

SAP SE

Cloud traction supporting 20% EBIT CAGR, PO up to €200

Reiterate Rating: BUY | PO: 200.00 EUR | Price: 175.28 EUR

Reiterate Buy on confirmed Cloud momentum acceleration

We reiterate our Buy on SAP post recent management investor meetings and new disclosure on Cloud revenues. We analyse cloud growth based on new disclosure, which increases our confidence in the sustainability of double-digit software revenue growth from 2025 onwards. We forecast Cloud ERP will grow at a 27% CAGR by 2027 (34% at S4, rest 22%). The business should account for 89% of Cloud and 60% of group revenues by 2027, and support Cloud revenue CAGR of 23% and group revenue of 10%. Alongside a step up in EBIT margins from 21% in 2023 to 28.5% in 2027, we expect SAP to deliver 19% EBIT and 21% FCF CAGR. We reiterate our Buy rating on strong Cloud momentum supporting double digit EBIT growth, while an unlevered balance sheet provides flexibility for capital deployments with >€10bn potential returns by 2026 while remaining Net cash positive.

Management feedback: upbeat on growth trajectory

We had the pleasure to host CFO Dominik Asam for meetings with investors in the US on March 5 and 6. Asam reiterated his confidence in SAP's ability to sustain its growth momentum, with the Cloud ERP Suite to sustain significant growth in the medium term. Meanwhile, the recently announced restructuring should lead to a step change in profitability in 2025, with further upside on FCF conversion. AI should emerge as a meaningful revenue contributor in the medium term with SAP ideally positioned to help its customers leverage AI to improve internal processes. Last, Asam sees no need to accumulate cash, and would contemplate further shareholder returns, while M&A should be focussed on tuck-ins to support the Cloud ERP Suite.

PO increased to €200 on peers rerating

We raise our PO to €200 (Cloud on 30x '24 EBITDA) from €178 (26x previously) on peers rerating. We note SAP trades at a 14-34% discount to DSY and CRM for similar top line growth, with a highly predictable growth trajectory and strong operating leverage.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	4.08	4.95	4.37	5.79	6.79
EPS Change (YoY)	-39.5%	21.5%	-11.7%	32.4%	17.3%
Dividend / Share	2.05	2.11	2.17	2.24	2.74
ADR EPS (Adjusted Diluted - US\$)	4.29	5.36	4.76	6.29	7.38
ADR Dividend / Share (US\$)	2.16	2.28	2.36	2.44	2.98
Valuation (Dec)					
P/E	43.0x	35.4x	40.1x	30.3x	25.8x
Dividend Yield	1.17%	1.20%	1.24%	1.28%	1.56%
EV / EBITDA*	21.0x	20.6x	22.3x	18.1x	15.8x
Free Cash Flow Yield*	2.33%	2.64%	1.84%	4.09%	4.80%

* For full definitions of *IQmethod*SM measures, see page 12.

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Refer to important disclosures on page 13 to 16. Analyst Certification on page 11. Price Objective Basis/Risk on page 11.

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Timestamp: 07 March 2024 12:30AM EST

07 March 2024

Equity

Key Changes

(EUR)	Previous	Current
Price Obj.	178.00	200.00
2024E Rev (m)	33,935.7	33,935.4
2025E Rev (m)	37,454.2	37,449.9
2026E Rev (m)	41,283.0	41,361.6

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Stock Data

Price (Common / ADR)	175.28 EUR / 190.68 USD
Price Objective	200.00 EUR / 215.00 USD
Date Established	7-Mar-2024 / 7-Mar-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	106.28 EUR-176.40 EUR
Market Value (mn)	206,830 EUR
Shares Outstanding (mn)	1,180.0 / 1,180.0
Average Daily Value (mn)	331.99 USD
Free Float	87.0%
BofA Ticker / Exchange	SAPGF / GER
BofA Ticker / Exchange	SAP / NYS
Bloomberg / Reuters	SAP GY / SAPGF
ROE (2024E)	12.2%
Net Dbt to Eqty (Dec-2023A)	-2.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

Glossary on page 10

iQprofileSM SAP SE

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(EUR Millions)					
Sales	30,871	31,207	33,935	37,450	41,362
EBITDA Adjusted	9,929	10,094	9,312	11,522	13,160
Depreciation & Amortization	(1,896)	(1,373)	(1,493)	(1,528)	(1,563)
EBIT Adjusted	8,033	8,721	7,818	9,994	11,596
Net Interest & Other Income	(1,581)	(493)	(80.3)	(91.3)	(9.49)
Tax Expense / Benefit	(1,377)	(1,728)	(1,618)	(2,558)	(3,073)
Net Income (Adjusted)	4,778	5,844	5,162	6,832	8,011
Average Fully Diluted Shares Outstanding	1,172	1,180	1,180	1,180	1,180

