

servicenow

NYSE : NOW

## OUR TEAM

Carol Fuss

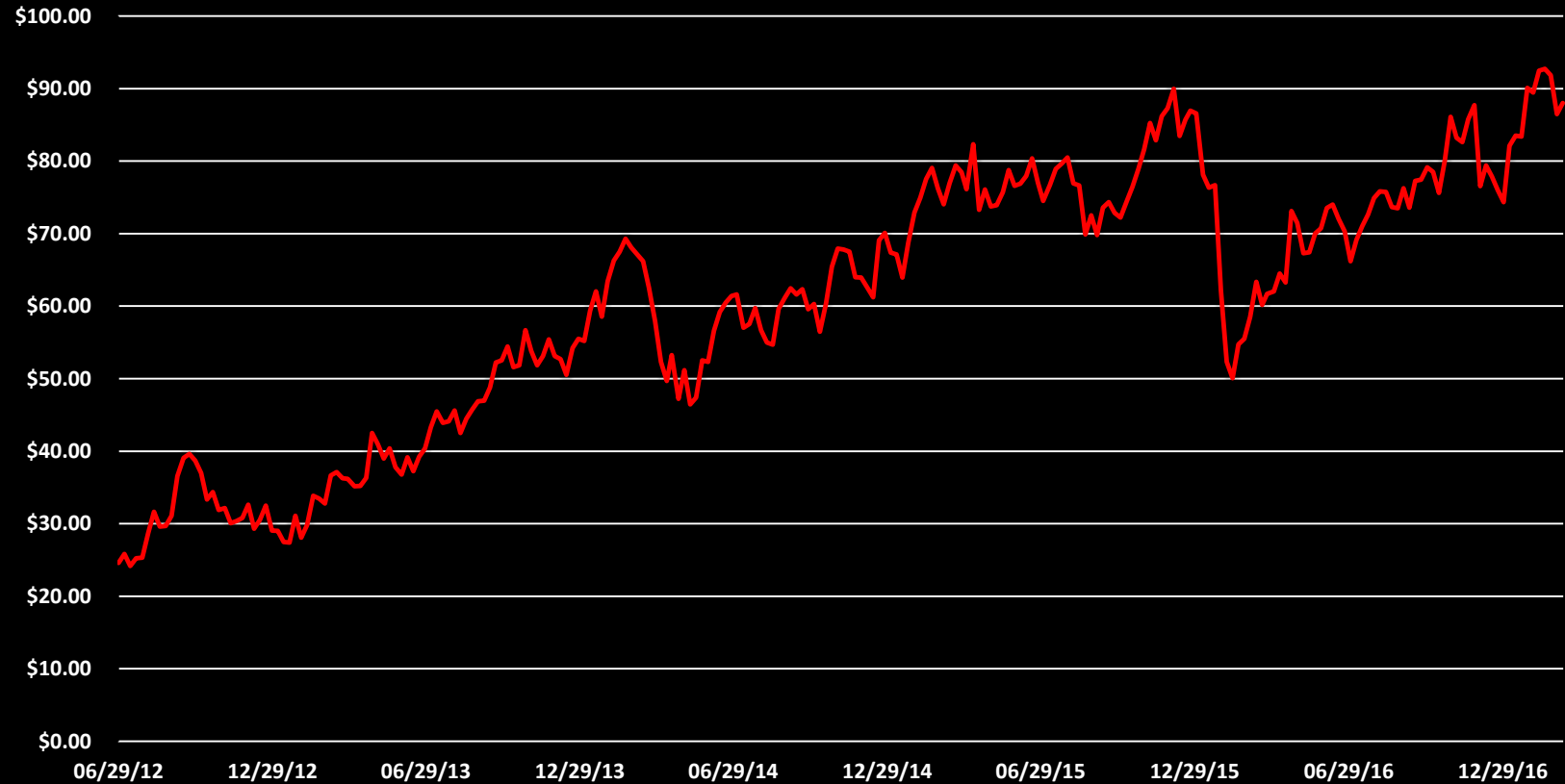
Matthew Yardley



## OUTLINE

- **ServiceNow Overview**
- **Enterprise Cloud Computing**
- **Strengths and Strategy**
- **Growth Opportunities**
- **Risk Analysis**
- **Financial Analysis**
- **Valuation**
- **Our Recommendation**

# PRICE HISTORY



# SERVICENOW PLATFORM

Service Management System Administrator

Filter navigator

Change Requests **New** Go to: Number Search

All > Active = true

|                          | Number                     | Short description  | Approval          | Type   | State     | Planned start date  | Planned end date    | Assigned to                          |
|--------------------------|----------------------------|--|-------------------|--------|-----------|---------------------|---------------------|--------------------------------------|
| <input type="checkbox"/> | <a href="#">CHG0000001</a> | Rollback Oracle Version  | Requested         | Normal | New       | 2015-09-03 16:00:00 | 2015-09-03 18:00:00 | <a href="#">ITIL User</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000004</a> | Upgrade to Oracle 11i  | Not Yet Requested | Normal | Review    | 2015-09-04 00:00:00 | 2015-09-04 06:00:00 | <a href="#">ITIL User</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000005</a> | Install new PBX  | Approved          | Normal | Implement | 2015-09-07 00:00:00 | 2015-09-10 16:46:31 | <a href="#">David Loo</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000006</a> | Put another 100 Gb drive on the 2nd Floor Server                       | Not Yet Requested | Normal | Scheduled | 2015-09-11 23:00:00 | 2015-09-11 23:45:00 | <a href="#">ITIL User</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000007</a> | R&D wants to know what it'd cost to switch them over to Linux desktops | Rejected          | Normal | Authorize | 2015-09-12 16:00:00 | 2015-09-12 20:00:00 | <a href="#">ITIL User</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000008</a> | Install new Cisco  | Requested         | Normal | Authorize | 2015-09-09 12:30:00 | 2015-09-09 17:30:00 | <a href="#">ITIL User</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000009</a> | Apply patches 10.2.0.1 to 10.2.0.3                                     | Approved          | Normal | New       | 2015-09-07 03:00:00 | 2015-09-07 08:00:15 | <a href="#">Bow Ruggeri</a>          |
| <input type="checkbox"/> | <a href="#">CHG0000010</a> | Java Application Server change   | Approved          | Normal | New       | 2015-10-02 03:00:00 | 2015-10-02 08:00:00 | <a href="#">Don Goodliffe</a>        |
| <input type="checkbox"/> | <a href="#">CHG0000011</a> | Another Java Application Server change                                 | Approved          | Normal | New       | 2016-04-16 03:00:00 | 2016-04-17 06:00:00 | <a href="#">David Loo</a>            |
| <input type="checkbox"/> | <a href="#">CHG0000012</a> | Java App Server  | Approved          | Normal | New       | 2016-04-08 18:00:00 | 2016-04-08 20:00:00 | <a href="#">Charlie Whitherspoon</a> |
| <input type="checkbox"/> | <a href="#">CHG0000013</a> | Oracle FLX (Java App Dependency)                                       | Approved          | Normal | New       | 2016-04-17 12:00:00 | 2016-04-17 14:00:00 | <a href="#">Fred Luddy</a>           |
| <input type="checkbox"/> | <a href="#">CHG0000014</a> | CMS App FLX (depends on Java Apps FLX)                                 | Approved          | Normal | New       | 2016-04-19 01:00:00 | 2016-04-19 02:59:59 | <a href="#">Christen Mitchell</a>    |

servicenow

# ENTERPRISE SOFTWARE INDUSTRY

servicenow

workday

ca technologies

salesforce

servicenow

## MARKET CAPITALIZATION

servicenow

\$14.6B

\$20B

workday

\$13.2B

\$50.7B

ca technologies

salesforce

servicenow

## TOPLINE GROWTH

servicenow

workday

38.3%

35%

(5.56%)

