



NEWS RELEASE

Moody's upgrades ServiceNow's rating to A3

2023-03-15

Moody's upgrades ServiceNow, stating credit rating and ESG upgrades reflect rapidly growing operating scale and profitability, strong governance practices.business

New York – March 15, 2023 – Moody's Investors Service ("Moody's") upgraded ServiceNow, Inc.'s ("ServiceNow") senior unsecured rating to A3, from Baa1. The ratings outlook is stable. The upgrade reflects ServiceNow's rapidly growing operating scale and profitability and Moody's expectations for conservative financial policies.

Upgrades:

..Issuer: ServiceNow, Inc.

.... Issuer Rating, Upgraded to A3 from Baa1

....Senior Unsecured Regular Bond/Debenture, Upgraded to A3 from Baa1

Outlook Actions:

..Issuer: ServiceNow, Inc.

....Outlook, Remains Stable

RATINGS RATIONALE

Moody's analyst Raj Joshi said, "The A3 rating reflects ServiceNow's large addressable markets, strong product offerings with high revenue retention rates, and our expectations for approximately 24% annual growth in subscription revenues over the next 12 to 24 months." ServiceNow benefits from secular demand for cloud-based software technologies that increase operating efficiencies and enhance user experiences. Governance considerations, specifically, ServiceNow's track record of strong organic growth with increasing profitability and



conservative financial policies, are a key driver of the upgrade. The company's strong performance has been driven by innovation and increasing profitability with effective sales execution. Moody's expects ServiceNow's revenues to surpass \$11 billion and free cash flow of about \$3.5 billion (before taxes paid related to the net share settlement of equity awards) in 2024. ServiceNow has robust liquidity with \$6.4 billion of cash and short- and long-term investments at year-end 2022. Moody's expects total debt to EBITDA (Moody's adjusted) to decline to about 1.8x by the end of 2024, from 2.5x at the end of 2022 (about 1.5x of the increase in leverage ratio at year-end 2022 is attributed to the expensing of stock-based compensation). ServiceNow is the market leader in the IT Service Management software category and Moody's expect its revenues to continue to diversify into a broad range of Information Technology (IT) and non-IT workflows. The company's \$14 billion of Remaining Performance Obligations and gross retention rates of about 98% (based on Annual Contract Values) provide high visibility into its revenues and operating cash flow over the next 12 to 24 months. At the same time, sustaining high growth rates will become incrementally challenging with the growing scale and the increasing overlap of the company's products with competitors.

ServiceNow does not pay common dividends nor has it established a stock repurchase plan. However, its large stock-based compensation expense (\$1.4 billion in 2022) increases dilution of earnings per share, despite the net share settlement of stock-based incentives. Given the company's strong prospective financial profile and cash accretion, Moody's expects ServiceNow's financial policies to evolve over time. The company has ample and growing financial flexibility to accommodate moderate-sized acquisitions or initiate balanced shareholder returns. The A3 rating incorporates Moody's expectation that ServiceNow will maintain low financial leverage and strong cash balances relative to debt, and balance its capital allocation priorities between debt investors, acquisitions, and shareholder returns.

The stable outlook reflects Moody's expectations ServiceNow will maintain or grow its market positions in core workflow markets. Moody's further expects ServiceNow to generate strong free cash flow growth while maintaining strong liquidity and a modestly leveraged capital structure.

ESG considerations (CIS-1) positively influence ServiceNow's credit profile. This reflects the company's strong governance practices (G-1), specifically, management's track record of organic growth from innovation and increasing profitability, and our expectations for low debt levels and strong cash balances. ServiceNow has a neutral-to-low exposure to social and environmental risks.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Moody's could upgrade the ratings if ServiceNow continues to diversify its revenues, maintains strong operating profit growth, and establishes a longer track record of conservative financial strategies with its growing scale and profitability. Although not expected, the rating could be downgraded if revenue growth decelerates meaningfully or

operating margins face sustained pressure. In addition, the rating could be pressured by a shift toward a shareholder-friendly financial policies or large debt-funded acquisitions that substantially erode liquidity and Moody's expects total debt to EBITDA (Moody's adjusted) is likely to be sustained above mid 2x.

ServiceNow, Inc. is a leading provider of software solutions to manage IT, customer and employee workflows that are delivered via its NOW cloud platform.

The principal methodology used in these ratings was Software published in June 2022 and available at <https://ratings.moody.com/api/rmc-documents/389867>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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