

EQUITY RESEARCH REPORT | Report date: August 2, 2026 | Prices as of the close, July 31, 2026

ServiceNow, Inc. (NYSE: NOW)

Enterprise Workflow & AI Platform Software • Now Platform, Now Assist, SecOps • Large-Cap Growth

Price (Jul 31 close)	\$111.23	Fwd P/E (non-GAAP)	24.6x
Change since last report	+4% (from ~\$107)	Trailing P/E (SBC-distorted)	69.5x
52-week price change	-43.1%	EV / Sales	7.9x
Market cap / EV	\$115.0B / \$116.7B	PEG	1.00
Q2 FY26 subscription rev	\$3.877B, +24.5% YoY	FCF margin (TTM)	31.1%
cRPO / RPO	\$13.2B / \$29.0B, both +21%	Renewal rate	98%
FY26 subscription guide	\$15.76–15.78B (+22.5%)	AI ACV	>\$1B, ahead of pace
Next earnings	Oct 28, 2026	Consensus target (49 analysts)	\$140.25 — Strong Buy

RECOMMENDATION

BUY

reaffirmed — unchanged from July 16

Thesis in one line: The July 16 report named Q2 as the test of whether AI is eating ServiceNow's seat-based revenue. The quarter answered it about as clearly as a single quarter can: subscription growth *accelerated* to 24.5%, renewals hit 98%, AI ACV crossed \$1B ahead of schedule and the full-year guide went up. The stock still fell 3.8% the next day to \$91.94 before rallying 21% in six sessions. The thesis is stronger and the score rises to 75, but the price has captured most of that improvement, so the recommendation stays Buy rather than moving up. Levels are reset; targets are not.

INVESTMENT SCORE

75 / 100

up from 72

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1. The Quarter That Was Supposed to Settle It

The previous report ended on a specific instruction: watch renewals, AI contract value and subscription gross margin, and if they hold, add. Q2 FY2026 landed after the close on July 22 and delivered two emphatic yeses and one qualified no. Subscription revenue came in at \$3.877 billion, up 24.5% year over year and 23% in constant currency, beating the high end of management's own guidance by 150 basis points. That is an *acceleration* from the 22% posted in Q1, which is the single most awkward datapoint available for anyone arguing that AI agents are quietly dissolving seat-based enterprise software. Non-GAAP operating margin came in at 29.5%, roughly three points ahead of expectations. cRPO reached \$13.2 billion and total RPO \$29.0 billion, both up 21% and both above guidance. Management raised the full-year subscription revenue guide to \$15.76–15.78 billion, or 22.5% growth.

On the two named tells, renewals came in at 98%, a point better than the ~97% the previous report was working from, and AI ACV crossed \$1 billion, running ahead of the pace required to hit the \$1.5 billion end-2026 target that management raised 50% only a quarter earlier. The security and risk business became the fastest growing among the top ten cybersecurity vendors, which is a useful reminder that the Armis and Veza acquisitions bought something real rather than just goodwill.

The qualified no is gross margin. Full-year non-GAAP subscription gross margin guidance came *down* to 81% from 81.5%, attributed to greater hyperscaler utilisation and accelerating AI adoption. The previous report flagged this as the one genuine yellow flag and asked for stabilisation around 81–82%. It has not stabilised; it has drifted another 50 basis points. This is the incumbent's dilemma showing up in the accounts exactly as predicted: ServiceNow is paying real infrastructure cost to embed AI, and it is paying it before the consumption revenue fully arrives. It is not yet alarming, because the invalidation threshold set in July was sustained compression below 80%. It is not nothing either.

Metric	Q1 FY26 (last report)	Q2 FY26 (Jul 22)	Read
Subscription revenue	\$3.67B, +22% YoY	\$3.877B, +24.5% YoY (+23% cc)	Accelerated. Beat the high end of guidance by 150bps.
cRPO	\$12.64B, +22.5%	\$13.2B, +21%	Beat guidance. Modest deceleration in the growth rate; forward visibility intact.
Total RPO	\$27.7B, +25%	\$29.0B, +21%	Backlog still growing faster than revenue, though the gap has narrowed.
Non-GAAP op margin	~32%	29.5%	~3 points above expectations. FY target of 31.5% maintained.
Subscription gross margin	81.5%	FY guide cut to 81%	The one negative. Hyperscaler cost and AI adoption. Did not stabilise as hoped.
Renewal rate	~97%	98%	Improved. The cleanest available refutation of seat erosion.
AI ACV (Now Assist)	Target raised to ~\$1.5B by end-2026	Passed \$1B , ahead of pace	On track and early. AI is additive revenue, not cannibalisation.
FY26 subscription guide	Raised at Q1	\$15.76–15.78B, +22.5%	Raised again. Guidance credibility intact through a second AI-scare quarter.
Q3 FY26 guide	n/a	\$3.975–3.980B, +20.5%; cRPO +20%	The asterisk. Q2 pulled US Federal on-prem revenue forward out of Q3.