Key Cash Flow Statement Data					
Net Income (Reported)	2,290	6,103	3,675	6,817	8,002
Depreciation & Amortization	1,896	1,373	1,493	1,528	1,563
Change in Working Capital	1,031	57.0	0	(650)	(300)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	429	(1,340)	(555)	1,800	1,758
Cash Flow from Operations	5,646	6,193	4,613	9,495	11,024
Capital Expenditure	(874)	(785)	(848)	(1,123)	(1,199)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other CFI	1,540	1,691	84.8	93.6	134
Cash Flow from Investing	666	906	(764)	(1,030)	(1,065)
Share Issue / (Repurchase)	(1,500)	(949)	(2,000)	(2,051)	(1,511)
Cost of Dividends Paid	(2,865)	(2,395)	(2,464)	(2,538)	(2,614)
Increase (decrease) debt	(1,354)	(4,702)	(850)	(900)	(1,100)
Other CFF	(618)	319	(325)	(325)	(325)
Cash Flow from Financing	(6,337)	(7,727)	(5,639)	(5,814)	(5,550)
Total Cash Flow (CFO + CFI + CFF)	(25.0)	(628)	(1,790)	2,651	4,408
FX and other changes to cash	(1,769)	2,234	(122)	0	0
Change in Cash	(1,794)	1,606	(1,912)	2,651	4,408
Change in Net Debt	440	(6,308)	1,062	(3,551)	(5,508)
Net Debt	5,214	(1,094)	(32.5)	(3,583)	(9,091)

Key Balance Sheet Data					
Property, Plant & Equipment	4,934	4,276	3,915	3,719	3,527
Goodwill	33,106	29,088	29,088	29,088	29,088
Other Intangibles	3,835	2,505	2,137	1,835	1,529
Other Non-Current Assets	11,716	11,891	11,891	11,891	11,891
Trade Receivables	6,258	6,361	6,880	7,593	8,218
Cash & Equivalents	9,862	11,468	9,556	12,207	16,615
Other Current Assets	2,449	2,702	3,756	3,976	4,304
Total Assets	72,160	68,291	67,223	70,308	75,172
Long-Term Debt	10,252	8,643	7,793	6,893	5,793
Other Non-Current Liabilities	1,603	1,707	1,907	2,107	2,107
Short-Term Debt	4,824	1,731	1,731	1,731	1,731
Other Current Liabilities	12,628	12,845	14,083	14,029	14,345
Total Liabilities	29,307	24,926	25,514	24,760	23,976
Total Equity	42,853	43,365	41,710	45,549	51,196
Total Equity & Liabilities	72,160	68,291	67,223	70,308	75,172

Business Performance*					
Return On Capital Employed	16.2%	22.3%	21.7%	28.5%	28.5%
Return On Equity	12.1%	14.0%	12.2%	15.8%	16.7%
Operating Margin	15.1%	18.5%	16.1%	25.5%	27.0%
Free Cash Flow (MM)	4,772	5,408	3,765	8,371	9,824

Quality of Earnings*					
Cash Realization Ratio	1.18x	1.06x	0.89x	1.39x	1.38x
Asset Replacement Ratio	0.46x	0.57x	0.57x	0.74x	0.77x
Tax Rate	44.5%	32.7%	30.0%	27.0%	27.5%
Net Debt/Equity	12.2%	-2.52%	-0.08%	-7.87%	-17.8%
Interest Cover	5.80x	18.6x	NM	NM	NM

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

PC Software

Company Description

Founded in 1972, SAP is the recognized leader in enterprise application software for all types of industries and for every major market. Headquartered in Walldorf, Germany, SAP is the world's largest application software company. SAP employs over 100,000 people.

Investment Rationale

We expect SAP to experience a rerating as its pivot to the Cloud drives an acceleration in both revenue and margins. Its business is now largely transitioned to recurring sales, with licence accounting for c5% in 2023.

Stock Data

Shares / ADR	1.00
Price to Book Value	4.9x

Quarterly Earnings Estimates

	2023	2024
Q1	1.07A	0.86E
Q2	1.06A	0.98E
Q3	1.43A	1.17E
Q4	1.40A	1.37E

Key Changes

(US\$)	Previous	Current
Price Obj.	191.00	215.00
2025E EPS	6.30	6.29
2026E EPS	7.39	7.38

Management investor meetings feedback

We hosted SAP CFO Dominik Asam with US investors on March 5 & 6. Asam reiterated his strong confidence in the ability of SAP to sustain its growth momentum, with the Cloud ERP Suite to sustain significant growth in the medium term. Meanwhile, the recently announced restructuring should lead to a step change in profitability in 2025, while there is further upside on FCF conversion. AI should emerge as a meaningful revenue contributor in the medium term with SAP ideally positioned to help its customers leverage AI to improve internal processes. Last, Asam sees no need to hoard cash and would contemplate further cash returns, while M&A should be focussed on tuck-ins to support the Cloud ERP Suite.

New disclosure highlights strong cloud ERP growth

New disclosure splits the fast-growing Cloud ERP Suite which is growing steadily from the extension products (this includes CRM ex commerce). SAP aims to maintain a high growth level in the Cloud ERP Suite unit. In areas like CRM, on-prem customers have tried Cloud native products from competitors in certain areas and SAP is aiming to regain traction. In key focus areas, SAP has amongst the highest R&D budgets in the industry.

AI a medium term tailwind

AI is growing very fast from a low base. SAP sees it as a key element helping maintain fast growth. Most of the monetization happens via the Premium Plus bundle with an AI tokens mechanism designed to incentivise usage.

Costs: focus on operating leverage

SAP is focussed on decoupling costs from revenues with the 8k restructuring program was a big step. SAP also sees potential to use AI to reduce human capital intensity in areas such as coding. Gross margins are supported by increasing scale in Cloud and gradual improvement in private Cloud gross margins.