25.9%

ca technologies

salesforce

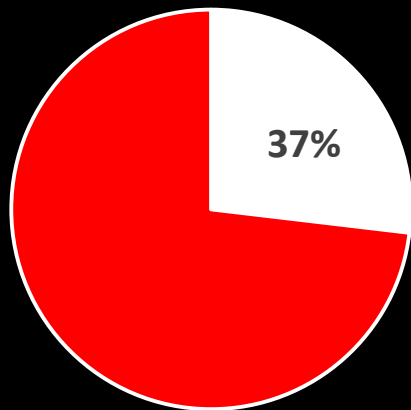
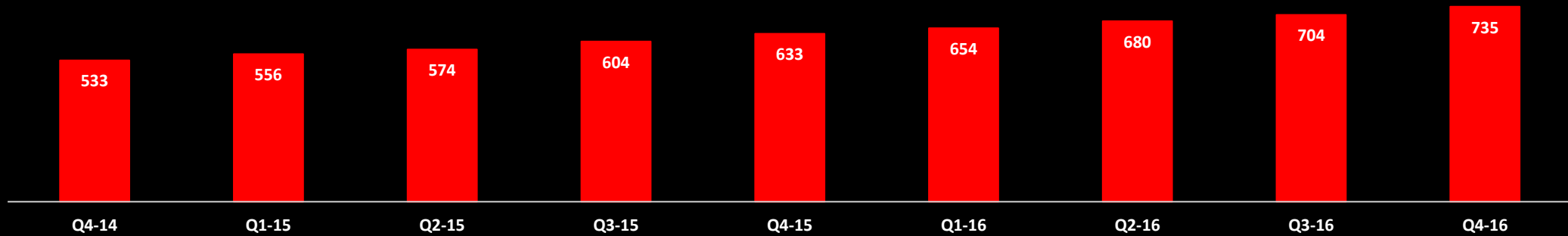
## STRENGTHS & OPPORTUNITIES

- SaaS Business Model
- First Movers and Industry Pioneers
- Dedicated Business Units
- Ready Made Platform

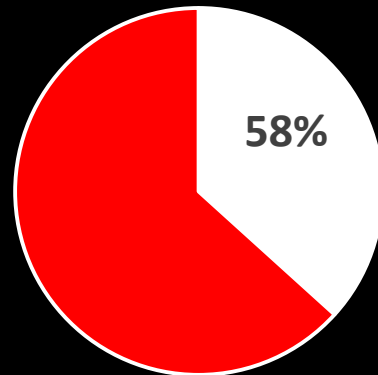
## GROWTH OPPORTUNITIES

- **Forbes Global 2,000 (G2K)**
- **Upsells**
- **Renewal Rates**
- **Emerging Product Mix**
- **Multi-Product Customer**
- **Research & Development**