That last row deserves emphasis rather than a footnote. The 150-basis-point revenue beat was driven partly by strong US Federal demand that accelerated on-premise subscription revenue out of Q3 and into Q2. The headline 24.5% therefore flatters the underlying rate, and the Q3 guide of 20.5% partly reflects the hole that was left behind. Growth is genuinely holding above 20%; it is probably not accelerating to 24%. An analyst reading only the headline would draw the wrong conclusion about the trajectory.

2. What the Market Did With It

The price action around the print is worth reconstructing because it explains the entire risk/reward calculation that follows. The stock closed at \$95.46 on July 22, already down 6.5% on the day into the release. It then fell a further 3.8% on July 23 to \$91.94, trading as low as \$91.53 intraday — within roughly two dollars of the \$88–90 cut-loss the previous report had published. On a beat-and-raise with record renewals, the market's first instinct was to sell.

Then it reversed hard: \$98.78, \$105.56, \$110.62, \$115.76 across the next four sessions, a 26% move off the low in six trading days, before settling at \$111.23 on July 31. Short interest fell from 59.5 million shares to 55.7 million over the month, so part of that move was covering. The sequence tells you two things. First, positioning going into the print was extremely bearish and the initial reaction was a positioning event rather than a fundamental judgement. Second, the market has now digested the quarter and repriced accordingly — which means the easy money from the beat has been made. Anyone reading this report is arriving after a 21% move, not before it.

3. Do the Published Price Levels Still Hold?

The July 16 report set entry at \$100–108, an ideal buy range of \$95–110, a cut-loss on a weekly close below \$88–90, and targets at \$135 and \$160+. At \$111.23 the stock sits just above the entry band and at the very top of the ideal buy range, so both need lifting. The cut-loss needs lifting for a different and better reason: the market has since manufactured a far more meaningful level than \$88–90 ever was. \$91.53 is where the stock stopped falling on the day after a beat-and-raise. That is a level with information in it. A weekly close beneath it would mean the market had looked at 24.5% growth and 98% renewals and sold anyway, which is precisely the circumstance in which this position should not be held.

The targets are unchanged and deliberately so. \$135 remains roughly the prior consolidation zone and now sits just *below* the \$140.25 consensus target, which is a comfortable place for a first target to be. \$160 remains the base-case fair value and gap-fill region. Raising targets because a quarter went well, when the stock has already moved 21%, would be manufacturing optimism rather than analysing it.

Level	Published Jul 16	Status at \$111.23	Reset to	Why
Recommended entry	\$100–108	Stale — price above the band	\$105–115	Recentred on the post-earnings range. The quarter justifies paying a little more than in July.
Ideal buy range	\$95–110	At the top edge	\$100–112	Still prefer adds into weakness, now toward the reclaimed 20/50-day cluster near \$106.
Cut-loss	\$88–90 weekly close	Superseded — nearly tested Jul 23, held	\$91 weekly close	Raised to just under the \$91.53 post-earnings low. Losing that level after this quarter would be a genuine thesis break.
Take-profit 1	\$135	Valid — +21% away	\$135 (held)	Prior consolidation; now sits below the \$140.25 consensus, which is where a first target belongs.
Take-profit 2	\$160+	Valid — +44% away	\$160 (held)	Base-case DCF fair value and the gap-fill zone. Unchanged.

The arithmetic that results is the honest cost of the rally. In July the trade offered roughly 1:2 to 1:3. At \$111.23 with a \$91 stop and a \$135 first target it offers about 1:1.2, improving to 1:2.4 against the second target. Better business, worse entry. That combination argues for holding and being patient rather than for upgrading and chasing.

4. A Balance-Sheet Change Worth Correcting

The previous report described ServiceNow as carrying net cash of roughly \$7.6 billion and cited that as a reason financial risk was low. That is no longer accurate. Trailing net borrowing of \$6.0 billion, raised to fund the Moveworks, Armis and Veza acquisitions, has taken total debt to \$8.45 billion against \$4.66 billion of cash. ServiceNow is now in a net debt position of \$1.75 billion. The company remains comfortably solvent — interest coverage of 20x, an Altman Z-score of 5.48, \$4.58 billion of annual free cash flow — but the balance sheet is no longer a fortress and no longer provides the optionality it did a year ago.