Capital allocation: M&A to support transactional core

We think SAP does not need to buy growth. SAP could do tuck-in M&A to help optimise the transactional engine. However, excess cash would be returned to shareholders as the company has no ambition to see its credit rating upgraded to AA-, and has no need to accumulate cash.

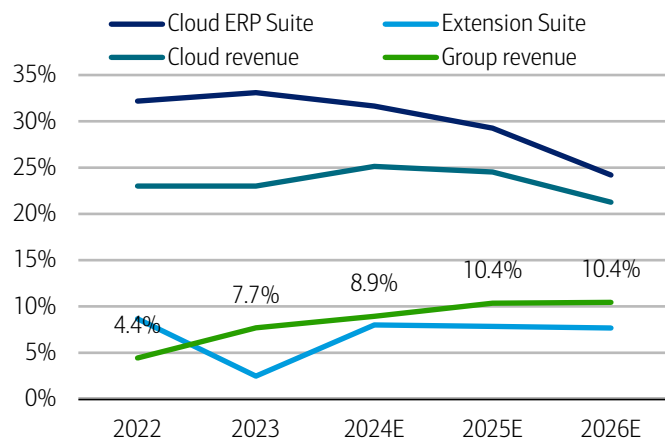
New Cloud disclosure drives increasing visibility on growth sustainability

Cloud growth sustainability

We expect Software revenue growth to accelerate from 7.9% in 2023 to 9.6% in 2024 and 11.3% in 2025, driven by an increasing weight of Cloud (45% end 2022 to 65% in 2025). We were encouraged by the acceleration in CCB to 27% in Q4, with the new segment Cloud ERP suite (82% of cloud) growing 33% and supporting the revenue growth acceleration in 2024/2025 and beyond. We think the transactional drag (c1.5pp in 2024) should ease. Business AI is a clear priority, with >50% of customers taking the Premium GROW offer including AI and should support growth in the medium term.

Exhibit 1: SAP revenue drivers

Sustained Cloud ERP Suite at c30% growth to support revenue growth acceleration

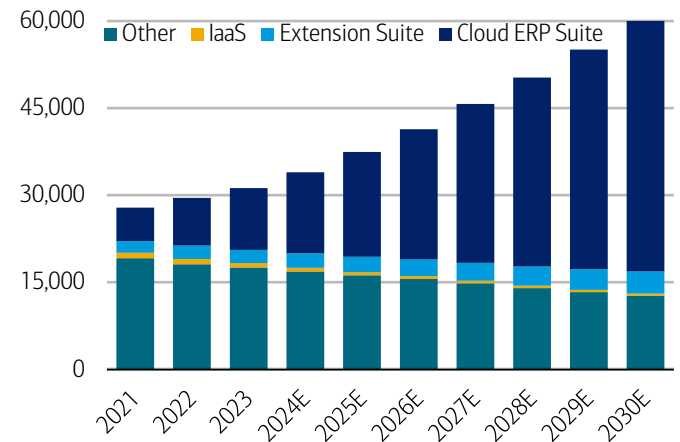


Source: BofA Global Research estimates

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Exhibit 2: SAP revenue mix

Increasing weight of Cloud ERP to drive total revenue growth



Source: BofA Global Research estimates

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Operating leverage drives >20% EBIT CAGR from 2023 to 2025.

We forecast a step change in profitability in 2025 as SAP will reap the benefits from the 2024 restructuring program. We forecast margins to increase from 20.8% (post share-based compensation) in 2023 to 23.0% in 2024 and 26.7% in 2025, before increasing to 28.5% by 2027. This should support 19% EBIT CAGR from 2023 to 2027.

The main debate remains the dilution of private Cloud growth, coming at c 60% gross margins vs public Cloud gross margins in the 80%. However, we flag the decreasing weigh of IaaS in the mix (34.3% GM), declining 16% YoY, while the PaaS margins grew strongly from 80.9% in 2022 to 84.8% in 2023, driving overall Cloud margins up 240bps in 2023, with c 50% of the increase explained by the savings from the migration to the single delivery Cloud platform. Looking forward, we forecast a 1.4pp improvement in 2024 and 1.5pp in 2025 on progression of private Cloud margins and reduction of IaaS in the mix.

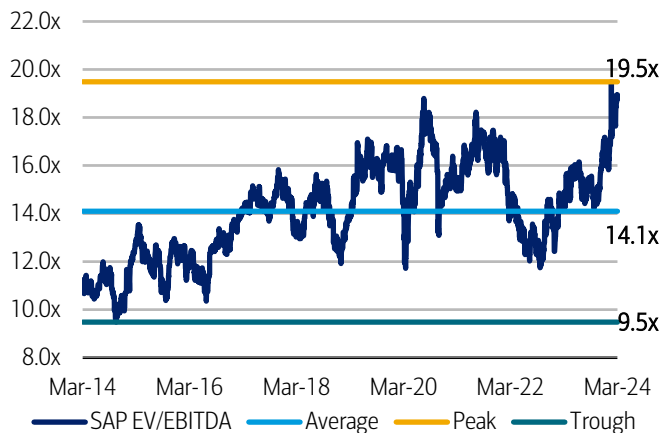
FCF conversion: to improve from 2025

We expect SAP to significantly increase its FCF generation from €5.1bn in 2023 and €3.4bn in 2024, to €8bn in 2025 and €10.8 by 2027, supporting a 21% FCF CAGR from 2023 to 2027. We forecast FCF conversion (FCF post full SBC impact vs reported net income) to increase from 83% in 2023 and 58% in 2024 (restructuring) to 95% + from 2025 onwards.

