



EQUITY RESEARCH NOTE

ServiceNow, Inc.

Published on July 24, 2026

ServiceNow, Inc.

Investment Thesis — BUY | 12-month price target: \$125

ServiceNow is one of the few large-cap software companies sustaining approximately 20% organic growth while producing a mid-30% free-cash-flow margin and retaining customers at roughly 98%. The Q2 2026 results materially strengthened the argument that ServiceNow can become the enterprise control plane for workflows, AI agents, data and cybersecurity—not merely remain an IT service-management vendor. Subscription revenue increased 23% in constant currency, cRPO increased 21.5%, AI annual contract value exceeded \$1 billion, and the number of customers above \$5 million of ACV grew 23%. (investor.servicenow.com)

The stock, however, should not be underwritten as a pristine recurring-revenue compounder without qualification. ServiceNow has transformed its capital structure through the \$7.75 billion Armis acquisition, incurred approximately \$7.5 billion of debt, and now carries \$13.6 billion of goodwill and acquired intangibles. GAAP profitability is also materially weaker than management's non-GAAP presentation because stock-based compensation, acquired-intangible amortization and transaction costs are substantial.

At \$97.51, the shares trade near 6.9x trailing revenue and approximately 21–22x conventional trailing free cash flow—well below ServiceNow's historical premium but still above slower-growth application-software peers. The risk/reward is favorable because the current valuation appears to capitalize a significant growth deceleration while Q2 evidence instead points to approximately 20% forward subscription growth, strong retention and accelerating AI monetization. (stockanalysis.com)

Data-integrity determination: the supplied “SEC EDGAR XBRL” reference table is materially misaligned with ServiceNow's actual filings. For example, official FY2025 revenue was **\$13.278 billion**, not \$9.0 billion; FY2025 diluted GAAP EPS was **\$1.67**, not \$1.70; and Q2 2026 total revenue was **\$3.987 billion**, not \$3.2 billion. The supplied \$9.0 billion revenue figure is approximately ServiceNow's FY2023 revenue, while \$3.2 billion corresponds approximately to Q2 2025—not Q2 2026. Official issuer filings therefore supersede that dataset throughout this memorandum. (investor.servicenow.com)

Key Actionable Takeaways

- **Underlying demand remains unusually strong:** Q2 subscription revenue grew 24.5% reported and 23% constant currency; cRPO reached \$13.2 billion and grew 21.5% constant currency. Q3 guidance calls for 20% constant-currency subscription growth and cRPO growth. (investor.servicenow.com)
- **AI has crossed from narrative to monetization:** AI ACV exceeded \$1 billion, agentic deployments increased ninefold in nine months, and AI-native SKUs are reportedly producing 20%–30% pricing uplifts. AI ACV is not GAAP revenue or ARR, but the conversion signal is material. (investor.servicenow.com)
- **The quality of the earnings beat requires adjustment:** approximately half of the Q2 revenue beat resulted from federal on-premise subscription revenue pulled forward from Q3. GAAP operating margin was only 4%, versus 29.5% non-GAAP. (investor.servicenow.com)
- **Armis changed the balance-sheet risk profile:** debt increased to approximately \$7.5 billion, while cash and marketable securities fell to \$6.7 billion. The acquisition is strategically credible but introduces integration, impairment and capital-allocation risk absent from historical ServiceNow underwriting. (investor.servicenow.com)

Valuation Snapshot

Metric	Value
Current price, July 24, 2026	\$97.51
12-month target price	\$125.00
Implied price upside	28.2%
Dividend yield	0.0%
Expected total return	28.2%

Current price is intraday as of July 24, 2026; ServiceNow does not currently pay a dividend.

2. Company Deep Dive & Business Model

Business Segmentation

ServiceNow operates a single integrated cloud platform rather than economically independent reporting segments. Its applications are organized around four principal solution groups:

1. **Technology Workflows:** IT service management, IT operations management, asset management, strategic portfolio management, security operations and operational technology.
2. **CRM and Industry Workflows:** customer service, field service, sales-and-order management and industry-specific applications.
3. **Core Business Workflows:** employee, HR, finance, legal, procurement and workplace workflows.
4. **Creator and Other:** App Engine, integration, automation, data fabric, AI governance and partner-developed applications.

