



NEWS RELEASE

ServiceNow Reports Financial Results for Second Quarter 2020

2020-07-29

- ServiceNow achieves \$4 billion subscription revenues annual run rate
- Subscription revenues of \$1,016 million in Q2 2020, representing 30% year-over-year growth, 32% adjusted for constant currency
- 40 transactions over \$1 million, including two transactions over \$10 million, in net new annual contract value in Q2 2020
- 964 total customers with over \$1 million in annual contract value

SANTA CLARA, Calif. - July 29, 2020 - ServiceNow (NYSE: NOW), the leading digital workflow company making work, work better for people, today announced financial results for its second quarter ended June 30, 2020, with subscription revenues of \$1,016 million in Q2 2020, representing 30% year-over-year growth, 32% adjusted for constant currency.

During the quarter, ServiceNow closed 40 transactions with more than \$1 million, including two transactions over \$10 million, in net new annual contract value (ACV). The company now has 964 total customers with more than \$1 million in ACV, representing 26% year-over-year growth in customers.

“ServiceNow is leading the workflow revolution, proven by our very strong Q2 results,” said ServiceNow CEO Bill McDermott. “Businesses need to rapidly digitize workflows to deliver great experiences for their customers, employees, and partners. We are the strategic workflow authority helping our customers solve once-in-a-generation challenges and capitalize on the immense opportunities of digital transformation. Every day we are manifesting our purpose — making the world of work, work better for people — on our journey to becoming the defining enterprise software company of the 21st century.”

“In Q2, we achieved our \$4 billion revenues run rate milestone. We exceeded the high end of our subscription revenues and billings guidance, while continuing to drive margin expansion and strong free cash flow,” said ServiceNow CFO Gina Mastantuono. “Our best-in-class renewal rate remained at 97%, and customers continue to expand on the Now Platform, giving us conviction to raise our growth and profitability guidance for the year. I am confident in our ability to deliver our second half.”

During the quarter, ServiceNow continued rapid innovation delivering the capabilities customers need to protect revenue, improve productivity, and ensure business resilience. The company released the Safe Workplace apps and dashboard, designed to help make returning to the workplace work for everyone. This suite has now been downloaded by more than 550 organizations worldwide. ServiceNow also hosted its Knowledge 2020 Digital Experience – its largest ever, creating a global digital broadcast environment to engage nearly double the number of customers and partners from last year. ServiceNow's core business remained very strong. With Now workflows on the Now Platform — the platform of platforms — ServiceNow is accelerating digital transformation for its customers by enabling the consumer-grade workflow experiences that are more important than ever for their employees and customers.

Second Quarter 2020 GAAP and Non-GAAP Results:

The following table summarizes our financial results for the second quarter 2020:

	Second Quarter 2020 GAAP Results		Second Quarter 2020 Non-GAAP Results ⁽¹⁾			
	Amount (\$ millions)	Year/Year Growth (%)	Amount (\$ millions)	Year/Year Growth (%)	Adjusted Amount (\$ millions) ⁽²⁾	Adjusted Year/Year Growth (%)
Subscription revenues	\$1,016	30%			\$1,027	32%
Professional services and other revenues	\$55	5%			\$56	6%
Total revenues	\$1,071	28%			\$1,083	30%
Subscription billings			\$1,018	25%	\$1,033	26%
Professional services and other billings			\$61	13%	\$62	14%

Total billings		\$1,079	24%	\$1,095	26%
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	Amount (\$ millions)	Margin (%)	Amount (\$ millions)	Margin (%)
Subscription gross profit	\$844	83%	\$881	87%
Professional services and other gross profit (loss)	(\$6)	(10%)	\$7	13%
Total gross profit	\$838	78%	\$888	83%
Income from operations	\$62	6%	\$295	28%
Net cash provided by operating activities	\$368	34%		
Free cash flow			\$259	24%

	Amount (\$ millions)	Earnings per Basic/Diluted Share (\$)	Amount (\$ millions)	Earnings per Basic/Diluted Share (\$)
Net income	\$41	\$0.21 / \$0.20	\$243	\$1.27 / \$1.23

We report non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "GAAP to Non-GAAP Reconciliation" for a reconciliation of GAAP to non-GAAP measures.