Valuation: lifted with all boats, still cheap vs industry leaders

At 21x forward EBIT and 25x PE, SAP is trading close to long term historical highs. However, we note that the strong EBITDA and EPS growth profile of SAP should support shares assuming resilient multiples, while SAP trades at a c30% discount to DSY or CRM, despite a similar top line profile (see Exhibit 8). Although we don't expect the gap to close overnight, consistent top line acceleration coupled with margin expansion will increasingly support SAP's multiples vs peers.

Exhibit 3: SAP EV/EBITDA vs. average – 10 year – trading at 18.9x
+34% above 10Y average – reflects a more predictable outlook

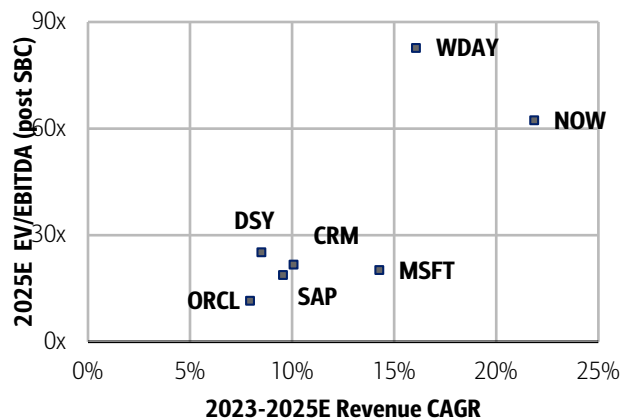


Source: BofA Global Research, Bloomberg

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Exhibit 5: SAP: valuation vs growth – EV/EBITDA

In the peer group, but rerating upside on faster growth

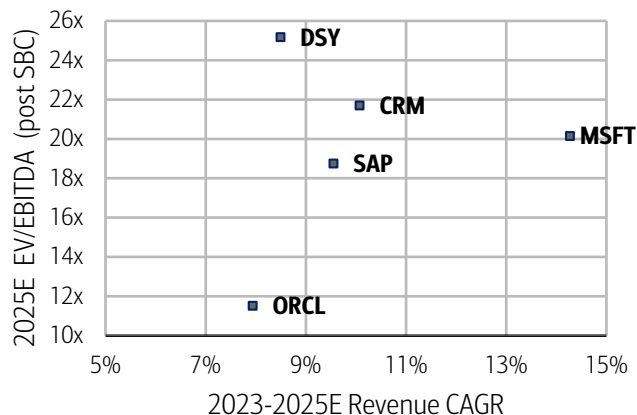


Source: BofA Global Research, Bloomberg Note: post SBC metrics

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Exhibit 7: SAP: valuation vs growth – EV/EBITDA

Discount to CRM and DSY for similar growth

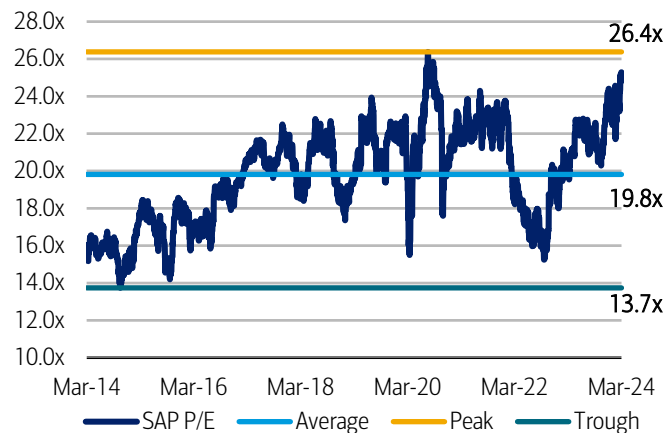


Source: BofA Global Research, Bloomberg Note: post SBC metrics

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Exhibit 4: SAP P/E vs. average – 10 year – trading at 25.3x

SAP P/E: Trading 3x below peak, +5.5x / +28% vs. 10Y average

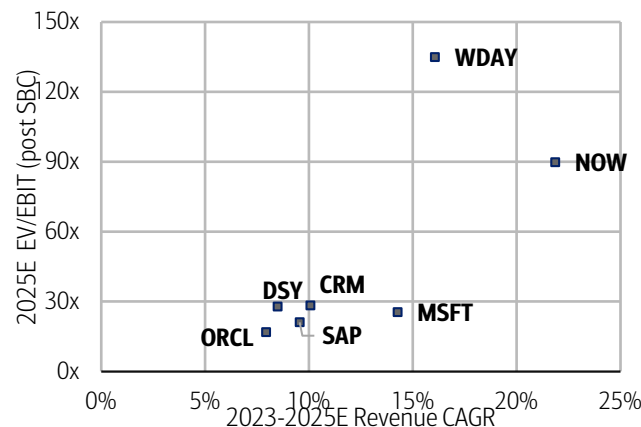


Source: BofA Global Research, Bloomberg

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Exhibit 6: SAP: valuation vs growth – EV/EBIT