The economic model is overwhelmingly subscription based. In Q2, subscription revenue was \$3.877 billion, or 97.2% of total revenue; professional services generated only \$110 million and operated at a GAAP gross loss. Professional services should therefore be treated as implementation enablement rather than a profit center. (investor.servicenow.com)

ServiceNow's principal monetization mechanisms are:

- Per-user or per-fulfiller subscriptions.
- Application and platform entitlements.
- Consumption and transaction-based charges.
- Outcome-oriented AI pricing.
- Higher-priced "Pro Plus" and AI-native SKUs.
- Expansion from one departmental workflow into multiple enterprise functions.

Management stated that approximately 50% of net new business is already non-seat based. This reduces direct exposure to AI-driven seat compression but does not eliminate pricing-model risk: consumption pricing may be more volatile and could transfer AI inference-cost risk back to ServiceNow. (investing.com)

Customer concentration appears low at the individual-account level, but economic exposure is concentrated in very large enterprises and governments with complex procurement processes. ServiceNow had more than 8,800 customers at year-end 2025 and, by Q2 2026, 658 customers generating more than \$5 million of ACV. Large-customer expansion is a moat, but it also creates longer sales cycles and elevated quarter-end deal concentration. (newsroom.servicenow.com)

Competitive Moat

ServiceNow's moat is not merely its code base. It consists of four mutually reinforcing assets:

- **System-of-action status:** ServiceNow sits above systems of record and coordinates workflows across Microsoft, SAP, Salesforce, Workday, Oracle, cloud infrastructure and proprietary enterprise systems.
- **Embedded workflow logic:** years of customized processes, permissions, service catalogs, configuration data and audit trails create material switching costs.

- **Enterprise-grade governance:** regulated customers require identity, permissions, observability, compliance and auditability that standalone AI agents often lack.
- **Partner ecosystem:** global systems integrators have trained workforces and recurring implementation practices built around ServiceNow, lowering deployment friction and amplifying distribution.

Pricing power remains strong but is not unlimited. A 98% renewal rate and high expansion among \$5 million-plus customers support the conclusion that ServiceNow retains meaningful pricing power. Conversely, customer and partner commentary indicates resistance where AI functionality is bundled into renewals before demonstrable ROI is achieved. Such commentary is anecdotal, but it is directionally important because forced bundling can preserve near-term ACV while weakening long-term goodwill. ([investing.com](https://www.investing.com))

The primary competitive threats are Microsoft, Salesforce, Atlassian, Workday, SAP, Oracle, Palo Alto Networks and numerous AI-native workflow vendors. ServiceNow's strategic answer is to remain model- and cloud-neutral: it does not need to own the dominant LLM if it owns the governance, business context and workflow-execution layer.

Management & Governance

Bill McDermott's tenure has been operationally strong. Management has repeatedly exceeded near-term guidance, expanded the addressable market beyond ITSM and maintained an approximate Rule-of-55 profile. Q4 2025 exceeded all major guidance metrics; Q2 2026 again beat the high end of every top-line and profitability metric and produced a revenue-guidance increase. (investor.servicenow.com)

The governance assessment is more mixed:

- McDermott is both chairman and CEO, concentrating strategic and board leadership.
- His service arrangement was extended through at least December 31, 2030, reducing succession risk but potentially entrenching leadership.
- Executives and directors collectively own less than 1% of the company; McDermott beneficially owned approximately 2.2 million post-split shares.
- BlackRock and Vanguard owned 8.8% and 8.7%, respectively, illustrating highly institutional ownership.
- Shareholders approved an additional 38 million shares for the equity plan in May 2026—approximately 3.7% of current shares outstanding and therefore a meaningful prospective dilution reservoir. ([sec.gov](https://www.sec.gov))

Capital allocation has become materially more aggressive. The strategic logic of acquiring Moveworks, Veza and Armis is coherent, but the company moved from a net-cash compounder to a leveraged consolidator in less than a year. That transition warrants a higher governance discount until acquired revenue retention, cross-selling and return on invested capital are disclosed.

