



## Size Accumulates in Service-Now Calls

**Ticker/Price:** NOW (\$253.30)

### Analysis:

**Service-Now (NOW)** into early weakness in Software names with a buyer of 1000 August \$270 calls \$13.70 and later in the morning the August \$280 calls bought 1,000X to open at \$10, size positioning in a name that saw 10,000 August \$220 calls open for \$64M on 5/16. NOW shares are breaking a multi-week post-gap range and looking to potentially retest the former breakout and YTD VPOC back near \$240 near-term. The \$47.85B SaaS leader trades 61.25X Earnings, 70X FCF and 13.3X EV/Sales. NOW grew revenues between 35-38% each of the last three years and expects 32% and 28% growth the next two years, one of the strongest FCF names as well. Analysts have an average target near \$290 and short interest has been declining to now 4% of its float. NOW is coming off year another beat and raise quarter. BAML raised its target to \$300 in early May seeing the company well positioned to capture a sizeable portion of the workflow automation market which the company sized at \$165bn by 2023. Net revenue retention rate of 130%+ is at the high end of SaaS comparables and ~81% of net-new ACV in 2018 was driven by existing customers vs 66% in 2014 – this is particularly positive for margins as net-new business is not entirely dependent on increasing sales head count to accelerate new customer adds which we note is growing at a respectable 20-25% y/y growth. NOW has a longer term goal of \$10B in revenues. CSFB has a \$280 target and noted The company is now leaning more towards RPO and away from Billings as the best leading indicator of the business, as the latter has limitations of (1) contract start date, (2) duration, and (3) seasonality. However, RPO, given its significant balance relative to revenues, is subject to more pronounced FX impacts (with ~1/3 of RPO in foreign currencies). Mr. Scarpelli also acknowledged revenue + change in current RPO is a good proxy for business performance and accounts for self-hosted revenues recognized upfront (and not included in RPO alone). Canaccord also raised its target to \$300 expecting it to be the next \$100B enterprise software firm. Hedge Fund ownership rose 4% in Q1 filings, Alkeon Capital disclosing a new call option position and Melvin Capital adds size to its now 4.2% weighted position, while Whale Rock started a large new position.

### Hawk Vision:



**Trading Strategy:** NOW has long been a favorite best of breed name for me and one of the first places to turn when the market stabilizes.

**Confidence Ranking:** \$\$