

ServiceNow Reports Fourth Quarter and Full-Year 2020 Financial Results

2021-01-27

- Subscription revenues of \$1,184 million in Q4 2020, representing 32% year-over-year growth, 29% adjusted for constant currency
- Subscription billings of \$1,828 million in Q4 2020, representing 41% year-over-year growth, 38% adjusted for constant currency and duration
- 1,093 total customers with over \$1 million in annual contract value

SANTA CLARA, Calif. - January 27, 2021 - ServiceNow (NYSE: NOW), the leading digital workflow company making work, work better for people, today announced financial results for its fourth quarter ended December 31, 2020, with subscription revenues of \$1,184 million in Q4 2020, representing 32% year-over-year growth.

During the quarter, ServiceNow closed 89 transactions with more than \$1 million in net new annual contract value ("ACV"). The company now has 1,093 total customers with more than \$1 million in ACV, representing 23% year-over-year growth in customers.

"ServiceNow delivered a market leading 2020 and significantly beat expectations across the board," said Bill McDermott, ServiceNow president and CEO. "The secular tailwinds of digital transformation, cloud computing, and business model innovation have all intersected at the perfect moment in time. ServiceNow is the platform for digital business, enabling seamless workflows that create the great experiences people deserve. Now, we are focused on managing the world's greatest workflow challenge: helping convert vaccines into vaccinations. We are changing the world one workflow at a time and are well on our way to becoming the defining enterprise software company of the 21st century."

ServiceNow CFO Gina Mastantuono said, “We delivered another fantastic quarter to cap a very strong 2020, ending the year with nearly \$9 billion in remaining performance obligations. These outstanding results continue to demonstrate ServiceNow’s strong platform and product portfolio, our focus on building deep customer relationships, and commitment to enabling their digital transformations. I’m extremely proud of our team’s performance and their unrelenting execution in a turbulent year. We are well on our way to becoming a \$10 billion revenue company. I’m excited about the opportunities ahead of us in 2021.”

During the quarter, ServiceNow saw continued progress and customer adoption across its IT, Employee, and Customer workflows, as well as with its artificial intelligence (“AI”) and machine learning capabilities. The acquisition of Element AI, which closed in January, brings to ServiceNow a deep bench of world-class technical talent, underscoring our commitment to be the leader in AI-enabled workflows. As ServiceNow continues to innovate to help its customers navigate COVID-19, this week it launched its first vaccine management solution to solve last mile vaccine challenges and drive better healthcare outcomes for people. ServiceNow’s comprehensive approach enables workflow solutions that simplify the complex challenges of vaccine distribution, administration, and monitoring.

Fourth Quarter 2020 GAAP and Non-GAAP Results:

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

| | Fourth Quarter 2020 GAAP Results | | Fourth 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 | \$1,184 | 32% | | | \$1,161 | 29% |
| Professional services and other revenues | \$66 | 26% | | | \$65 | 23% |
| Total revenues | \$1,250 | 31% | | | \$1,226 | 29% |
| Subscription billings | | | \$1,828 | 41% | \$1,796 | 38% |
| Professional services and other billings | | | \$80 | 31% | \$78 | 29% |

| | | | | | | |
|----------------|--|--|---------|-----|---------|-----|
| Total billings | | | \$1,907 | 40% | \$1,874 | 38% |
|----------------|--|--|---------|-----|---------|-----|

| | Amount (\$ millions) | Margin (%) | Amount (\$ millions) | Margin (%) |
|---|-------------------------|------------|-------------------------|------------|
| Subscription gross profit | \$974 | 82% | \$1,009 | 85% |
| Professional services and other gross profit (loss) | | (5%) | \$11 | 16% |
| Total gross profit | \$971 | 78% | \$1,019 | 82% |
| Income from operations | \$18 | 1% | \$276 | 22% |
| Net cash provided by operating activities | \$686 | 55% | | |
| Free cash flow | | | \$565 | 45% |

| | Amount (\$ millions) | Earnings per Basic/Diluted Share (\$) | Amount (\$ millions) | Earnings per Basic/Diluted Share (\$) |
|------------|-------------------------|---|-------------------------|---|
| Net income | \$17 | \$0.09/ \$0.08 | \$235 | \$1.20/ \$1.17 |

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.

Full-Year 2020 GAAP and Non-GAAP Results:

The following table summarizes our financial results for the full-year 2020:

| | Full-Year 2020 GAAP Results | | Full-Year 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 | \$4,286 | 32% | | | \$4,272 | 31% |
| Professional services and other revenues | \$234 | 14% | | | \$233 | 13% |
| Total revenues | \$4,519 | 31% | | | \$4,505 | 30% |
| Subscription billings | | | \$4,982 | 32% | \$4,963 | 31% |
| Professional services and other billings | | | \$247 | 15% | \$246 | 15% |
| Total billings | | | \$5,229 | 31% | \$5,209 | 30% |
| | Amount (\$ millions) | Margin (%) | Amount (\$ millions) | Margin (%) | | |
| Subscription gross profit | \$3,555 | 83% | \$3,689 | 86% | | |
| Professional services and other gross profit (loss) | (\$23) | (10%) | \$29 | 12% | | |
| Total gross profit | \$3,532 | 78% | \$3,718 | 82% | | |
| Income from operations | \$199 | 5% | \$1,121 | 25% | | |
| Net cash provided by operating activities | \$1,787 | 39% | | | | |
| Free cash flow | | | \$1,449 | 32% | | |
| | Amount (\$ millions) | Earnings per Basic/Diluted Share (\$) | Amount (\$ millions) | Earnings per Basic/Diluted Share (\$) | | |
| Net income | \$119 | \$0.61/ \$0.59 | \$926 | \$4.79/ \$4.63 | | |

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Financial Outlook

ServiceNow will provide forward-looking guidance in connection with this quarterly announcement on its earnings conference call and webcast, and it will introduce current remaining performance obligations (“cRPO”) as a new guidance metric for Q1 2021.

Conference Call Details

The conference call will begin at 2 p.m. Pacific Time (22:00 GMT) on January 27, 2021. Interested parties may listen to the call by dialing (833) 513-0567 (Passcode: 7862176), or if outside North America, by dialing (236) 714-2186 (Passcode: 7862176). Individuals may access the live teleconference from this webcast link:

<https://event.on24.com/wcc/r/2924209/3989884C5B58ED139BE2D9AE3152B4D5>

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: 7862176), or if outside North America, by dialing (416) 621-4642 (Passcode: 7862176).

Investor Presentation Details

An investor presentation providing additional information, including forward-looking guidance, 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 Q4 2019, the average exchange rates in effect for our major currencies were 1 USD to 0.90 Euros and 1 USD to 0.78 British Pound Sterling (“GBP”), rather than the actual average exchange rates in effect during the current period (for Q4 2020, the average exchange rates in effect for our major currencies were 1 USD to 0.84 Euros and 1 USD to 0.76 GBP). We believe the presentation of revenues adjusted for constant currency facilitates the comparison of revenues year-over-year.
- **Billings and Adjusted billings.** 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 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. We believe billings is one indicator of the performance of our business.
- **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.

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 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 timing of headwinds from COVID-19, the

continued impact of COVID-19 on new or existing customers' purchasing decisions and the length of our sales cycles, renewal timing or billings terms, 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 for the quarter ended September 30, 2020 and in other filings we make with the Securities and Exchange Commission from time to time, including our Form 10-K that will be filed for the year ended December 31, 2020.

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 Q4 and Full-Year 2020 complete financial tables (download PDF)

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