72.2	69.3	66.6	63.9
Payable turnover days	(23.9)	(10.9)	(25.0)	(24.2)	(23.5)	(22.8)

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	50.0	61.2	50.3	52.9	35.2	26.2
P/E (diluted)	50.4	62.0	50.8	53.1	35.3	26.2
P/B	11.3	9.1	6.8	6.2	5.3	4.3

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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