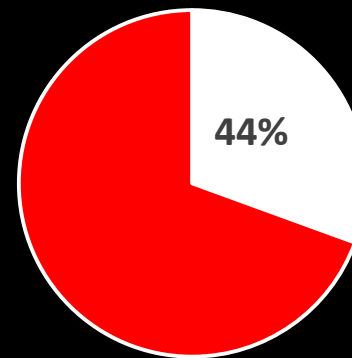
# G2K PENETRATION



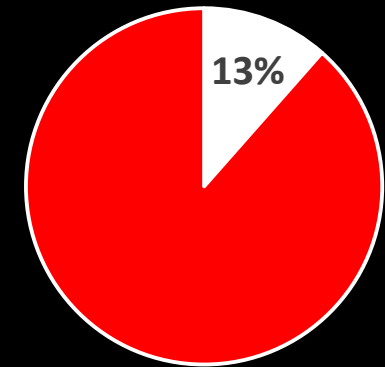
G2K Penetration



North America



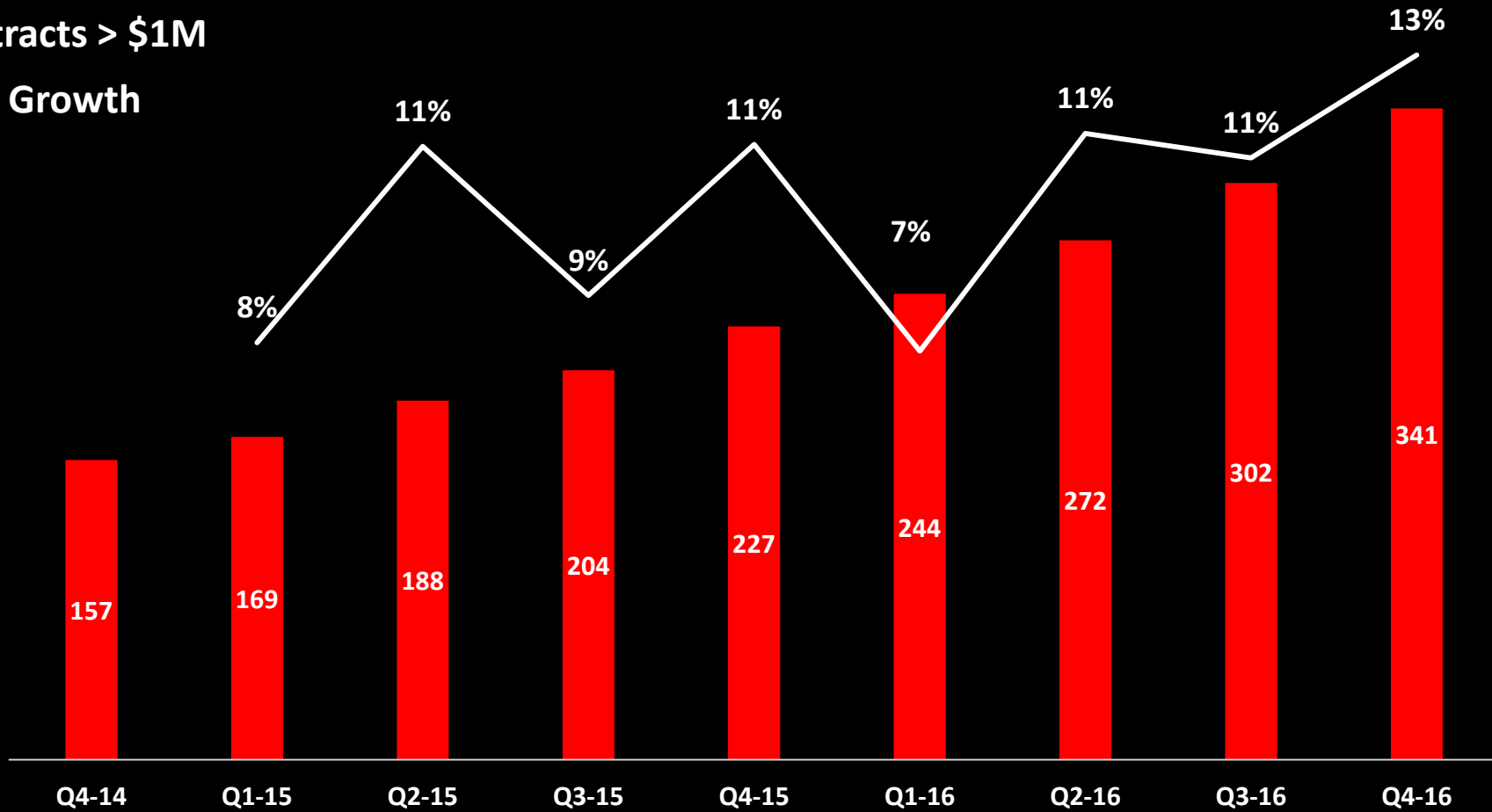
EMEA



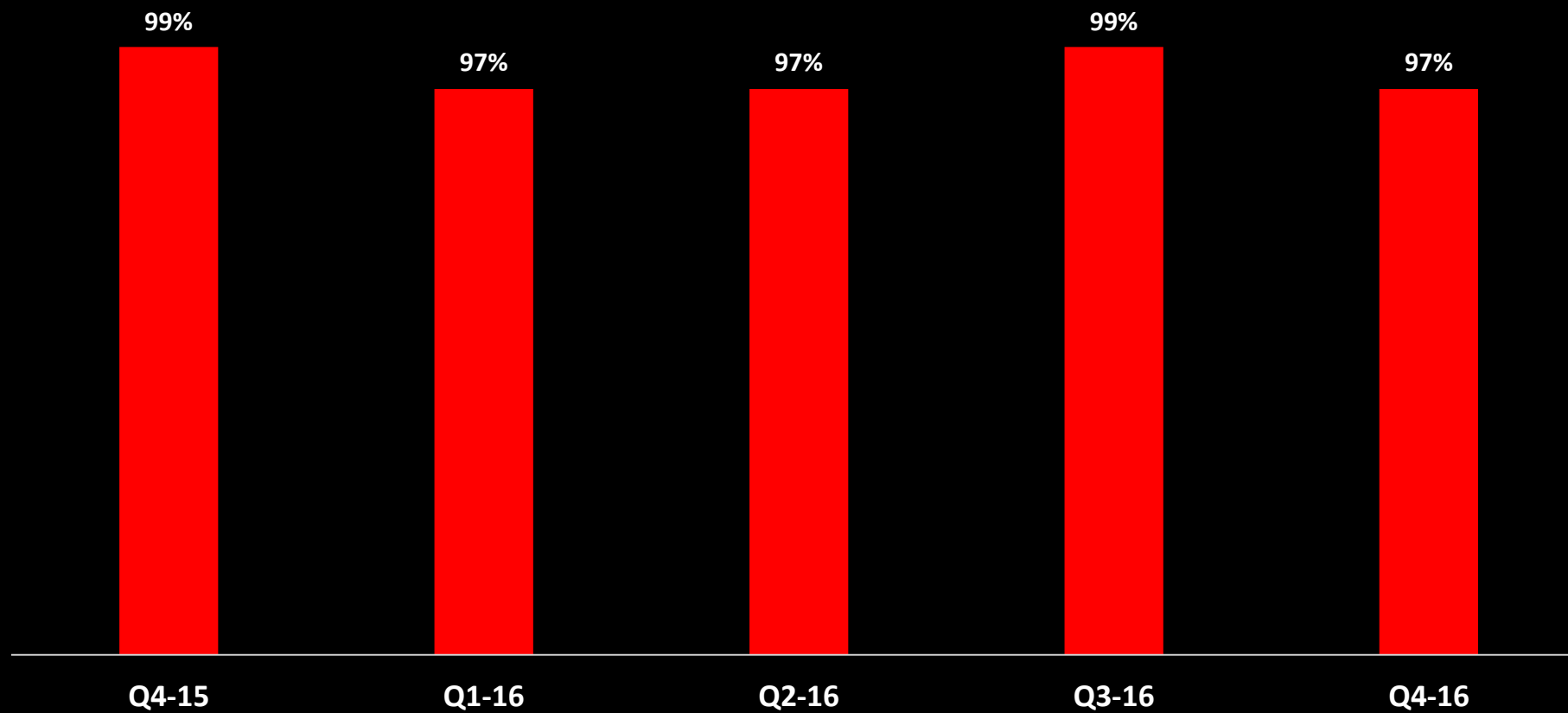
APAC & Other

# UPSELLS

█ Contracts > \$1M  
— Q/Q Growth

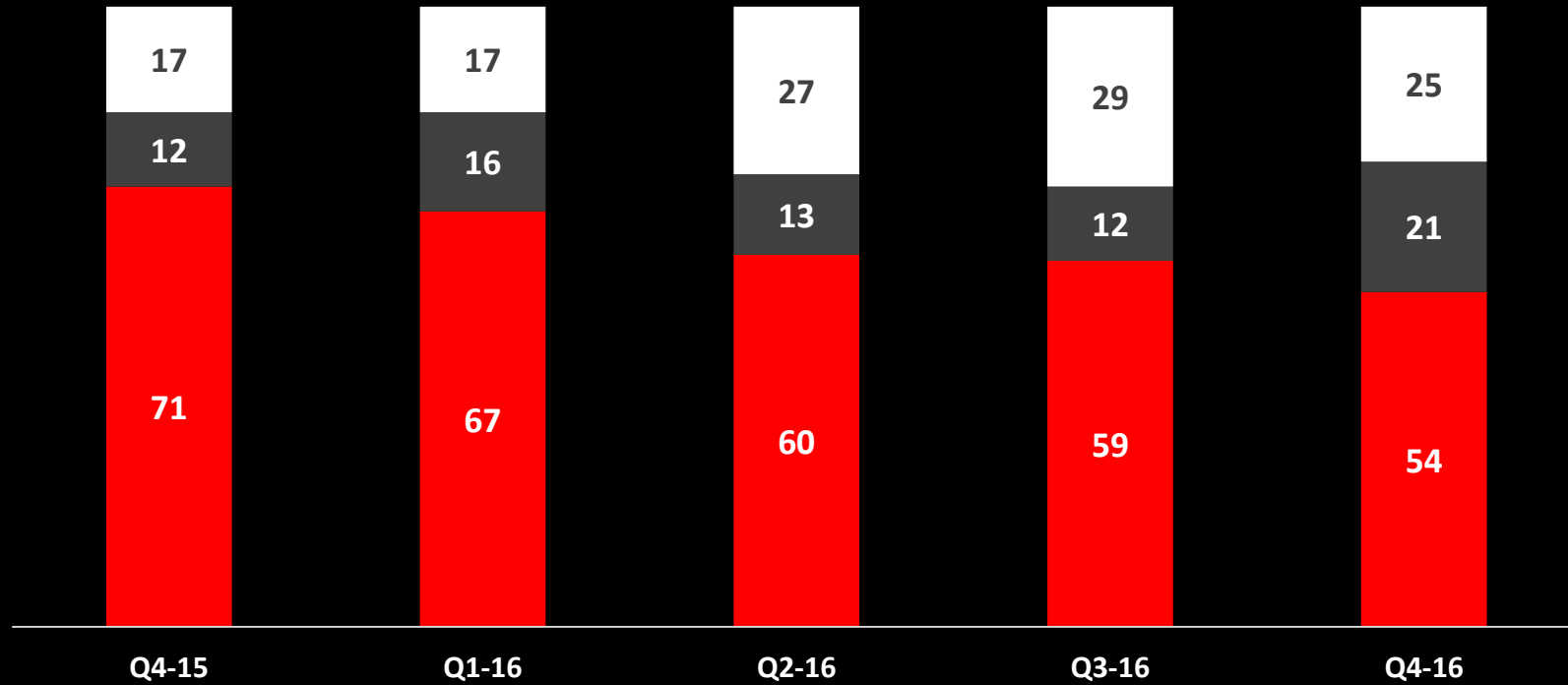


## RENEWAL RATE



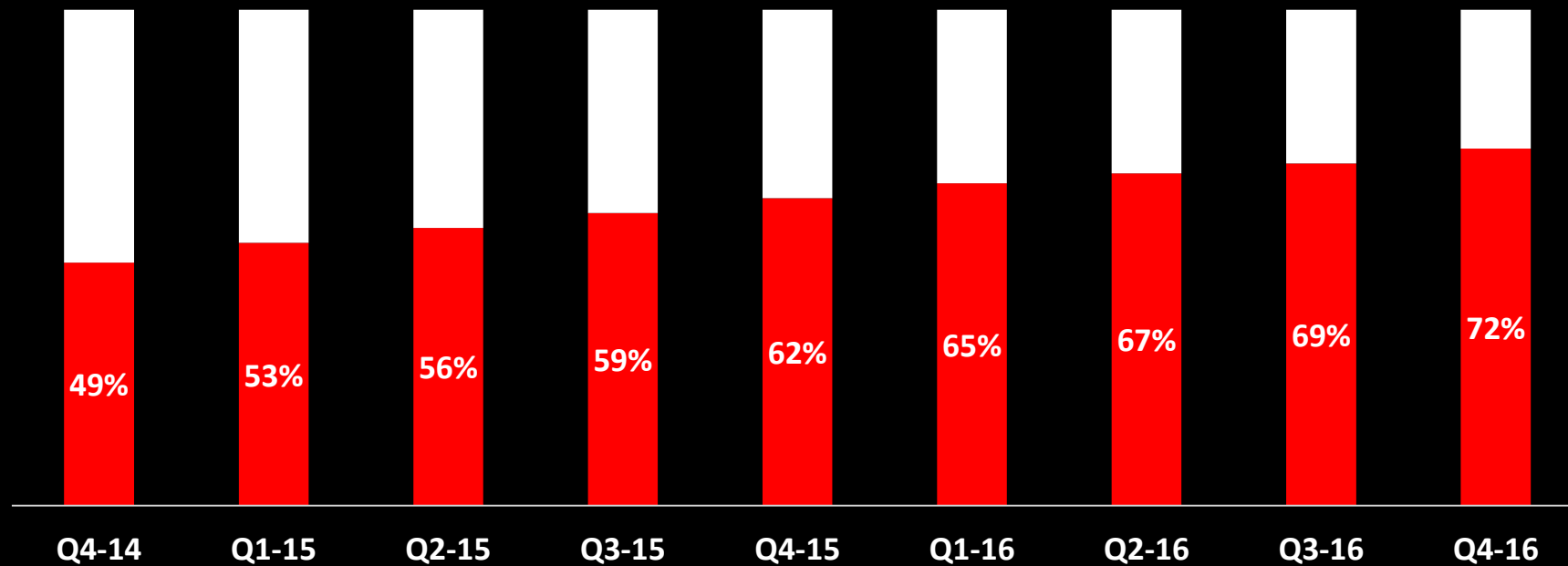
# PRODUCT MIX

■ Service Management ■ ITOM ■ Other



# MULTI PRODUCT CUSTOMERS

■ Multi-Product Customers   ■ Single-Product Customers



## RESEARCH & DEVELOPMENT

| <i>in thousands</i> | FYE 14  | FYE 15    | FYE 16    |
|---------------------|---------|-----------|-----------|
| <b>Revenue</b>      | 682,563 | 1,005,480 | 1,390,513 |
| <b>R&amp;D</b>      | 148,258 | 217,389   | 285,239   |
| <b>% Sales</b>      | 22%     | 22%       | 21%       |

## KEY RISKS

- **Cyber Security**
- **Convertible Debt**
- **Management Turnover**
- **Operational History of New Products**
- **Patents**
- **Exchange Rates**

# CYBER SECURITY

## BrightPoint Security

The screenshot displays the BrightPoint Security interface. On the left is a navigation sidebar with icons for Home, Reporting, Trusted Circles, Local Query, and Intelligence. The main content area is titled 'Emerging Threats' and contains two data tables.

**Top Threat Change - 5 days**

| Score | Indicator     | Timeline | Score | Indicator     | Timeline |
|-------|---------------|----------|-------|---------------|----------|
| ↑ 7   | 114.80.246... | ↑        | ↓ 1   | 222.186.21... | ↘        |
| ↑ 7   | 218.87.111... | ↘        | ↓ 4   | 92.30.65.2... | ↘        |