In the peer group, but rerating upside on faster growth

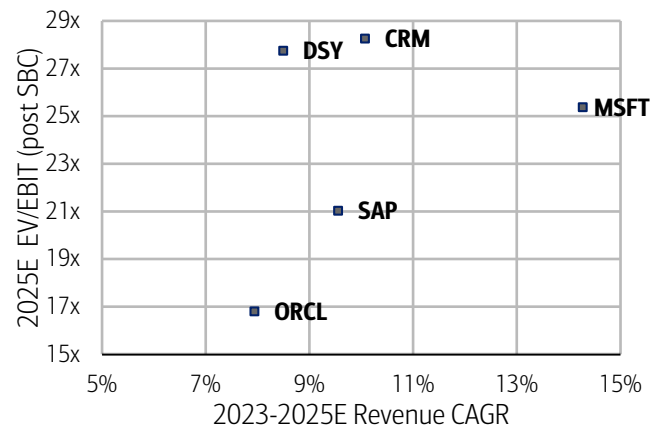


Source: BofA Global Research, Bloomberg Note: post SBC metrics

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Exhibit 8: SAP: valuation vs growth – EV/EBIT

30% discount to DSY/CRM



Source: BofA Global Research, Bloomberg Note: post SBC metrics

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Exhibit 9: SAP Sum of the Parts valuation (€mn except per share data when stated)

Cloud accounts for c100% of current equity value

SOTP Valuation	Methodology	2024 EV Sales Mult (x)	2024 EV/ EBITDA Mult (x)	EV 100%	Stake	EV SAP	Multiple Comment	Per share
Cloud	Target Multiple	11.0x	30x	191,528	100%	191,528	30x 2024 EBITDA, in line with US cloud software for respective growth	162
License + Maintenance	DCF	2.6x	7x	32,666	100%	32,666		28
Services	Target Multiple	1.6x	15x	6,885	100%	6,885	Blend of Accenture, Capgemini & IBM	6
Enterprise Value (€m)				-	-	231,080	-	
Net Debt (cash) 2024								
(BofAe, €m)				-	-	-3,521	-	
Equity Value (€m)				-	-	234,601	-	
Fully diluted share count (m)				-	-	1,180	-	
Value per share (€/share)				-	-	200	-	
Share price						175		
Upside (downside) potential						14%		

Source: BofA Global Research estimates

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Exhibit 10: BofA vs consensus

Upside potential on outer years FCF

In €mn (except per share values)	2024E			Δ (%)			2025E			Δ (%)			2026E			Δ (%)			2027E			Δ (%)		
	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.	BofA	Cons.	BofA vs. Cons.
Current Cloud Backlog																								
Licences	1,134	1,256	-9.7%	737	927	-20.5%	590	687	-14.2%	479	553	-13.4%												
Maintenance	11,245	11,054	1.7%	10,796	10,569	2.1%	10,192	9,900	2.9%	9,399	8,946	5.1%												
Cloud Subscription	17,086	17,075	0.1%	21,275	21,422	-0.7%	25,799	26,371	-2.2%	30,909	31,359	-1.4%												
Cloud and software revenue	29,464	29,385	0.3%	32,808	32,919	-0.3%	36,581	36,958	-1.0%	40,787	40,788	0.0%												
Software % YoY growth constant currency	9.6%	9.5%	9 bps	11.3%	12.4%	-104 bps	11.5%	12.7%	-122 bps	11.5%														
Services revenue	4,471	4,443	0.6%	4,642	4,607	0.8%	4,781	4,723	1.2%	4,924	5,022	-1.9%												
Total Revenue	33,935	33,815	0.4%	37,450	37,531	-0.2%	41,362	41,665	-0.7%	45,711	45,729	0.0%												
Adjusted Operating profit	7,818	7,752	0.9%	9,994	9,966	0.3%	11,596	11,734	-1.2%	13,049	13,365	-2.4%												
Adj. EBIT margin	23.0%	22.9%	12 bps	26.7%	26.6%	13 bps	28.0%	28.2%	-13 bps	28.5%	29.2%	-68 bps												
YoY ex FX growth	20.3%	13.3%	702 bps	27.8%	21.7%	613 bps	16.0%	15.6%	44 bps	12.5%	14.9%	-236 bps												
Reported Operating profit	5,473	5,408	1.2%	9,566	9,449	1.2%	11,185	11,060	1.1%	12,654	12,485	1.4%												
% margins	16.1%	16.0%	14 bps	25.5%	25.2%	37 bps	27.0%	26.5%	50 bps	27.7%	27.3%	38 bps												
Adjusted EPS	4.37	4.44	-1.5%	5.79	5.87	-1.3%	6.79	6.96	-2.4%	7.72	7.99	-3.4%												
Reported EPS	3.11	3.08	1.2%	5.78	5.64	2.4%	6.78	6.66	1.9%	7.76	7.67	1.1%												
FCF	3,440	3,683	-6.6%	8,046	8,071	-0.3%	9,499	9,280	2.4%	10,803	10,402	3.9%												

Source: BofA Global Research estimates, Visible Alpha

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Exhibit 11: SAP P&L Summary (€mn) (2019-2026E)

