

# Hyperion Asset Management

## Company Profile

## ServiceNow, Inc.

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### ***Main Business Activities***

ServiceNow, Inc. (ServiceNow) provides Software-as-a-Service (SaaS) based solutions, typically for enterprises with over 5,000 employees that centre around automating workflow processes to improve efficiency, reduce costs and reduce downtime/provide for faster response times.

ServiceNow originally started operating solely in IT Service Management (ITSM) which facilitates workflow/service requests between employees and a company's IT team. It is primarily used to record incidents, remediate problems and automate routine tasks. ServiceNow expanded its offering into IT Operations Management (ITOM) in 2010. ITOM allows organisations to map their entire IT Infrastructure to underlying business units to determine interdependencies between the infrastructure and business units for the purposes of root cause analysis. In 2015, the company expanded into additional products including Customer Service Management, HR and Security. All of these services are built around improving efficiency and automating workflows and leverage the same technology as ITSM and ITOM.

ServiceNow also have an application development engine which is a Platform-as-a-Service (PaaS) offering and enables companies to build their own apps that automate processes across their business.

### ***Key Value Proposition to Customers***

ServiceNow provides SaaS-based services that enable enterprises to improve efficiencies, reduce costs and reduce downtime/provide for faster response times. Enterprise IT systems are often complex, with a multitude of point solution products that have been built around old on-premise offerings. Systems are often clunky, inefficient, manual in nature and there is limited visibility for problem solving. With the growth of cloud-based solutions, enterprises are undergoing digital transformation and are looking to improve experiences across their entire business. ServiceNow's products aim to automate workflows and simplify the myriad of IT systems that a company may have accumulated, leading to faster diagnosis of issues, increased efficiency and productivity, improved prioritisation and better use of resources. ServiceNow's Creator Workflows, such as the NOW Platform, enable enterprises to create their own workflows using no code/low code tools, thereby automating aspects of their unique businesses. Employees are often the highest cost item for businesses and therefore improvements in productivity can generate meaningful cost savings and profit expansion. As an example of ServiceNow's value proposition, a study by the McKinsey Global Institute found that the average interaction worker spends around 28% of their working week managing their email and nearly 20% looking for internal information or locating colleagues to assist with tasks.

ServiceNow's customers are mainly enterprises and larger corporates. ServiceNow is a SaaS based model and for most of ServiceNow's products, revenue is typically dependent on the number of seats and the number of applications. The average revenue per customer in FY20 was \$650,000 per annum.

### ***Sustainable Competitive Advantages and Outlook***

Within IT Service Management (ITSM) existing incumbents predominantly have on-premise based offerings (some have also recently developed SaaS offerings but they are small and inferior). These on-premise based offerings are over 20 years old and weren't built for the cloud. They have typically been heavily customised and are very difficult and costly for companies to maintain. ServiceNow, with its cloud-based offering has disrupted the market and captured a large and growing share of the ITSM market. ServiceNow has successfully expanded out of IT into additional workflows such as HR, Security, Finance, Customer Service Management, Legal and DevOps (software development and IT operations). Additionally, ServiceNow's NOW platform, provides enterprises the ability to develop their own automated workflow solutions using their low code/no code platform. ServiceNow's incumbency in the IT space, as well as their broadened workflow use cases and creator workflows results in a renewal rate of over 97%. With ServiceNow establishing a first mover advantage it is difficult for new competitors to catch up given the long implementation periods and the difficulty is transitioning to substitute products. ServiceNow has an innovative culture and a strong focus on research and development which is continually improving the customer value proposition.

## **Overall Company Growth Options**

ServiceNow operates in an industry that is undergoing rapid acceleration due to businesses undergoing a period of digital transformation. It is estimated by IDC that there will be approximately US\$7.8 trillion spent by 2024 in digital transformation investments. ServiceNow are targeting an addressable market opportunity of \$175 billion by 2024 which compares to their current market share estimate of approximately 5%. The majority of ServiceNow's growth will come from organic revenue resources primarily from increasing the usage and upselling their existing customer base. Approximately 80% of ServiceNow's net new annual contract value (ACV) comes from their existing customer base which reduces the reliance on continually building the customer base. Growth has been assisted from broadening the product base from IT Service Management (ITSM) to also include IT Operations Management (ITOM) and Non-IT areas such as HR, Customer Service Management (CSM) and Security. These new products use the same code base and same underlying functionality as ITSM. The company's NOW Platform is also growing strongly, allowing companies to automate their own workflows using low code/no code tools which increases customer retention. Across the product base, there is a large opportunity to upgrade customers to their Pro offering which is priced at a 25% premium to the standard offering and has additional features and functionality including Artificial Intelligence (AI) and Machine Learning (ML) capabilities. As at FY20, approximately 20% of the customer base have transitioned to ITSM Pro however the majority of new customers are signing up to ITSM Pro which bodes well for the existing customer base to transition across. Similar Pro versions are available across their other products. NOW are also releasing an Enterprise edition which is also at a 25% price premium to the Pro offering which provides continued upsell opportunities for customers that are after a functionality rich experience. ServiceNow are at an early stage in terms of their CSM and HR products and the mix to Non-IT revenue will increase over time. ServiceNow have guided to revenue of at least \$10 billion by FY24 and \$15 billion by FY26.

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