The related number is return on invested capital, which sits at 10.28% against a weighted average cost of capital of 8.92%. That spread is positive but thin, and it is thin precisely because the acquisition accounting has inflated the capital base ahead of the earnings those deals are meant to produce. A Piotroski F-score of 4 reflects the same thing. None of this is a reason to sell a 20%-plus grower with 98% renewals, but it is a reason Financial Strength comes down from 9 to 8 in this report, and it is a reason the integration risk flagged in July should stay on the watch list rather than being quietly retired.

Metric	TTM / latest	What it means for ServiceNow
Revenue (TTM)	\$14.73B	FY26 subscription alone guided to \$15.77B. The compounding is intact and large-scale.
Free cash flow	\$4.58B; 31.1% margin (TTM)	FY26 FCF margin guided at 35%. Q2's 16% is seasonal, not a deterioration.
Gross margin (blended)	74.8%	Blended figure includes services. The subscription line is the one that matters, guided to 81%.
Operating margin	12.4% GAAP / 29.5% non-GAAP Q2	The GAAP-to-non-GAAP gap is stock-based compensation and acquisition amortisation, not an accounting concern.
ROE / ROIC	14.2% / 10.3% (WACC 8.9%)	Thin spread over cost of capital , depressed by the acquisition capital base.
Balance sheet	\$4.66B cash, \$8.45B debt	Net debt \$1.75B — a change from the net cash position described in July.

Metric	TTM / latest	What it means for ServiceNow
Buyback	Shares -0.40% YoY	Minimal. Capital is going to M&A and reinvestment, not to shrinking the count.
Quality scores	Altman Z 5.48; Piotroski F 4	Solvency is not in question; the F-score reflects the margin and leverage drift, and is worth monitoring.

5. Valuation

The valuation lens has not changed and neither, materially, has the reading. GAAP earnings remain distorted by stock compensation and acquisition amortisation, which is why the 69.5x trailing P/E is a headline rather than an economic multiple. On the number that matters, ServiceNow trades at 24.6x forward non-GAAP earnings — almost exactly where it stood in July, because estimates rose alongside the price. For a business compounding subscription revenue above 20% with a guided 35% free-cash-flow margin and 98% renewals, that is a reasonable price rather than a cheap one. A PEG of exactly 1.00 says the same thing with fewer words.

Method	Reading	Verdict vs \$111.23
Forward P/E (non-GAAP)	24.6x on a 20%+ grower with a guided 35% FCF margin	Reasonable. Roughly half the multiple it carried through most of its life.
Trailing P/E	69.5x, distorted by SBC and acquisition amortisation	Not the right lens. Ignore the headline.
EV / Sales	7.9x (EV \$116.7B on \$14.73B TTM revenue)	Below its own history; the 2025 peak was materially higher.
EV / FCF	25.5x	Fair for the growth rate. Not a bargain, not stretched.
PEG	1.00 on ~20% consensus EPS growth	Growth priced at par. Neither discount nor premium.
Consensus target	\$140.25 across 49 analysts; consensus Strong Buy	+26% implied upside. The street is more constructive here than it is on most software.

Worth noting what the multiple did *not* do. A beat-and-raise of this quality would, in a normal tape, produce multiple expansion. Instead the forward P/E is roughly flat because the price rise was matched by estimate revisions. The market has taken the numbers and declined to re-rate the story. That is the opportunity, and it is also the risk: it means the AI-disruption discount is still fully applied.

6. Risk Register

Risk	Prob.	Severity	Note
AI agents shrink seat-based revenue faster than consumption offsets	Low-Med	High	Downgraded from Medium. Growth accelerated to 24.5% and renewals hit 98% in the quarter that was meant to expose this. One quarter is not proof, but it is the best evidence available.
Subscription gross margin keeps compressing	Med-High	Medium	Unresolved. FY guide cut to 81% from 81.5% on hyperscaler cost. Invalidation threshold remains sustained compression below 80%.
M&A integration and leverage	Medium	Medium	Elevated. Net cash has become \$1.75B net debt; ROIC of 10.3% sits only 140bps above WACC.
Q3 disappoints on the federal pull-forward	Medium	Med-Low	New. Q2 borrowed on-prem revenue from Q3; the 20.5% Q3 guide already reflects it, but the optics of a decelerating headline could hit sentiment.
Valuation re-rates down on any growth miss	Medium	Medium	24.6x forward leaves less room for a stumble than a value name would. This is not a cheap stock.