Sentiment Analysis

Institutional positioning remains dominant, with third-party ownership data indicating approximately 89% institutional ownership. Short interest nevertheless rose to roughly 6% of float by June 30, 2026—elevated for a high-quality large-cap software company, although days to cover remained low at approximately 2.4. ([marketbeat.com](https://www.marketbeat.com))

Retail sentiment is sharply bifurcated:

- Bulls view ServiceNow as “corporate infrastructure” that will become more valuable as AI increases workflow complexity.
- Bears see another expensive SaaS vendor vulnerable to autonomous agents, seat compression and hyperscaler disintermediation.
- Post-earnings retail commentary was positive on CRPO and retention but skeptical that the stock could rerate while AI infrastructure costs and acquisition dilution suppress GAAP margins.

Retail commentary is useful as a positioning indicator, not as primary evidence. Institutional investors appear focused on organic cRPO, gross-margin direction and acquisition returns; retail investors remain more sensitive to headline AI milestones and the stock's prior \$200-plus price.

3. Market Dynamics & Recent Events

Key News Flow

The Q2 2026 release was a substantive beat-and-raise:

- Total revenue: \$3.987 billion, +24%.
- Subscription revenue: \$3.877 billion, +23% constant currency.
- cRPO: \$13.2 billion, +21.5% constant currency.
- RPO: \$29.0 billion, +22% constant currency.
- Non-GAAP operating margin: 29.5%, approximately 300 basis points above guidance.
- FY2026 subscription guidance: \$15.760–\$15.780 billion.
- FY2026 non-GAAP operating margin: 31.5%.
- FY2026 adjusted FCF margin: 35%. (investor.servicenow.com)

Two caveats prevent an unqualified interpretation:

1. Strong federal on-premise demand pulled revenue from Q3 into Q2; management indicated approximately half the Q2 beat was timing related.
2. Acquisitions contribute to reported growth. Earlier 2026 guidance incorporated approximately 125 basis points from Armis, meaning headline cRPO and subscription growth are not purely organic. (investing.com)

Recent strategic transactions include:

- **Moveworks:** acquired in December 2025 for approximately \$2.85 billion, adding conversational AI and enterprise search.
- **Veza:** completed in March 2026, adding identity intelligence.
- **Armis:** completed April 20, 2026 for approximately \$7.75 billion in cash, adding cyber-exposure management across IT, operational technology, IoT and medical devices. (investor.servicenow.com)

The combined strategy is identifiable: Moveworks provides the user interface, ServiceNow supplies workflows and governance, Veza controls identity and permissions, and Armis maps the full connected-asset attack surface. The strategic fit is stronger than a generic revenue roll-up. The financial price paid, particularly for Armis, still requires proof.

Stock Performance

At \$97.51, ServiceNow is approximately:

- **20% above** its \$81.24 52-week low.
- **52% below** its roughly \$201–\$210 52-week high.
- Down approximately 49% over the trailing year.
- Trading at approximately 6.9x enterprise value/revenue and roughly 21x adjusted trailing FCF. (investing.com)

The drawdown reflects more than ordinary multiple compression. The market is discounting:

- Potential disruption of seat-based SaaS models by AI agents.
- Lower gross margins from AI consumption and hyperscaler use.
- Armis execution and leverage risk.
- Slower underlying organic growth hidden by acquisitions.
- Higher discount rates for long-duration software equities.

ServiceNow still trades above slower-growth application-software peers such as Salesforce, Workday and Adobe, whose recent EV/revenue multiples were roughly 3–4x. It trades at a major

discount to cybersecurity leader Palo Alto Networks, whose valuation reflects substantially greater security-sector exuberance. (stockanalysis.com)

A premium to mature application software is justified by ServiceNow's approximately 20% growth and higher retention. A valuation approaching premium cybersecurity multiples is not justified until Armis produces observable cross-selling and ServiceNow demonstrates that AI revenue carries acceptable incremental margins.