Double digit EPS growth ahead

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Revenue								
Cloud Subscription	7,014	8,085	9,418	12,556	13,664	17,086	21,275	25,799
Licences	4,532	3,642	3,248	2,056	1,767	1,134	737	590
Organic licence growth	-5%	-17%	-11%	-39%	-12%	-35%	-35%	-20%
Maintenance	11,548	11,506	11,412	11,909	11,497	11,245	10,796	10,192
Software Revenue (cloud + on premise)	23,094	23,233	24,078	26,521	26,928	29,464	32,808	36,581
Consulting	3,713	3,361	3,078	3,558	3,500	3,669	3,816	3,930
Other services	827	749	686	792	779	802	826	851
Total Revenue	27,634	27,343	27,842	30,871	31,207	33,935	37,450	41,362
% YoY growth reported	11.7%	-1.1%	1.8%	10.9%	5.7%	8.7%	10.4%	10.4%
% YoY growth constant currency	9.0%	1.0%	3.0%	5.0%	9.0%	8.9%	10.4%	10.4%
% YoY growth organic	6.7%	0.4%	3.4%	4.4%	7.7%	8.9%	10.4%	10.4%
Cost of SSRS	4,246	4,369	4,697	5,201	5,075	5,738	6,363	6,936
% margin	82%	81%	80%	80%	81%	81%	81%	81%
Cost of Services	3,407	2,994	2,631	3,085	3,028	3,228	3,365	3,490
% margin	25%	27%	30%	29%	29%	28%	28%	27%
Cost of revenues	7,653	7,363	7,328	8,286	8,103	8,966	9,729	10,427
Gross Profit	19,981	19,980	20,514	22,585	23,104	24,970	27,721	30,935
% gross margin	72.3%	73.1%	73.7%	73.2%	74.0%	73.6%	74.0%	74.8%
Research & Development	3,852	4,153	4,666	5,530	5,611	5,981	6,541	7,159
% of revenue	14%	15%	17%	18%	18%	18%	17%	17%
Sales & Marketing	6,783	6,371	6,480	7,749	7,583	7,808	7,841	8,582
% of revenue	25%	23%	23%	25%	24%	23%	21%	21%
General & Administrative	1,153	1,191	1,181	1,263	1,174	1,262	1,345	1,500
% of revenue	4%	4%	4%	4%	4%	4%	4%	4%
Restructuring and Other	-18	-18	-43	10	16	0	0	0
Adjusted Operating Profit (new def:post SBC)	6,393	6,448	5,439	5,421	6,500	7,818	9,994	11,596
% margin	23%	24%	20%	18%	21%	23%	27%	28%
Other non-operating income/expense	-73	-179	17	-195	-24	0	0	0
Net financial cost	196	776	2,174	-1,386	-469	-80	-91	-9
Adjusted Profit before taxation	8,334	8,880	10,421	6,452	8,228	7,738	9,903	11,587
Taxation	-2,180	-2,350	-2,078	-1,903	-2,413	-2,476	-2,971	-3,476
% tax rate	-26%	-26%	-20%	-29%	-29%	-32%	-30%	-30%
Profit for the period	6,154	6,530	8,343	4,549	5,815	5,262	6,932	8,111
Minority interest	-50	-138	-392	229	29	-100	-100	-100
Consolidated net income	6,104	6,392	7,951	4,778	5,844	5,162	6,832	8,011
Adjusted EPS (Diluted)	5.11	5.42	6.74	4.08	4.95	4.37	5.79	6.79
Dividends (cash)	1,887	2,183	2,891	2,390	2,464	2,538	2,614	3,201
DPS (cash)	1.58	1.85	2.45	2.05	2.11	2.17	2.24	2.74
WASO (Diluted)	1,194	1,180	1,180	1,172	1,180	1,180	1,180	1,180

Source: BofA Global Research estimates, Company report

BofA GLOBAL RESEARCH

Exhibit 12: SAP Summary Cash flow forecasts (€mn)