Risk	Prob.	Severity	Note
Microsoft bundling / competitive pressure	Medium	Med-High	Structural long-term threat via Copilot distribution. No evidence of erosion in the current renewal data.
US federal budget and public-sector timing	Medium	Low-Med	Cut both ways this quarter: federal strength helped Q2 and takes from Q3. Timing, not demand.
Macro / enterprise software-spend contraction	Low-Med	Medium	Enterprise IT budgets remain sensitive to recession. 98% renewals provide unusual insulation.

7. Sentiment and Technicals

Sentiment is the most constructive it has been in this cycle. Consensus across 49 analysts is Strong Buy with an average target of \$140.25, implying 26% upside — a meaningfully more bullish street than the Hold consensus attached to most de-rated software. Short interest at 5.39% of shares outstanding fell from 59.5 million to 55.7 million shares over the month, so the bears reduced into the print rather than after it. Insider ownership is small at 0.14%, but the CEO's personal purchase into the drawdown earlier in the year remains the relevant alignment signal and has not been reversed.

Technically the stock has repaired the near term without repairing the trend. It trades above the 20-day (\$105.86), 50-day (\$105.62) and 100-day (\$102.27) averages, with MACD at +1.57 over a +0.49 signal and a positive histogram. RSI at 56.5 has room. But the 200-day sits at \$124.92, 11% overhead, and the stock is still 43% below where it was a year ago. Note also the volatility: ATR(14) is \$6.78, or 6.1% of the price, which is exceptionally high for a \$115 billion company. Position sizing matters more here than the directional call.

Indicator	Reading	Interpretation
Price vs 20-day SMA	\$111.23 vs \$105.86	Above (+5.1%) — short-term trend up
Price vs 50-day SMA	\$111.23 vs \$105.62	Above (+5.3%) — medium-term recovered
Price vs 200-day SMA	\$111.23 vs \$124.92	Below (-11.0%) — the long-term downtrend is unrepaired
RSI(14)	56.5	Neutral-constructive. Not extended after a 21% six-day move, which is itself notable.
MACD(12,26,9)	+1.57 / signal +0.49 / hist +1.08	Bullish crossover, widening
ATR(14)	\$6.78 (6.1% of price)	Very high. A 6% daily range is normal for this name; size positions accordingly.
Support / resistance	Support \$105–106, then \$91.53; resistance \$118, then \$125	\$91.53 is the post-earnings low. \$118.36 is the July 29 high. \$124.92 is the 200-day.
Volume	20-day avg 24.4M vs 50-day 27.7M	The recovery came on heavy but declining volume. The capitulation on July 23 traded 49M shares.

Technicals are used here to set entry and stop levels only. They do not override the fundamental case.

8. Investment Scorecard

Category	Score		Prev	Wt	Rationale
Business Quality	9 / 10		9	15%	98% renewals, 8,800+ enterprises, 85%+ of the Fortune 500. Confirmed by the quarter.
Financial Strength	8 / 10		9	12%	Down one. Net cash became \$1.75B net debt on \$6B of acquisition borrowing.
Competitive Advantage	8 / 10		8	13%	Moat intact and widening in security, which is now the fastest-growing top-10 cyber business.

Category	Score		Prev	Wt	Rationale
Management	8 / 10		8	10%	Beat and raised again, third time through the AI score. Guidance credibility is a real asset.
Growth Potential	8 / 10		8	15%	AI ACV past \$1B ahead of pace; offset by the federal pull-forward flattering the headline.
Valuation	6 / 10		6	17%	24.6x forward, unchanged. Estimates rose with the price; the multiple did not expand.
Risk (higher = safer)	6 / 10		5	13%	Up one. The core AI-disruption risk got its cleanest test and the data went the right way.
Technical Setup	7 / 10		6	5%	Up one. Reclaimed the 20/50/100-day averages and held above the post-earnings low.
OVERALL	75 / 100		72	100	Up three. Every point of the increase comes from evidence rather than price: a validated growth thesis and a repaired chart, partly paid for by a levered balance sheet.

Weighting reflects a growth-quality framework: valuation, growth and business quality carry nearly half the weight, risk is weighted heavily because the bear case here is structural, and technicals are capped at 5%.