Macro Impact

The macro backdrop is mixed. The Federal Reserve maintained a 3.50%–3.75% policy-rate range in June, while the 10-year Treasury yield was recently around 4.7%. June headline CPI increased 3.5% year over year, core CPI increased 2.6%, and first-quarter real GDP increased at a modest 1.6% annualized rate. Higher real rates directly reduce the present value of ServiceNow's long-duration cash flows and constrain multiple expansion. (bls.gov)

The operating effect is less negative:

- ServiceNow sells productivity, automation and security rather than discretionary front-office experimentation.
- Weak labor availability and wage pressure strengthen workflow-automation ROI.
- Cybersecurity spending remains comparatively protected.
- Federal demand is currently strong, although government procurement creates timing volatility.
- A stronger dollar produces reported-growth and cRPO headwinds; ServiceNow quantified a \$35 million Q3 cRPO FX headwind. (investor.servicenow.com)

Gartner forecasts worldwide AI spending to rise 47% in 2026, including rapid growth in AI software and AI cybersecurity. That is supportive for ServiceNow but also a warning: infrastructure and model costs are rising faster than many enterprises' proven AI returns. ServiceNow must capture spending through measurable workflow outcomes rather than compete in undifferentiated token consumption. (gartner.com)

4. Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality

ServiceNow's recurring-revenue quality is fundamentally high:

- Subscription revenue represents more than 97% of revenue.
- Renewal rate is approximately 98%.
- cRPO growth of 21.5% provides strong 12-month revenue visibility.
- RPO of \$29 billion equals almost two years of current annualized revenue.
- Customers above \$5 million of ACV increased 23% to 658. (investor.servicenow.com)

However, three optical issues require explicit adjustment.

First, ACV is not revenue. The \$1 billion AI ACV milestone demonstrates contracted commercial traction but does not specify revenue-recognition timing, gross margin, cancellation protections or the proportion that is incremental rather than bundled into broader renewals.

Second, Q2 benefited from timing. Federal on-premise subscription revenue was pulled from Q3, accounting for approximately half of the quarterly beat. Full-year guidance was raised, so this is not purely cosmetic, but Q2 growth should not be mechanically annualized. (investor.servicenow.com)

Third, the GAAP/non-GAAP gap is unusually wide. Q2 included:

Q2 2026 item	USD millions
GAAP operating income	\$162
GAAP operating margin	4.1%
Stock-based compensation	\$655
Acquired-intangible amortization	\$219
Business-combination costs	\$75
Severance costs	\$62
Non-GAAP operating income	\$1,173
Non-GAAP operating margin	29.5%
GAAP net income	\$298
Non-GAAP net income	\$930

Strategic-investment gains partially offset these adjustments in GAAP net income. The correct conclusion is neither that non-GAAP earnings are fictitious nor that GAAP earnings are irrelevant. SBC is a real transfer of value to employees; acquired-intangible amortization is non-cash but reflects capital previously spent; transaction and severance costs may recur in an acquisitive business. (investor.servicenow.com)

FY2026 guidance makes the divergence explicit: management projects approximately 10% GAAP operating margin versus 31.5% non-GAAP, with SBC alone representing roughly 15% of revenue. Investors should value ServiceNow primarily on cash flow while separately deducting the cost required to neutralize share dilution. (investor.servicenow.com)

Balance Sheet Health & Leverage

As of June 30, 2026:

Balance-sheet item	USD billions
Cash and equivalents	\$2.50
Current marketable securities	\$2.16
Long-term marketable securities	\$2.04
Total cash and marketable securities	\$6.71
Short-term debt	\$2.08
Long-term debt	\$5.44
Total debt	\$7.52
Net debt	\$0.81
Strategic investments	\$2.07
Goodwill	\$9.84
Acquired intangibles	\$3.78

Liquidity is adequate and net leverage is modest relative to expected FY2026 FCF. The more relevant issue is asset quality: goodwill and acquired intangibles now equal approximately 43% of assets, up from \$4.7 billion at year-end 2025 to \$13.6 billion. A meaningful portion of book equity therefore depends on Armis, Moveworks and Veza achieving the projected commercial benefits. (investor.servicenow.com)

Debt is senior unsecured and consists primarily of:

- \$2.08 billion of short-term commercial paper.
- \$750 million of 4.25% notes due 2028.
- \$1.5 billion of pre-existing 1.40% notes due 2030.
- \$600 million of 4.70% notes due 2031.
- \$650 million of 5.05% notes due 2033.