| ↓ 1   | 43.229.53.38  | ↘        | ↑ 7   | 221.235.18... | ↗        |
| ↑ 6   | 2.0.0.6       | ↗        | ↑ 5   | 80.82.78.12   | ↗        |
| ↑ 7   | 1.9.2.28      | ↗        | ↓ 1   | 61.30.65.218  | ↘        |
| ↑ 4   | 195.98.86.80  | ↗        | ↓ 3   | 93.174.95.81  | ↘        |
| ↑ 4   | 198.20.69.98  | ↑        | ↓ 1   | 192.168.1...  | ↘        |
| ↑ 4   | 46.8.127.6    | ↑        | ↓ 1   | 107.170.24... | ↘        |
| ↓ 1   | 218.65.30.61  | ↘        | ↑ 4   | 219.138.60... | ↑        |
| ↓ 4   | 92.30.65.218  | ↘        | ↓ 1   | 162.243.15... | ↘        |

**Emerging Threats**

| Score | Indicator     | Timeline | Score | Indicator     | Timeline |
|-------|---------------|----------|-------|---------------|----------|
| 2     | 121.205.24... | ↘        | 3     | 64.62.250.38  | ↘        |
| 5     | 92.222.237... | ↘        | 10    | 120.43.4.41   | ↘        |
| 1     | 91.200.12.27  | ↘        | 4     | 31.169.64...  | ↘        |
| 2     | 110.85.71.79  | ↘        | 7     | 91.200.12.14  | ↘        |
| 6     | 110.85.115... | ↘        | 4     | 198.74.100... | ↘        |
| 1     | 58.206.126... | ↘        | 6     | 96.43.81.98   | ↘        |
| 2     | 146.185.20... | ↘        | 9     | 222.186.56... | ↘        |
| 5     | 179.43.159... | ↘        | 8     | 198.74.100... | ↘        |
| 2     | 188.143.23... | ↘        | 5     | 176.8.88.179  | ↘        |
| 4     | 112.217.17... | ↘        | 4     | 146.185.20... | ↘        |

## MANAGEMENT TURNOVER



**Frank Slotman CEO**



**John Donahoe  
Designated CEO**

## CONVERTIBLE DEBT

- Expires November 2018
- Cash, Stock, Combination
- Selective Scenarios for Pre Conversion