Strong growth from 2024

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Income from continuing operations	3,387	5,280	5,383	1,714	3,565	3,775	6,917	8,102
Depreciation and amortization	1,872	1,831	1,775	1,896	1,373	1,493	1,528	1,563
Income tax expense	1,231	1,938	1,467	1,378	1,728	1,618	2,558	3,073
Finance income and finance costs, net	-196	-776	-2,174	1,385	469	80	91	9
Decrease/increase in sales and bad debt allowances on trade receivables	14	68	-11	89	-10	0	0	0
Other adjustments for non-cash items	507	-426	1,709	1,256	10	11	11	12
Decrease/increase in trade receivables	-1,495	826	410	128	-433	-519	-713	-625
Decrease/increase in other assets	-574	-664	-679	-1,294	-666	-1,054	-220	-328
Decrease/increase in trade payables, provisions and other liabilities	326	304	386	120	661	1,065	630	322
Increase/decrease in contract liabilities	1,007	128	139	733	495	498	-359	320
Interest paid	-341	-244	-183	-248	-356	-310	-282	-254
Interest received	97	122	48	166	469	229	191	244
Income taxes paid, net of refunds	-2,338	-1,194	-2,063	-1,675	-2,242	-1,418	-2,358	-3,073
Others (SBC)	0	0	0	0	1,130	1,300	1,500	1,658
Net cash (used in)/generated from operating activities	3,497	7,193	6,207	5,646	6,193	4,613	9,495	11,024
Cash flows from investing activities								
Business combinations, net of cash and cash equivalents acquired	-6,215	-662	-1,125	-679	-1,168	0	0	0
Proceeds from sales of subsidiaries or other businesses	61	203	-57	289	0	0	0	0
Purchase of intangible assets and property, plant and equipment	-817	-816	-825	-874	-785	-848	-1,123	-1,199
Proceeds from sales of intangible assets or property, plant, and equipment	71	88	92	60	99	85	94	134
Purchase of equity or debt instruments of other entities	-900	-2,535	-4,368	-2,320	-3,566	0	0	0
Proceeds from sales of equity or debt instruments of other entities	778	735	3,229	4,190	907	0	0	0
Cash flows from advances (supply chain financing)	0	0	0	0	0	0	0	0
Net cash used in investing activities	-7,021	-2,986	-3,054	666	906	-764	-1,030	-1,065
Cash flows from financing activities								
Dividends paid	-1,790	-1,864	-2,182	-2,865	-2,395	-2,464	-2,538	-2,614
Dividends paid on non-controlling interests	-17	-2	-54	-12	-13	0	0	0
Purchase of treasury shares	0	-1,492	0	-1,500	-949	-2,000	-2,051	-1,511
Proceeds from changes in ownership interests in subsidiaries	0	95	2,827	33	0	0	0	0
Payments for taxes related to net share settlement of equity awards	0	0	0	-282	0	0	0	0
Proceeds from borrowings	3,622	2,132	1,680	158	13	0	0	0
Repayments of borrowings	-1,309	-2,430	-1,952	-1,445	-4,081	-850	-900	-1,100
Transactions with non-controlling interests	0	-59	0	0	0	0	0	0
Payments of lease liabilities	-404	-378	-374	-424	-325	-325	-325	-325
Cash flows with funders (supply chain financing)	0	0	0	0	0	0	0	0
Net cash (used in)/generated from financing activities	101	-3,997	-54	-6,337	-7,727	-5,639	-5,814	-5,550
Net (decrease)/increase in cash and cash equivalents	-3,423	210	3,099	-25	-628	-1,790	2,651	4,408
Cash and cash equivalents at the beginning of the period	8,628	5,315	5,311	8,898	9,008	8,002	6,212	8,863
Exchange gain (loss) on cash and cash equivalents	110	-214	488	133	-378	0	0	0
Cash and cash equivalents at the end of the period	5,315	5,311	8,898	9,006	8,002	6,212	8,863	13,271
FCF (SAP definition)	2,276	5,999	5,008	4,348	5,083	3,440	8,046	9,499

Source: BofA Global Research estimates, Company report

BofA GLOBAL RESEARCH

Exhibit 13: SAP Balance sheet forecast (€mn)

Fast deleveraging

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Cash and cash equivalents	5,314	5,311	8,898	9,006	8,124	6,212	8,863	13,271
Other financial assets	297	1,635	2,758	856	3,344	3,344	3,344	3,344
Trade and other receivables	7,933	6,593	6,357	6,258	6,361	6,880	7,593	8,218
Other non-financial assets	1,179	1,333	1,626	2,152	2,358	3,412	3,632	3,960
Tax assets	469	212	402	297	344	344	344	344
Total current assets	15,192	15,084	20,041	18,569	20,531	20,193	23,776	29,137
Goodwill	29,162	27,560	31,103	33,106	29,088	29,088	29,088	29,088
Intangible assets	4,491	3,784	3,966	3,835	2,505	2,137	1,835	1,529
Property, plant, and equipment	5,497	5,042	4,975	4,934	4,276	3,915	3,719	3,527
Other financial assets	2,337	3,512	6,279	5,626	5,543	5,543	5,543	5,543
Trade and other receivables	129	131	147	169	203	203	203	203
Other non-financial assets	1,701	1,926	2,612	3,546	3,552	3,552	3,552	3,552
Tax assets	434	270	272	324	400	400	400	400
Deferred tax assets	1,286	1,167	1,778	2,051	2,193	2,193	2,193	2,193
Total non-current assets	45,037	43,392	51,132	53,591	47,760	47,031	46,533	46,035
Total assets	60,229	58,476	71,173	72,160	68,291	67,223	70,308	75,172
Trade and other payables	1,576	1,213	1,545	2,106	1,775	2,840	3,470	3,792
Tax liabilities	249	429	317	278	205	205	205	205
Financial liabilities	3,273	2,348	4,528	4,824	1,731	1,731	1,731	1,731
Other non-financial liabilities	4,809	4,654	5,181	4,799	5,607	5,607	5,607	5,607
Provisions	266	73	89	90	232	232	232	232
Contract liabilities	4,289	4,150	4,390	5,357	5,026	5,199	4,515	4,509
Total current liabilities	14,462	12,868	16,050	17,452	14,576	15,814	15,760	16,076
Trade and other payables	8	98	122	79	39	39	39	39
Tax liabilities	548	649	823	890	877	877	877	877
Financial liabilities	12,924	13,606	11,042	9,547	7,945	7,095	6,195	5,095
Other non-financial liabilities	799	768	860	705	698	698	698	698
Provisions	478	368	355	359	486	486	486	486
Deferred tax liabilities	80	158	285	242	272	472	672	672
Contract liabilities	89	36	13	33	33	33	33	33
Total non-current liabilities	14,927	15,684	13,499	11,855	10,350	9,700	9,000	7,900
Total liabilities	29,389	28,552	29,549	29,307	24,926	25,514	24,760	23,976
Issued capital	1,229	1,229	1,229	1,229	1,229	1,229	1,229	1,229
Share premium	545	545	1,918	3,080	1,846	1,846	1,846	1,846
Retained earnings	28,798	32,022	37,334	36,368	42,417	42,783	48,573	55,631
Other components of equity	1,772	-1,011	1,551	3,800	2,366	2,244	2,244	2,244
Treasury shares	-1,580	-3,072	-3,072	-4,341	-4,741	-6,741	-8,792	-10,303
Equity attributable to owners of parent	30,764	29,713	38,960	40,136	43,116	41,361	45,100	50,647
Non-controlling interests	76	211	2,664	2,717	249	349	449	549
Total shareholders' equity	30,840	29,924	41,624	42,853	43,365	41,710	45,549	51,196
Total Equity and Liabilities	60,229	58,476	71,173	72,160	68,291	67,223	70,308	75,172
Net Debt	11,385	9,776	4,774	4,509	-1,792	-730	-4,281	-9,789