- \$1.25 billion of 5.40% notes due 2036.
- \$750 million of 6.30% notes due 2056. ([sec.gov](#))

The original \$4 billion short-term Armis loan was refinanced with long-dated unsecured notes, materially reducing refinancing risk. Annualized cash interest should remain well below 5% of expected FCF. Leverage is therefore not presently threatening; the risk is that ServiceNow paid a high strategic price immediately before a possible software-industry repricing.

Cash Flow & Capital Allocation

ServiceNow generated \$5.44 billion of operating cash flow and \$4.64 billion of adjusted FCF in FY2025. Management guides to a 35% adjusted FCF margin in FY2026, implying approximately \$5.7 billion of FCF on estimated total revenue near \$16.2 billion. ([investor.servicenow.com](#))

First-half 2026 cash conversion was less impressive than the headline margin:

- Operating cash flow declined to \$2.26 billion from \$2.39 billion despite 23% revenue growth.
- Conventional FCF—operating cash flow less capital expenditure—was approximately \$2.00 billion, essentially flat year over year.
- Management's adjusted FCF was \$2.30 billion because \$297 million of business-combination costs were added back.
- The company spent \$8.78 billion on acquisitions in the first half. ([investor.servicenow.com](#))

The operating-cash decline largely reflects working-capital timing and acquisition effects rather than deterioration in the subscription franchise, but it deserves monitoring. A true high-quality beat should eventually appear in both cRPO and cash conversion.

ServiceNow repurchased \$2.23 billion of stock in the first half, largely through the accelerated repurchase. Diluted shares declined from 1.047 billion to 1.034 billion year over year, indicating that repurchases more than offset near-term dilution. Nevertheless, the stated purpose of the program is dilution management rather than material per-share capital return.

([investor.servicenow.com](#))

There is no dividend. Given the new debt load and integration obligations, debt reduction and acquisition execution should rank above incremental discretionary buybacks unless the shares remain materially below intrinsic value.

5. Valuation & Price Target

The valuation uses 1.04 billion diluted shares, approximately \$0.81 billion of net debt, FY2026 total revenue of approximately \$16.22 billion and FY2026 adjusted FCF near \$5.68 billion.

Method 1: Discounted Cash Flow — \$129 per share

Base assumptions:

- FY2026 FCF: \$5.68 billion.
- FY2027–FY2030 FCF growth: approximately 18%, 16%, 15% and 13%.
- Five-year terminal FCF: approximately \$10.1 billion.
- WACC: 9.5%.
- Terminal growth: 3.25%.
- Net debt: \$0.81 billion.

The DCF produces equity value near \$129 per share. A 9.5% discount rate appropriately recognizes higher Treasury yields, integration risk and the economic cost of SBC. The terminal growth rate is intentionally below ServiceNow's expected long-term revenue growth.

Method 2: Forward EV/Revenue — \$116 per share

Applying **7.5x FY2026 revenue** of \$16.22 billion produces an enterprise value of approximately \$121.7 billion and equity value near \$116 per share.

The 7.5x multiple represents:

- A significant premium to Adobe, Salesforce and Workday at roughly 3–4x.
- A substantial discount to Palo Alto Networks.
- A modest premium to ServiceNow's current 6.9x trailing multiple.
- Recognition of ServiceNow's superior growth, retention and platform breadth, offset by acquisition and margin risk. (stockanalysis.com)

Method 3: Forward FCF Multiple — \$128 per share

FY2027 adjusted FCF is estimated at \$6.7 billion. Applying a **20x forward FCF multiple**, then deducting net debt, produces approximately \$128 per share.