Non-GAAP adjusted subscription revenues, professional services and other revenues, total revenues and professional services and other billings are adjusted for constant currency. Non-GAAP adjusted subscription billings and total billings are adjusted for constant currency and constant billings duration. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "GAAP to Non-GAAP Reconciliation" for a reconciliation of GAAP to non-GAAP measures.

Note: Numbers rounded for presentation purposes.

Financial Outlook

Our guidance includes GAAP and non-GAAP financial measures.

The following table summarizes our guidance for the third quarter 2020:

	Third Quarter 2020 GAAP Guidance		Third Quarter 2020 Non-GAAP Guidance ⁽¹⁾			
	Amount (\$ millions) ⁽²⁾	Year/Year Growth (%)	Amount (\$ millions) ⁽²⁾	Year/Year Growth (%)	Adjusted Amount (\$ millions) ⁽³⁾	Adjusted Year/Year Growth (%)
Subscription revenues	\$1,055 - \$1,060	26% - 27%			\$1,055 - \$1,060	26% - 27%
Subscription billings			\$995 - \$1,015	15% - 17%	\$1,003 - \$1,023	16% - 18%
Margin (%)						
Income from operations					22%	
			Amount (millions)			
Weighted-average shares used to compute diluted net income per share			199			

We report non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "Reconciliation of Non-GAAP Financial Guidance" for a reconciliation of GAAP to non-GAAP measures.

Guidance for GAAP subscription revenues and non-GAAP subscription billings is based on foreign exchange rates as of June 30, 2020 for entities reporting in currencies other than U.S. Dollars.

Non-GAAP adjusted subscription revenues are adjusted for constant currency. Non-GAAP adjusted subscription billings are adjusted for constant currency and constant billings duration. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "Reconciliation of Non-GAAP Financial Guidance" for a reconciliation of GAAP to non-GAAP measures.

The following table summarizes our guidance for full-year 2020:

	Full-Year 2020 GAAP Guidance		Full-Year 2020 Non-GAAP Guidance ⁽¹⁾			
	Amount (\$ millions) ⁽²⁾	Year/Year Growth (%)	Amount (\$ millions) ⁽²⁾	Year/Year Growth (%)	Adjusted Amount	Adjusted Year/Year

				(\$ millions) ⁽²⁾	Growth (%)	
Subscription revenues	\$4,185 - \$4,200	29%		\$4,210 - \$4,225	29% - 30%	
Subscription billings			\$4,660 - \$4,700	23% - 24%	\$4,702 - \$4,742	24% - 25%
Margin (%)						
Subscription gross profit				86%		
Income from operations				24%		
Free cash flow				29.5%		
Amount (millions)						
Weighted-average shares used to compute diluted net income per share				198		

We report non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "Reconciliation of Non-GAAP Financial Guidance" for a reconciliation of GAAP to non-GAAP measures.

GAAP subscription revenues and non-GAAP subscription billings for the future quarters included in our full-year 2020 guidance are based on foreign exchange rates as of June 30, 2020 for entities reporting in currencies other than U.S. Dollars.

Non-GAAP adjusted subscription revenues are adjusted for constant currency. Non-GAAP adjusted subscription billings are adjusted for constant currency and constant billings duration. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "Reconciliation of Non-GAAP Financial Guidance" for a reconciliation of GAAP to non-GAAP measures.

As with our previously issued full-year 2020 guidance dated April 29, 2020, our guidance factors in assumptions regarding the expected impacts of COVID-19 on our business. This assumes that generally the most significant headwinds would occur in the second and third quarter of 2020, that there will be uncertainty around new business, renewal timing or billings terms, particularly with customers in industries highly affected by COVID-19, and that these economic conditions could persist throughout the remainder of the year. These assumptions are based on information available to us today. Significant variation from these assumptions could cause us to modify our guidance higher or lower.