# DEBT SCENARIOS

## Capital Structure Assumptions

| Case                          | 1                          | 2              | 3   | Active Case<br>3   |
|-------------------------------|----------------------------|----------------|---|--|
| <i>Description</i>            | <i>please don't delete</i> | <i>No deal</i> | <i>Refinance w/ \$600.0 Convertible, \$100.0 Sr Sub</i> | <i>Refinance w/ \$600.0 Convert. Notes, \$0.0 High Yield</i> |
| <b>Sources of Funds</b>       |                            |                |   |  |
| Excess Cash                   | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Sr. Convertible Notes     | 0.0                        | 100.0          | 600.0   | 600.0  |
| New Revolver                  | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Term Loan                 | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Sr. Sub. Notes            | 0.0                        | 600.0          | 0.0   | 0.0  |
| <b>Total Sources</b>          | <b>0.0</b>                 | <b>700.0</b>   | <b>600.0</b>  | <b>600.0</b>   |
| <b>Uses of Funds</b>          |                            |                |   |  |
| Fund Cash B/c.                | 0.0                        | 679.0          | 582.0   | 582.0  |
| Repay Revolver                | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Term Loan               | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Sr. Sub. Notes          | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Sr. Sub. Notes          | 0.0                        | 0.0            | 0.0   | 0.0  |
| Term Loan Fee                 | 0.0                        | 0.0            | 0.0   | 0.0  |
| Sr. Sub. Fee                  | 0.0                        | 18.0           | 0.0   | 0.0  |
| Sr. Convertible Fee           | 0.0                        | 3.0            | 18.0  | 18.0   |
| <b>Total Uses</b>             | <b>0.0</b>                 | <b>700.0</b>   | <b>600.0</b>  | <b>600.0</b>   |
| <b>Triggers</b>               |                            |                |   |  |
| Term Loan Financing Fee       | 2.5%                       | 2.5%           | 2.5%  | 2.5%   |
| Sr. Notes. Financing Fee      | 3.0%                       | 3.0%           | 3.0%  | 3.0%   |
| Sr. Convertible Financing Fee | 3.0%                       | 3.0%           | 3.0%  | 3.0%   |
| Term Loan Rate                | 8.5%                       | 8.5%           | 8.5%  | 8.5%   |
| Sr. Subs. Coupon              | 11.0%                      | 11.0%          | 11.5%   | 11.5%  |
| Sr. Convertible Coupon        | 1.0%                       | 1.0%           | 1.0%  | 1.0%   |

# VALUATION

- Financial Analysis
- DCF
- Comparables
- Multiples

# FINANCIAL ANALYSIS

| <u>Revenue Growth</u> | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case       | 47.3%     | 38.3%     | 36.0%     | 33.5%     | 28.0%     | 25.0%     | 18.5%     |
| Base Case             |           |           | 36.0%     | 33.5%     | 27.0%     | 23.0%     | 18.0%     |
| Downside Case         |           |           | 36.0%     | 33.5%     | 25.0%     | 22.0%     | 17.0%     |

| <u>SG&amp;A % of Sales</u> | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case            | 83.8%     | 82.3%     | 80.0%     | 77.0%     | 74.0%     | 70.0%     | 65.0%     |
| Base Case                  |           |           | 80.0%     | 78.0%     | 75.0%     | 72.0%     | 66.0%     |
| Downside Case              |           |           | 80.0%     | 79.0%     | 77.0%     | 73.0%     | 68.0%     |

| <u>Capex</u>    | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case | 89.2      | 128.4     | 134.6     | 163.0     | 207.9     | 234.6     | 250.1     |
| Base Case       |           |           | 138.6     | 169.0     | 213.9     | 240.6     | 256.1     |
| Downside Case   |           |           | 138.6     | 175.0     | 219.9     | 246.6     | 262.1     |

# FINANCIAL ANALYSIS

## Key Ratios and Projections

|              | <b>EBITDA<br/>Margin</b> | <b>EBIT<br/>Margin</b> | <b>Diluted EPS<br/>(\$)</b> |
|--------------|--------------------------|------------------------|-----------------------------|
| <b>2016A</b> | <b>(24%)</b>             | <b>(30%)</b>           | <b>(\$2.68)</b>             |
| <b>2017E</b> | <b>(3%)</b>              | <b>(8%)</b>            | <b>(\$1.12)</b>             |
| <b>2018E</b> | <b>0%</b>                | <b>(5%)</b>            | <b>(\$0.96)</b>             |
| <b>2019E</b> | <b>4%</b>                | <b>(2%)</b>            | <b>(\$0.64)</b>             |
| <b>2020E</b> | <b>8%</b>                | <b>2%</b>              | <b>\$0.19</b>               |
| <b>2021E</b> | <b>13%</b>               | <b>7%</b>              | <b>\$1.04</b>               |

# FINANCIAL ANALYSIS

| (M)        | 2017E   | 2018E   | 2019E   | 2020E   | 2021E   |
|------------|---------|---------|---------|---------|---------|
| Cash       | 862.4   | 1,014.7 | 1,169.0 | 1,504.7 | 1,986.7 |
| Assets     | 2,176.8 | 2,565.0 | 2,966.9 | 3,573.0 | 4,271.0 |
| Debt       | 507.8   | 600.0   | 600.0   | 600.0   | 600.0   |
| Net Income | (192.0) | (165.8) | (109.4) | 31.9    | 179.2   |
| Equity     | 195.0   | 29.2    | (80.2)  | (48.3)  | 130.9   |

## DCF

- **WACC 15.36%**
- **Terminal Growth Rate 13.5%**
- **Tax Rate 40%**
- **Terminal Value \$14.8B**

### Summary DCF Valuation (PreDeal)

|                          |            |
|--------------------------|------------|
| DCF Enterprise Value     | \$15,441.4 |
| Less: Net Debt (PreDeal) | 391.6      |
|                          | -----      |
| Equity Value             | 15,833.0   |
| Shares (PreDeal)         | 167.40     |
| DCF Value per Share      | \$94.58    |

## DCF WITH CONVERTIBLE DEBT

### Summary DCF Valuation (PreDeal)

|                                 |            |
|---------------------------------|------------|
| DCF Enterprise Value            | \$15,441.4 |
| Less: Net Debt (PreDeal)        | 391.6      |
|                                 | -----      |
| Equity Value                    | 15,833.0   |
| Shares (PreDeal)                | 175.20     |
| DCF Value per Share Convertible | \$90.37    |
| DCF Value per Share Normal      | \$94.58    |
| % Change in Price               | (4.45%)    |

## DCF SENSITIVITIES

### DCF Value per Share

| Terminal Growth | 14.9%   | 15.4%   | 15.9%   |
|-----------------|---------|---------|---------|
| 13.0%           | \$93.80 | \$74.06 | \$61.12 |
| 13.2%           | 108.78  | 83.00   | 67.01   |
| 13.5%           | 129.83  | 94.58   | 74.28   |
| 13.8%           | 161.54  | 110.18  | 83.47   |
| 14.1%           | 214.79  | 132.33  | 95.45   |

# MULTIPLES

|            | EV/Sales | Implied EV | Net Debt | Market Cap       | Price   |
|------------|----------|------------|----------|------------------|---------|
| Workday    | 9.8      | 13,626.9   | (391.6)  | 14,018.5         | \$83.74 |
| Salesforce | 7.0      | 9,733.5    | (391.6)  | 10,125.1         | \$60.48 |
| Average    | 8.4      | 11,680.3   | (391.6)  | 12,071.9         | \$72.11 |
|            |          |            |          | Weighted Average | \$79.09 |

# TARGET PRICE

|                       | Share Price   |
|-----------------------|---------------|
|                       | Implied Price |
| DCF Management        | 94.58         |
| DCF Base Case         | 79.88         |
| DCF Downside          | 63.72         |
| Workday EV/Sales      | 83.74         |
| Salesforce EV/Sales   | 60.48         |
| Workday Price/Book    | 33.75         |
| Salesforce Price/Book | 18.26         |
| Weighted Average      | \$88.10       |