A 20x multiple is defensible for an approximately 18% FCF grower with a 98% renewal rate, but it is not undemanding. It assumes ServiceNow sustains high-teens growth after acquisition contributions normalize.

Blended Price Target

Method	Value	Weight	Contribution
DCF	\$129	40%	\$51.60
EV/revenue	\$116	30%	\$34.80
Forward FCF	\$128	30%	\$38.40
Blended value			\$124.80
Rounded target			\$125

The target intentionally excludes a separate cybersecurity “sum-of-the-parts” premium. Until Armis revenue, retention and cross-selling are disclosed, assigning Palo Alto-like security multiples would constitute double counting rather than rigorous valuation.

6. Risk, Catalysts, and Scenario Analysis

The Bear Case — Risks

1. **Organic-growth deceleration:** acquisition contributions and federal timing could mask a decline in underlying cRPO below 17%. A sustained sub-18% cRPO rate would invalidate the premium multiple.
2. **AI gross-margin compression:** hyperscaler utilization and inference consumption already pressure subscription gross margin. FY2026 non-GAAP subscription gross-margin guidance is 81%, while GAAP guidance is only 75%. (investor.servicenow.com)
3. **Armis overpayment:** \$7.75 billion is approximately 7.7% of ServiceNow's current market capitalization. Failure to produce material cross-selling could lead to impairment and lower return on invested capital.
4. **SBC dependence:** FY2026 SBC guidance approximates 15% of revenue. If repurchases are required merely to maintain share count, headline FCF overstates distributable owner earnings.
5. **AI disintermediation:** general-purpose agents may reduce the need for users to interact with ServiceNow interfaces, weakening seat growth and shifting value toward model providers or hyperscalers.
6. **Pricing backlash:** aggressive AI bundling could sustain short-term ACV but damage renewal economics and create openings for Atlassian, Microsoft and lower-cost AI-native competitors.
7. **Public-sector exposure:** federal demand is strong, but procurement delays, budget changes, certifications and political intervention can create volatile quarterly comparisons.
8. **Cybersecurity liability:** expansion into identity and cyber-exposure management increases the reputational and legal consequences of a platform breach or failure to identify material vulnerabilities.
9. **Goodwill concentration:** \$13.6 billion of goodwill and intangibles makes book value vulnerable to impairment.

10. **Duration risk:** at a 4.5%–5% 10-year Treasury yield, software multiples may remain structurally below their 2020–2024 norms even if operating execution remains strong.

The Bull Case — Catalysts

1. AI ACV exceeds the \$1.5 billion 2026 objective and converts into visible subscription revenue without material margin deterioration.
2. Organic cRPO remains at or above 20% after adjusting for acquisition contributions.
3. Armis and Veza drive security-and-risk ACV materially above the existing \$1 billion-plus base.
4. ServiceNow's AI Control Tower becomes the default governance layer across Microsoft, NVIDIA, OpenAI, Anthropic and customer-built agents.
5. Non-seat pricing expands faster than seat compression, preserving net revenue retention.
6. Conventional FCF converges toward management's adjusted measure as acquisition costs normalize.
7. Net debt is eliminated during 2027, restoring the company's historical balance-sheet flexibility.
8. The market reclassifies NOW from “legacy SaaS” to an AI-governance/cybersecurity platform, increasing the forward revenue multiple toward 9–10x.

Scenario Analysis

Scenario	Operating Conditions	Valuation	Target
Bear	Organic cRPO falls to 14%–16%; AI margin pressure persists; Armis cross-selling disappoints; FCF margin falls below 30%	Approximately 4.5x–5x forward revenue	\$70
Base	Subscription growth holds near 19%–20%; 35% adjusted FCF margin; AI ACV converts steadily; integration proceeds without major disruption	7.5x revenue / 20x FY2027 FCF	\$125
Bull	Organic cRPO remains above 21%; AI ACV materially exceeds plan; security becomes a second major growth engine; FCF margin reaches 37%	Approximately 9.5x revenue / 25x FCF	\$160

The implied probability-weighted distribution is positively skewed at \$97.51, but the bear-case drawdown remains material. Position sizing should reflect acquisition and duration risk rather than treating NOW as a low-volatility defensive software holding.