The following table compares our updated full-year 2020 guidance against our previously issued full-year 2020 guidance dated April 29, 2020:

Comparison of Updated Full-Year 2020 Guidance to Previously Issued Guidance⁽¹⁾
(\$ millions)

	Previous Guidance Midpoint ⁽²⁾	Currency Impact ⁽³⁾	Duration Impact ⁽⁴⁾	Guidance Change	Current Guidance Midpoint ⁽⁵⁾
GAAP subscription revenues	\$4,135	\$19	\$0	\$39	\$4,193
Non-GAAP subscription billings ⁽⁶⁾	\$4,630	\$22	\$0	\$28	\$4,680

Numbers rounded for presentation purposes.

Refers to previously issued full-year 2020 guidance dated April 29, 2020.

GAAP subscription revenues and non-GAAP subscription billings for the future quarters included in our full-year 2020 guidance are based on foreign exchange rates in effect at the end of the current quarter for entities reporting in currencies other than U.S. Dollars. Currency impact represents the sum of (i) the impact of the difference between the actual average rates in the period used to calculate our Q2 2020 actual results and the rates as of March 31, 2020 assumed in our previously issued guidance dated April 29, 2020 plus (ii) the impact of the difference between the exchange rates in effect as of June 30, 2020 assumed in our updated full-year 2020 guidance, and the rates as of March 31, 2020 assumed in our previously issued guidance dated April 29, 2020.

Represents the impact of billings greater than 12 months in excess of guidance assumptions.

Represents the updated full-year 2020 guidance presented in the table above.

We report non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. See the section entitled "Statement Regarding Use of Non-GAAP Financial Measures" for an explanation of non-GAAP measures, and the table entitled "Reconciliation of Non-GAAP Financial Guidance" for a reconciliation of GAAP to non-GAAP measures.

Conference Call Details

The conference call will begin at 2 p.m. Pacific Time (22:00 BST) on July 29, 2020. Interested parties may listen to the call by dialing (833) 513-0567 (Passcode: 3395375), or if outside North America, by dialing (236) 714-2186 (Passcode: 3395375). Individuals may access the live teleconference from this webcast link:

<https://event.on24.com/wcc/r/2399486/795C3DADBA1B185511D571A263A6CCAE>

An audio replay of the conference call and webcast will be available two hours after its completion and will be accessible for 30 days. To hear the replay, interested parties may go to the investor relations section of the

ServiceNow website or dial (800) 585-8367 (Passcode: 3395375), or if outside North America, by dialing (416) 621-4642 (Passcode: 3395375).

Investor Presentation Details

An investor presentation providing additional information and analysis can be found at <http://investors.servicenow.com>.

Statement Regarding Use of Non-GAAP Financial Measures

We report the following non-GAAP financial measures in addition to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

- **Adjusted revenues.** We present revenues adjusted for constant currency to provide a framework for assessing how our business performed excluding the effect of foreign currency rate fluctuations. To present this information, current period results for entities reporting in currencies other than U.S. Dollars (USD) are converted into USD at the average exchange rates in effect during the comparison period (for Q2 2019, the average exchange rates in effect for our major currencies were 1 USD to 0.8899 Euros and 1 USD to 0.7781 British Pound Sterling (GBP)), rather than the actual average exchange rates in effect during the current period (for Q2 2020, the average exchange rates in effect for our major currencies were 1 USD to 0.9083 Euros and 1 USD to 0.8059 GBP). Similarly, in our guidance, we apply the average exchange rates in effect during the comparison period rather than the exchange rates for the guidance period. We believe the presentation of revenues adjusted for constant currency facilitates the comparison of revenues year-over-year.
- **Billings and Adjusted billings.** We believe billings is a useful leading indicator regarding the performance of our business. We define subscription billings, professional services and other billings, and total billings as the applicable revenue plus the applicable change in deferred revenue, unbilled receivables and customer deposits as presented or derived from the statement of cash flows. We adjust billings for constant currency, as described above, and for constant duration by replacing the portion of multi-year billings in excess of twelve months during the current or guidance period with the portion of multi-year billings in excess of twelve months during the comparison period. We believe these adjustments facilitate greater comparability in our billings information year-over-year.
- **Gross profit, Income from operations, Net income and Net income per share - diluted.** Our non-GAAP presentation of gross profit, income from operations, and net income measures exclude certain non-cash or non-recurring items, including stock-based compensation expense, amortization of debt discount and issuance costs related to our convertible senior notes, loss on early note conversions, amortization of