## WHY IS SERVICENOW A HOLD?

- International Expansion G2K
- R&D
- Strategic Partnerships
- Cyber Security
- Patents
- Management

# APPENDIX:

## MAIN SLIDES

- [PRICE HISTORY](#)
- [PLATFORM](#)
- [INDUSTRY MRKT CAP](#)
- [TOPLINE GROWTH](#)
- [STENGTHS](#)
- [GROWTH OPPS](#)
- [G2K](#)
- [UPSELLS](#)
- [RENEWALS](#)
- [PRODUCT MIX](#)
- [MULTI-PROD CUST.](#)
- [R&D](#)
- [KEY RISKS](#)
- [CYBER SECURITY](#)
- [MANAGEMENT](#)
- [CONVERTIBLE DEBT](#)
- [FINANCIAL ANALYSIS](#)
- [DCF](#)
- [SENSITIVITIES](#)
- [MULTIPLES](#)
- [TARGET PRICE](#)
- [WHY HOLD?](#)

## FINANCIALS

- [IS MANAGEMENT](#)
- [BS MANAGEMENT](#)
- [CF MANAGEMENT](#)
- [WACC](#)
- [DCF MANAGEMENT](#)
- [DCF BASE CASE](#)
- [DCF DOWNSIDE](#)
- [SENSITIVITIES MANAGEMENT](#)
- [SENSITIVITIES BASE CASE](#)
- [SENSITIVITIES DOWNSIDE](#)
- [DEBT SCENARIOS](#)

## COMPARABLE COMPANIES

- [CA, INC.](#)
- [WORKDAY, INC.](#)
- [SALESFORCE.COM, INC.](#)

## OTHER

- [KEY ASSUMPTIONS](#)
- [INSTITUTIONAL HOLDERS](#)

# INCOME STATEMENT



## INCOME STATEMENTS

|  | Pro Forma | Projected |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
|  | H1        | P1        | P2        | P3        | P4        | P5        |
| <b>Revenues</b>                                |           |           |           |           |           |           |
| Subscription                                   | \$1,221.6 | \$1,626.3 | \$2,171.2 | \$2,779.1 | \$3,473.9 | \$4,116.5 |
| Professional Services and other                | 168.9     | 264.8     | 353.4     | 452.4     | 565.5     | 670.1     |
| COGS   | 398.7     | 533.4     | 709.2     | 907.7     | 1122.9    | 1344.9    |
| <b>Gross Profit</b>                            | 991.8     | 1,357.7   | 1,815.4   | 2,323.8   | 2,916.5   | 3,441.8   |
| <b>SG&amp;A</b>                                | 1,414.6   | 1,512.9   | 1,943.9   | 2,391.3   | 2,827.6   | 3,111.3   |
| <b>EBIT</b>                                    | (422.8)   | (155.2)   | (128.6)   | (67.5)    | 89.0      | 330.4     |
| <i>Interest &amp; Other Expense / (Income)</i> |           |           |           |           |           |           |
| Revolver                                       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Term Loan                                      | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Sr. Sub. Notes                                 | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| Sr. Convertible Notes                          | 33.3      | 35.6      | 35.6      | 36.0      | 36.0      | 36.0      |
| <b>Total Interest Expense</b>                  | 33.3      | 35.6      | 35.6      | 36.0      | 36.0      | 36.0      |
| <b>Interest Income</b>                         | (6.0)     | (9.0)     | (8.6)     | (4.3)     | (5.8)     | (10.1)    |
| <b>Financing Costs Amortization</b>            | 5.2       | 5.2       | 5.2       | 5.2       | 5.2       | 5.2       |
| <b>Pretax Income</b>                           | (455.3)   | (187.0)   | (160.8)   | (104.4)   | 53.5      | 299.4     |
| <b>Income Taxes</b>                            | 5.0       | 5.0       | 5.0       | 5.0       | 21.6      | 120.1     |
| <b>Foreign Currency Translation</b>            | (4.8)     | 0.0       | 0.0       | 0.0       | 0.0       | 0.0       |
| <b>Net Income</b>                              | (460.3)   | (192.0)   | (165.8)   | (109.4)   | 31.9      | 179.2     |
| <b>Shares Outstanding</b>                      | 167.40    | 167.40    | 167.40    | 167.40    | 167.40    | 167.40    |
| <b>Earnings per Share (EPS)</b>                | (\$2.75)  | (\$1.15)  | (\$0.99)  | (\$0.65)  | \$0.19    | \$1.07    |

## BALANCE SHEETS



## BALANCE SHEET

|                                  | Actual           |                  | 12/31/P2         | Incr./<br>(Decr.) | ProFma<br>12/31/P2 | Projected        |                  |                  |
|----------------------------------|------------------|------------------|------------------|-------------------|--------------------|------------------|------------------|------------------|
|                                  | 12/31/P1         | 12/31/P1         |                  |                   |                    | 12/31/P3         | 12/31/P4         | 12/31/P5         |
| <b>ASSETS:</b>                   |                  |                  |                  |                   |                    |                  |                  |                  |
| Cash                             | 899.4            | 862.4            | 432.7            | 582.0             | 1,014.7            | 1,169.7          | 1,504.7          | 1,986.7          |
| Accounts Receivable              | 322.8            | 439.0            | 586.1            | --                | 586.1              | 750.2            | 937.7            | 1,111.2          |
| Deferred Commissions CP          | 76.8             | 104.4            | 139.4            | --                | 139.4              | 178.5            | 223.1            | 264.4            |
| Prepaid Expenses                 | 43.6             | 58.3             | 77.6             | --                | 77.6               | 99.3             | 122.8            | 147.1            |
| Current Assets                   | 1,341.1          | 1,464.2          | 1,235.7          | 582.0             | 1,817.7            | 2,197.6          | 2,788.3          | 3,509.4          |
| Other assets                     | 324.6            | 324.6            | 324.6            | --                | 324.6              | 324.6            | 324.6            | 324.6            |
| PP&E - Net                       | 181.6            | 218.9            | 250.5            | --                | 250.5              | 287.6            | 308.7            | 291.9            |
| Intangibles                      | 148.4            | 137.8            | 128.0            | --                | 128.0              | 118.2            | 117.7            | 116.7            |
| Cap. Financing Costs             | 36.6             | 31.4             | 26.1             | 18.0              | 44.1               | 38.9             | 33.7             | 28.5             |
| Total Assets                     | <u>\$2,033.8</u> | <u>\$2,176.8</u> | <u>\$1,965.0</u> | 600.0             | <u>\$2,565.0</u>   | <u>\$2,966.9</u> | <u>\$3,573.0</u> | <u>\$4,271.0</u> |
| <b>LIABILITIES &amp; EQUITY:</b> |                  |                  |                  |                   |                    |                  |                  |                  |
| Accounts Payable                 | 38.1             | 51.0             | 67.8             | --                | 67.8               | 86.7             | 107.3            | 128.5            |
| Accrued Expenses                 | 171.6            | 183.5            | 235.8            | --                | 235.8              | 290.1            | 343.0            | 377.4            |
| CP Deferred Revenue              | 861.8            | 1,172.0          | 1,564.7          | --                | 1,564.7            | 2,002.8          | 2,503.5          | 2,966.6          |
| Current Liabilities              | 1,071.5          | 1,406.5          | 1,868.3          | --                | 1,868.3            | 2,379.6          | 2,953.8          | 3,472.6          |
| Revolver                         | 0.0              | 0.0              | 0.0              | --                | 0.0                | 0.0              | 0.0              | 0.0              |
| Term Loan                        | 0.0              | 0.0              | 0.0              | --                | 0.0                | 0.0              | 0.0              | 0.0              |
| Sr. Sub. Notes                   | 0.0              | 0.0              | 0.0              | --                | 0.0                | 0.0              | 0.0              | 0.0              |
| Sr. Convertible Notes            | 507.8            | 507.8            | 0.0              | 600.0             | 600.0              | 600.0            | 600.0            | 600.0            |
| Total Debt                       | 507.8            | 507.8            | 0.0              | 600.0             | 600.0              | 600.0            | 600.0            | 600.0            |
| Other                            | 67.5             | 67.5             | 67.5             | --                | 67.5               | 67.5             | 67.5             | 67.5             |
| Total Liabilities                | 1,646.8          | 1,981.8          | 1,935.8          | 600.0             | 2,535.8            | 3,047.1          | 3,621.3          | 4,140.1          |
| Common Equity                    | 387.0            | 195.0            | 29.2             | --                | 29.2               | (80.2)           | (48.3)           | 130.9            |
| Liabilities & Equity             | <u>\$2,033.8</u> | <u>\$2,176.8</u> | <u>\$1,965.0</u> | 600.0             | <u>\$2,565.0</u>   | <u>\$2,966.9</u> | <u>\$3,573.0</u> | <u>\$4,271.0</u> |
| Check                            | 0.000            | 0.000            | 0.000            | --                | 0.000              | 0.000            | 0.000            | 0.000            |