7. Red Team Analysis (Devil's Advocate)

The strongest argument that ServiceNow is a **value trap rather than a Buy** is that the apparent valuation reset may be entirely rational.

First, ServiceNow could be approaching the classic mature-SaaS transition in which recurring revenue remains stable while the economic moat erodes underneath it. A 98% renewal rate is a lagging indicator. Enterprise customers cannot quickly remove mission-critical workflows, so renewal rates may remain elevated for years even while new workloads move to Microsoft, AI-native agents or internal automation. High retention could therefore reflect technological captivity rather than current product superiority.

Second, management's AI narrative may conceal deterioration in the original seat-based model. The statement that 50% of net new business is non-seat based sounds reassuring, but it can also be read as an admission that seat growth is no longer dependable. Outcome and consumption pricing may expand TAM, yet it introduces volatile usage, complicated customer audits and direct exposure to model and inference costs. ServiceNow could exchange a predictable subscription model for a lower-margin, usage-sensitive one.

Third, the accounting presentation is aggressive in economic—not necessarily legal—terms. A company guiding to 31.5% non-GAAP operating margin but only 10% GAAP operating margin is not presently a 31.5% operating-margin business for common shareholders. Stock compensation equal to roughly 15% of revenue is recurring. Acquired-intangible amortization will remain large

after nearly \$11 billion of acquisitions. Transaction and severance charges are not genuinely “one time” if acquisitions are integral to strategy.

Fourth, free cash flow is overstated as owner earnings. Cash flow adds back SBC, while buybacks consume cash simply to neutralize dilution. In the first half of 2026, ServiceNow reported \$2.30 billion of adjusted FCF but spent \$2.23 billion on repurchases. Virtually all adjusted FCF was therefore absorbed by dilution control before considering the \$8.78 billion acquisition outlay. (investor.servicenow.com)

Fifth, the Armis transaction may represent strategic panic. ServiceNow paid \$7.75 billion in cash and accepted debt costs above 4%–6% to enter a highly competitive cybersecurity market at a moment when security valuations were elevated. Management argues that cybersecurity may eventually become larger than the existing workflow business. The hostile interpretation is that management recognizes slowing core growth and is using an expensive acquisition to reset the narrative.

Sixth, the balance sheet contains hidden economic leverage beyond reported net debt:

- \$13.6 billion of goodwill and intangibles.
- Long-duration cloud and hyperscaler commitments.
- Future AI-compute consumption requirements.
- Employee equity obligations supported by repurchases.
- Integration and retention compensation not captured in headline purchase prices.
- Potential customer credits, remediation costs and legal exposure if a material cyber event occurs.

Seventh, the platform thesis could reverse. ServiceNow claims to be the neutral control plane connecting every agent and workflow. Microsoft can make the same argument from identity, productivity and Azure; Salesforce from CRM and enterprise data; Google from cloud and models; and Palo Alto from security. The hyperscalers own infrastructure, distribution and model economics. ServiceNow rents all three while trying to retain the highest-margin orchestration layer. That layer may prove strategically valuable—or it may become a feature bundled into broader cloud agreements.

Finally, the stock is not objectively cheap. At approximately 7x sales and more than 20x FCF, investors are still paying a premium multiple during a period of elevated rates, slowing GDP and unresolved SaaS disruption. If sustainable growth falls to 12%–14%, the appropriate valuation could be 4–5x revenue, placing the shares near \$65–\$75 without requiring an operational collapse.

Red-team verdict: the Buy recommendation survives only if three conditions remain true: organic cRPO holds near 20%, AI monetization does not structurally reduce gross margins, and Armis produces measurable cross-selling within six to eight quarters. Failure on any two of those conditions converts ServiceNow from an attractively repriced compounder into an acquisition-supported, SBC-intensive value trap. The investment should therefore be monitored against those explicit falsification tests, not defended through management's AI rhetoric.