9. Trade Plan — Recommendation: BUY (reaffirmed)

Parameter	Level / guidance	Change vs July 16
Recommended entry	\$105–115, scaled rather than a single lump	Raised from \$100–108
Ideal buy range	\$100–112; add toward the \$105–106 moving-average cluster	Raised from \$95–110
Cut-loss (thesis break)	Weekly close below \$91 , or renewal rate under 95%, or subscription gross margin sustained below 80%	Raised from \$88–90
Take-profit target 1	\$135 — prior consolidation, just below the \$140.25 consensus	Unchanged
Take-profit target 2	\$160 — base-case fair value and gap-fill	Unchanged
Expected upside	+21% to target 1; +44% to target 2	Down from +25% / +50%
Expected downside	-18% to cut-loss; bear case roughly -20% to -25%	Similar
Risk / reward	~1 : 1.2 to target 1; ~1 : 2.4 to target 2	Compressed from ~1 : 2 to 1 : 3
Holding horizon	2–4 years. This is a compounding thesis, not a trade	Unchanged
Position size	Modest, 2–4% of a diversified growth portfolio; up to 5% on high conviction	Unchanged — a 6.1% ATR argues against sizing up
Next catalyst	Q3 FY26 results, October 28, 2026	New — 87 days out

10. Scenario Analysis

Scenario	Revenue outlook	Earnings / cash flow	Fair value	Prob.
Bull	Subscription growth holds above 20%; AI ACV beats \$1.5B; consumption mix scales and decouples growth from seats	Gross margin stabilises at 81%; operating margin re-expands past 32%; FCF compounds	\$175–215	30%
Base	Growth tapers to 18–20%; AI additive; federal timing normalises	31.5% operating margin and 35% FCF margin held; modest gross-margin drag persists	\$138–158	50%

Scenario	Revenue outlook	Earnings / cash flow	Fair value	Prob.
Bear	Seat erosion resumes and budgets shift to AI infrastructure; growth falls to low teens	Gross margin breaks below 80%; multiple de-rates further on a levered balance sheet	\$82–100	20%

Probability-weighted fair value works out near \$150 against a \$111.23 price, roughly 35% upside, and the bear weighting has been cut from 25% to 20% on the strength of the quarter. The distribution is genuinely asymmetric now in a way it was only arguably so in July, because the specific mechanism the bear case depends on — seat destruction visible in renewals and growth — was tested and did not appear. The bear tail is smaller but it is not gone: it now runs through gross margin and the balance sheet rather than through the top line.

11. Final Verdict

The recommendation is unchanged: Buy, accumulate on weakness. The July report said the thesis would live or die on renewals, AI contract value and gross margin over the following four to eight quarters. One of those quarters has now been played and the scoreboard reads two clear wins and one continued slippage. Subscription growth accelerated to 24.5% in the exact quarter the bears expected the first cracks. Renewals improved to 98%. AI ACV passed a billion dollars ahead of schedule, which converts the AI story from a threat narrative into a revenue line. That is why the score rises from 72 to 75.

Why this is not an upgrade to Strong Buy. Three reasons, and they are not hedges. First, the stock has already moved 21% off the post-earnings low, compressing risk/reward from roughly 1:2.5 to roughly 1:1.2 against the first target; upgrading conviction while the odds worsen would be incoherent. Second, subscription gross margin guidance moved the wrong way again, to 81% from 81.5% — the incumbent's dilemma is showing up in the accounts and has not stabilised. Third, the balance sheet quietly changed character: \$6 billion of acquisition borrowing turned a net cash position into \$1.75 billion of net debt, with ROIC only 140 basis points above the cost of capital. A single excellent quarter does not offset a structural bear case that needs four to eight quarters to disprove.

What would change the view. Upgrade to Strong Buy on either of two developments: two further quarters of cRPO growth at or above 20% with subscription gross margin stabilising at 81% or better, or a pullback into the \$95–100 region that restores a 1:2.5 risk/reward without any deterioration in the operating data. Downgrade on a renewal rate below 95%, Now Assist ACV decelerating rather than compounding, subscription gross margin sustained below 80%, or a weekly close beneath \$91. Until one of those arrives, hold what you have, add on weakness toward \$105, and do not chase strength above \$115.

Sources: Alpha Vantage (GLOBAL_QUOTE and daily OHLCV, close of July 31, 2026); ServiceNow Q2 FY2026 press release and newsroom results announcement (July 22, 2026); ServiceNow Q2 2026 earnings call coverage via Investing.com, Seeking Alpha, GuruFocus and Quartr; StockAnalysis.com statistics and forecast pages; ServiceNow Q1 FY2026 results for the prior-quarter comparison; secondary coverage of the post-earnings price reaction. Technical indicators were computed from the daily series rather than read from third-party summaries; the 200-day average is cited from StockAnalysis because the retrieved series covers 100 sessions. The earnings call transcript itself was not retrieved directly; call detail here comes from published summaries of that call and is described as such. Figures are indicative snapshots as of the report date and will move.

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