# STATEMENT OF CASH FLOW



## CASH FLOW STATEMENTS

|   | Projected      |                |                |                |                |
|---|----------------|----------------|----------------|----------------|----------------|
|   | P1             | P2             | P3             | P4             | P5             |
| <i>Operating Activities:</i>                            |                |                |                |                |                |
| Net Income  | (192.0)        | (165.8)        | (109.4)        | 31.9           | 179.2          |
| Depreciation  | 97.3           | 131.4          | 170.8          | 213.5          | 266.9          |
| Amortization  | 10.6           | 9.8            | 9.8            | 0.5            | 1.0            |
| Financing Costs Amortization                            | 5.2            | 5.2            | 5.2            | 5.2            | 5.2            |
| <b>Subtotal</b>   | <b>(78.9)</b>  | <b>(19.4)</b>  | <b>76.4</b>    | <b>251.2</b>   | <b>452.3</b>   |
| <i>Changes in Working Capital</i>                       |                |                |                |                |                |
| Accounts Receivable                                     | (116.2)        | (147.1)        | (164.1)        | (187.5)        | (173.5)        |
| Deferred Commissions CP                                 | (27.6)         | (35.0)         | (39.0)         | (44.6)         | (41.3)         |
| Prepaid Expenses  | (14.7)         | (19.2)         | (21.7)         | (23.5)         | (24.3)         |
| Accounts Payable  | 12.9           | 16.8           | 19.0           | 20.6           | 21.2           |
| Accrued Expenses  | 11.9           | 52.3           | 54.3           | 52.9           | 34.4           |
| Deferred Revenue CP                                     | 310.2          | 392.6          | 438.1          | 500.7          | 463.1          |
| <b>Working Capital Impact</b>                           | <b>176.4</b>   | <b>260.4</b>   | <b>286.5</b>   | <b>318.5</b>   | <b>279.8</b>   |
| <b>Cash Flow from Operations</b>                        | <b>97.6</b>    | <b>241.1</b>   | <b>362.9</b>   | <b>569.6</b>   | <b>732.1</b>   |
| <i>Investing Activities:</i>                            |                |                |                |                |                |
| Capital Expenditures                                    | (134.6)        | (163.0)        | (207.9)        | (234.6)        | (250.1)        |
| <b>Cash Flow from / (Used by) Investing</b>             | <b>(134.6)</b> | <b>(163.0)</b> | <b>(207.9)</b> | <b>(234.6)</b> | <b>(250.1)</b> |
| <b>Cash Available for Debt Repayment</b>                | <b>(37.0)</b>  | <b>78.1</b>    | <b>155.0</b>   | <b>335.0</b>   | <b>482.0</b>   |
| <i>Financing Activities Capital Inflow / (Outflow):</i> |                |                |                |                |                |
| Revolver  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Term Loan   | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Sr. Sub. Notes  | 0.0            | 0.0            | 0.0            | 0.0            | 0.0            |
| Sr. Convertible. Notes                                  | 0.0            | (507.8)        | 0.0            | 0.0            | 0.0            |
| <b>Cash Flow from / (Used by) Financing</b>             | <b>0.0</b>     | <b>(507.8)</b> | <b>0.0</b>     | <b>0.0</b>     | <b>0.0</b>     |
| <b>Net Increase / (Decrease) in Cash</b>                | <b>(37.0)</b>  | <b>(429.7)</b> | <b>155.0</b>   | <b>335.0</b>   | <b>482.0</b>   |

# WACC

## Equity Cost of Capital

|                       |       |
|-----------------------|-------|
| Market Return         | 10.1% |
| Risk-Free Rate (10yr) | 2.6%  |
| Beta                  | 1.67  |
| R(e)                  | 15.1% |

## WACC

|                          |         |
|--------------------------|---------|
| R(e)                     | 15.1%   |
| R(d)                     | 6.8%    |
| Tax Rate                 | 40%     |
| Market Value in Millions | 14,520  |
| Net Debt in Millions     | (391.6) |
| WACC                     | 15.4%   |

# DCF MANAGEMENT

## Summary DCF Valuation (PreDeal)

|                            |            |
|----------------------------|------------|
| DCF Enterprise Value       | \$15,441.4 |
| Less: Net Debt (PreDeal)   | 391.6      |
|                            | -----      |
| Equity Value               | 15,833.0   |
| Shares (PreDeal)           | 167.40     |
| DCF Value per Share Normal | \$94.58    |

**DCF BASE CASE**

**Summary DCF Valuation (PreDeal)**

|                                   |                   |
|-----------------------------------|-------------------|
| <b>DCF Enterprise Value</b>       | <b>\$12,981.0</b> |
| <b>Less: Net Debt (PreDeal)</b>   | <b>391.6</b>      |
|                                   | <b>-----</b>      |
| <b>Equity Value</b>               | <b>13,372.6</b>   |
| <b>Shares (PreDeal)</b>           | <b>167.40</b>     |
| <b>DCF Value per Share Normal</b> | <b>\$79.88</b>    |

# DCF DOWNSIDE

## Summary DCF Valuation (PreDeal)

|                            |            |
|----------------------------|------------|
| DCF Enterprise Value       | \$10,274.7 |
| Less: Net Debt (PreDeal)   | 391.6      |
|                            | -----      |
| Equity Value               | 10,666.3   |
| Shares (PreDeal)           | 167.40     |
| DCF Value per Share Normal | \$63.72    |

SENSITIVITIES: MANAGEMENT

DCF Value per Share

| Terminal Growth | 14.9%   | 15.4%   | 15.9%   |
|-----------------|---------|---------|---------|
| 13.0%           | \$93.80 | \$74.06 | \$61.12 |
| 13.2%           | 108.78  | 83.00   | 67.01   |
| 13.5%           | 129.83  | 94.58   | 74.28   |
| 13.8%           | 161.54  | 110.18  | 83.47   |
| 14.1%           | 214.79  | 132.33  | 95.45   |