purchased intangibles, legal settlements, business combination and other related costs, and the related income tax effect of these adjustments. The non-GAAP weighted-average shares used to compute our non-GAAP net income per share - diluted excludes the dilutive effect of the in-the-money portion of convertible senior notes as they are covered by our note hedges, and includes the dilutive effect of time-based stock awards, the dilutive effect of warrants and the potentially dilutive effect of our stock awards with performance conditions not yet satisfied at forecasted attainment levels to the extent we believe it is probable that the performance condition will be met. We believe these adjustments provide useful supplemental information to investors and facilitates the analysis of our operating results and comparison of operating results across reporting periods.

- Free cash flow. Free cash flow is defined as net cash provided by (used in) operating activities plus cash paid for legal settlements and repayments of convertible senior notes attributable to debt discount, reduced by purchases of property and equipment. Free cash flow margin is calculated as free cash flow as a percentage of total revenues. We believe information regarding free cash flow and free cash flow margin provides useful information to investors because it is an indicator of the strength and performance of our business operations.

Our presentation of non-GAAP financial measures may not be comparable to similar measures used by other companies. We encourage investors to carefully consider our results under GAAP, as well as our supplemental non-GAAP information and the reconciliation between these presentations, to more fully understand our business. Please see the tables included at the end of this release for the reconciliation of GAAP and non-GAAP results and guidance.

Use of Forward-Looking Statements

This release contains “forward-looking statements” regarding our performance, including but not limited to statements in the section entitled “Financial Outlook.” Forward-looking statements are subject to known and unknown risks and uncertainties and are based on potentially inaccurate assumptions that could cause actual results to differ materially from those expected or implied by the forward-looking statements. If any such risks or uncertainties materialize or if any of the assumptions prove incorrect, our results could differ materially from the results expressed or implied by the forward-looking statements we make.

Factors that may cause actual results to differ materially from those in any forward-looking statements include: (i) the impact and duration of the health impact of COVID-19 and the economic impact of safety measures to mitigate its impact, including the effectiveness, extent and duration of efforts to limit the spread and impact of the disease, such as “shelter in place” and similar government directives; (ii) our ability to compete successfully against existing and new competitors, (iii) our ability to comply with evolving privacy laws, data transfer restrictions, and other foreign and domestic standards related to data and the Internet, (iv) our ability to predict, prepare for and respond

promptly to rapidly evolving technological, market and customer developments, (v) errors, interruptions, delays, or security breaches in or of our service or data centers, (vi) our ability to grow our business, including converting remaining performance obligations into revenue, adding and retaining customers, selling additional subscriptions to existing customers, selling to larger enterprises, government and regulated organizations with complex sales cycles and certification processes, and entering new geographies and markets, (vii) our ability to develop and gain customer acceptance of new and improved products and services, including those acquired through strategic transactions, and (viii) material changes in the value of foreign currencies relative to the U.S. Dollar. Additionally, these forward-looking statements, particularly our guidance, involve risk, uncertainties and assumptions, including those related to the continued impacts of COVID-19 on our business and global economic conditions. Many of these assumptions relate to matters that are beyond our control and changing rapidly, including, but not limited to, the timeframes for and severity of social distancing and other mitigation requirements, the continued impact of COVID-19 on our customers' purchasing decisions and the length of our sales cycles, particularly for customers in certain industries highly affected by COVID-19. Significant variation from the assumptions underlying our forward-looking statements could cause our actual results to vary, and the impact could be significant.

Further information on these and other factors that could affect our financial results are included in our Form 10-Q that will be filed for the quarter ended June 30, 2020 and in other filings we make with the Securities and Exchange Commission from time to time, including our Form 10-K filed for the year ended December 31, 2019.

We undertake no obligation, and do not intend, to update these forward-looking statements, to review or confirm analysts' expectations, or to provide interim reports or updates on the progress of the current financial quarter.

About ServiceNow

ServiceNow (NYSE: NOW) is making the world of work, work better for people. Our cloud-based platform and solutions deliver digital workflows that create great experiences and unlock productivity for employees and the enterprise. For more information, visit: www.servicenow.com.

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ServiceNow Q2 2020 complete financial tables (download PDF)

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