SENSITIVITIES BASE CASE

DCF Value per Share

| Terminal Growth | 14.9%   | 15.4%   | 15.9%   |
|-----------------|---------|---------|---------|
| 13.0%           | \$79.21 | \$62.53 | \$51.59 |
| 13.2%           | 91.89   | 70.09   | 56.58   |
| 13.5%           | 109.68  | 79.88   | 62.72   |
| 13.8%           | 136.50  | 93.08   | 70.49   |
| 14.1%           | 181.53  | 111.81  | 80.62   |

# SENSITIVITIES DOWNSIDE

## DCF Value per Share

| Terminal Growth | <u>14.9%</u> | <u>15.4%</u> | <u>15.9%</u> |
|-----------------|--------------|--------------|--------------|
| 13.0%           | \$63.18      | \$49.91      | \$41.21      |
| 13.2%           | 73.27        | 55.92        | 45.17        |
| 13.5%           | 87.43        | <b>63.72</b> | 50.07        |
| 13.8%           | 108.77       | 74.22        | 56.25        |
| 14.1%           | 144.61       | 89.12        | 64.31        |

# DEBT SCENARIOS

## Capital Structure Assumptions

| Case                          | 1                          | 2              | 3   | Active Case<br>3   |
|-------------------------------|----------------------------|----------------|---|--|
| <i>Description</i>            | <i>please don't delete</i> | <i>No deal</i> | <i>Refinance w/ \$600.0 Convertible, \$100.0 Sr Sub</i> | <i>Refinance w/ \$600.0 Convert. Notes, \$0.0 High Yield</i> |
| <b>Sources of Funds</b>       |                            |                |   |  |
| Excess Cash                   | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Sr. Convertible Notes     | 0.0                        | 100.0          | 600.0   | 600.0  |
| New Revolver                  | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Term Loan                 | 0.0                        | 0.0            | 0.0   | 0.0  |
| New Sr. Sub. Notes            | 0.0                        | 600.0          | 0.0   | 0.0  |
| <b>Total Sources</b>          | <b>0.0</b>                 | <b>700.0</b>   | <b>600.0</b>  | <b>600.0</b>   |
| <b>Uses of Funds</b>          |                            |                |   |  |
| Fund Cash B/c.                | 0.0                        | 679.0          | 582.0   | 582.0  |
| Repay Revolver                | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Term Loan               | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Sr. Sub. Notes          | 0.0                        | 0.0            | 0.0   | 0.0  |
| Repay Sr. Sub. Notes          | 0.0                        | 0.0            | 0.0   | 0.0  |
| Term Loan Fee                 | 0.0                        | 0.0            | 0.0   | 0.0  |
| Sr. Sub. Fee                  | 0.0                        | 18.0           | 0.0   | 0.0  |
| Sr. Convertible Fee           | 0.0                        | 3.0            | 18.0  | 18.0   |
| <b>Total Uses</b>             | <b>0.0</b>                 | <b>700.0</b>   | <b>600.0</b>  | <b>600.0</b>   |
| <b>Triggers</b>               |                            |                |   |  |
| Term Loan Financing Fee       | 2.5%                       | 2.5%           | 2.5%  | 2.5%   |
| Sr. Notes. Financing Fee      | 3.0%                       | 3.0%           | 3.0%  | 3.0%   |
| Sr. Convertible Financing Fee | 3.0%                       | 3.0%           | 3.0%  | 3.0%   |
| Term Loan Rate                | 8.5%                       | 8.5%           | 8.5%  | 8.5%   |
| Sr. Subs. Coupon              | 11.0%                      | 11.0%          | 11.5%   | 11.5%  |
| Sr. Convertible Coupon        | 1.0%                       | 1.0%           | 1.0%  | 1.0%   |

**CA, INC.**

servicenow

**CA, Inc.**

|                              |                  |
|------------------------------|------------------|
| <b>Share Price</b>           | <b>\$32.40</b>   |
| <b>P/E (LTM)</b>             | <b>17.2</b>      |
| <b>Market/Book</b>           | <b>2.4</b>       |
| <b>EV/EBITDA</b>             | <b>8.3</b>       |
| <b>Market Capitalization</b> | <b>\$13.20B</b>  |
| <b>Net Debt</b>              | <b>(\$0.76B)</b> |
| <b>Enterprise Value</b>      | <b>\$12.50B</b>  |

# WORKDAY, INC.

servicenow

## Workday, Inc.

|                              |                  |
|------------------------------|------------------|
| <b>Share Price</b>           | <b>\$82.65</b>   |
| <b>P/E (LTM)</b>             | <b>(40.1)</b>    |
| <b>Market/Book</b>           | <b>14.6</b>      |
| <b>EV/Sales</b>              | <b>9.7</b>       |
| <b>Market Capitalization</b> | <b>\$20.00B</b>  |
| <b>Net Debt</b>              | <b>(\$1.40B)</b> |
| <b>Enterprise Value</b>      | <b>\$18.60B</b>  |

**SALSFORCE.COM, INC.**

servicenow

**Salesforce.com, Inc.**

|                              |                  |
|------------------------------|------------------|
| <b>Share Price</b>           | <b>\$83.51</b>   |
| <b>P/E (LTM)</b>             | <b>321.2</b>     |
| <b>Market/Book</b>           | <b>7.9</b>       |
| <b>EV/EBITDA</b>             | <b>83.3</b>      |
| <b>Market Capitalization</b> | <b>\$50.70B</b>  |
| <b>Net Debt</b>              | <b>(\$0.20B)</b> |
| <b>Enterprise Value</b>      | <b>\$50.70B</b>  |

**TOP 5 INSTITUTIONAL HOLDERS**

| <b>Institutions</b>                      | <b>MV (\$M)</b> |
|--|-----------------|
| <b>T. Rowe Price Associates, Inc.</b>    | <b>2,136</b>    |
| <b>Wellington Management Co, LLP</b>     | <b>1,152</b>    |
| <b>The Vanguard Group</b>                | <b>1,086</b>    |
| <b>Manning &amp; Napier Advisors LLC</b> | <b>544</b>      |
| <b>BlackRock Fund Advisors</b>           | <b>537</b>      |

# KEY ASSUMPTIONS

| <u>Revenue Growth</u> | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case       | 47.3%     | 38.3%     | 36.0%     | 33.5%     | 28.0%     | 25.0%     | 18.5%     |
| Base Case             |           |           | 36.0%     | 33.5%     | 27.0%     | 23.0%     | 18.0%     |
| Downside Case         |           |           | 36.0%     | 33.5%     | 25.0%     | 22.0%     | 17.0%     |

| <u>SG&amp;A % of Sales</u> | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case            | 83.8%     | 82.3%     | 80.0%     | 77.0%     | 74.0%     | 70.0%     | 65.0%     |
| Base Case                  |           |           | 80.0%     | 78.0%     | 75.0%     | 72.0%     | 66.0%     |
| Downside Case              |           |           | 80.0%     | 79.0%     | 77.0%     | 73.0%     | 68.0%     |

| <u>Capex</u>    | <u>H1</u> | <u>H2</u> | <u>P1</u> | <u>P2</u> | <u>P3</u> | <u>P4</u> | <u>P5</u> |
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Management Case | 89.2      | 128.4     | 134.6     | 163.0     | 207.9     | 234.6     | 250.1     |
| Base Case       |           |           | 138.6     | 169.0     | 213.9     | 240.6     | 256.1     |
| Downside Case   |           |           | 138.6     | 175.0     | 219.9     | 246.6     | 262.1     |