Source: BofA Global Research estimates, Company report

BofA GLOBAL RESEARCH

Glossary

API : application programming interface

BTP: Business Technology Platform

ECC: ERP Central Component

HR: Human Resources

ERP : Enterprise Resource Planning

CRM: Customer relationship management

SMB: Small Medium sized Business

SaaS: software as a Service

PaaS: Platform as a Service

S&M: Sales and marketing

SBC: Share-based compensation

AI: Artificial Intelligence

TAM: Total Addressable Market

PhD = Doctor of Philosophy

CCB = Current Cloud Backlog

B2B = Business-to-business

LLM = Large Language Model

SKU = Stock Keeping Unit

S4, RISE & GROW = these are SAP products

APJ: Asia Pacific and Japan

EMEA: Europe, Middle East and Africa

CX: Customer Experience

PP: Percentage Point

FTE: Full-time Equivalent

TCO: Total Cost of Ownership

AWS: Amazon Web Services

YTD: Year To Date

Price objective basis & risk

SAP SE (SAPGF / SAP)

Our price objective is based on Sum of the Parts model, valuing Cloud, on-prem and services separately. We use a 30x 2024E EV/EBITDA for the Cloud business, in line with US peers. We value the on-prem business using a DCF (-8% revenue growth to 2031, terminal growth 0%, 40% terminal EBIT margins, WACC 6.7%), while we value the services business at a 15x EV/EBITDA multiple, in line with IT Services peers. This results in a €200 (US\$215) price objective.

Upside risks to our price objective are (1) a faster multiple re-rating as the market prices in a successful cloud transition, and (2) slower erosion in the core licence business.

Downside risks are increased competition esp from Cloud native peers, and execution challenges leading to a weaker than expected growth or margin profile.

Analyst Certification

I, Frederic Boulan, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Technology Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Adyen	ADYEF	ADYEF US	Frederic Boulan, CFA
	Adyen N.V.	ADYF	ADYEN NA	Frederic Boulan, CFA
	Alten	ABLGF	ATE FP	Aditya Buddhavarapu, CFA
	Capgemini	CAPMF	CAP FP	Frederic Boulan, CFA
	Capgemini	CGEMY	CGEMY US	Frederic Boulan, CFA
	Fortnox AB	FNOXF	FNOX SS	James Pavey, CFA
	Nexi SpA	NEXPF	NEXI IM	Aditya Buddhavarapu, CFA
	PROS	PRO	PRO US	Victor Cheng, CFA
	Sage	SGGEF	SGE LN	Frederic Boulan, CFA
	SAP SE	SAPGF	SAP GY	Frederic Boulan, CFA
	SAP SE	SAP	SAP US	Frederic Boulan, CFA
	Sopra Steria	SPSAF	SOP FP	Aditya Buddhavarapu, CFA
	Temenos AG	TMNSF	TEMN SW	Frederic Boulan, CFA
	Temenos AG	TMSNY	TMSNY US	Frederic Boulan, CFA
	Wise	WPLCF	WISE LN	Aditya Buddhavarapu, CFA
	Worldline	WWLNF	WLN FP	Frederic Boulan, CFA
	Worldline	WRDLY	WRDLY US	Frederic Boulan, CFA
NEUTRAL				
	Amadeus	AMADF	AMS SQ	Victor Cheng, CFA
	Amadeus	AMADY	AMADY US	Victor Cheng, CFA
	Dassault Systemes	DASTF	DSY FP	Frederic Boulan, CFA
	Dassault Systemes	DASTY	DASTY US	Frederic Boulan, CFA
	Netcompany	NTCYF	NETC DC	Aditya Buddhavarapu, CFA
	Sabre	SABR	SABR US	Victor Cheng, CFA
	TietoEVRY	TCYBF	TIETO FH	Aditya Buddhavarapu, CFA
UNDERPERFORM				
	Atos	AEXAF	ATO FP	Frederic Boulan, CFA
	Bechtle Ag	BHTLF	BC8 GY	Aditya Buddhavarapu, CFA
	Darktrace	DRKTF	DARK LN	Victor Cheng, CFA
	Kainos	KNNNF	KNOS LN	Aditya Buddhavarapu, CFA
	Nemetschek	NEMTF	NEM GY	Victor Cheng, CFA
	Paysafe	PSFE	PSFE US	Aditya Buddhavarapu, CFA
	Sinch	CLCMF	SINCH SS	James Pavey, CFA
	TeamViewer	TMVWF	TMV GY	Victor Cheng, CFA

EMEA - Technology Software Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

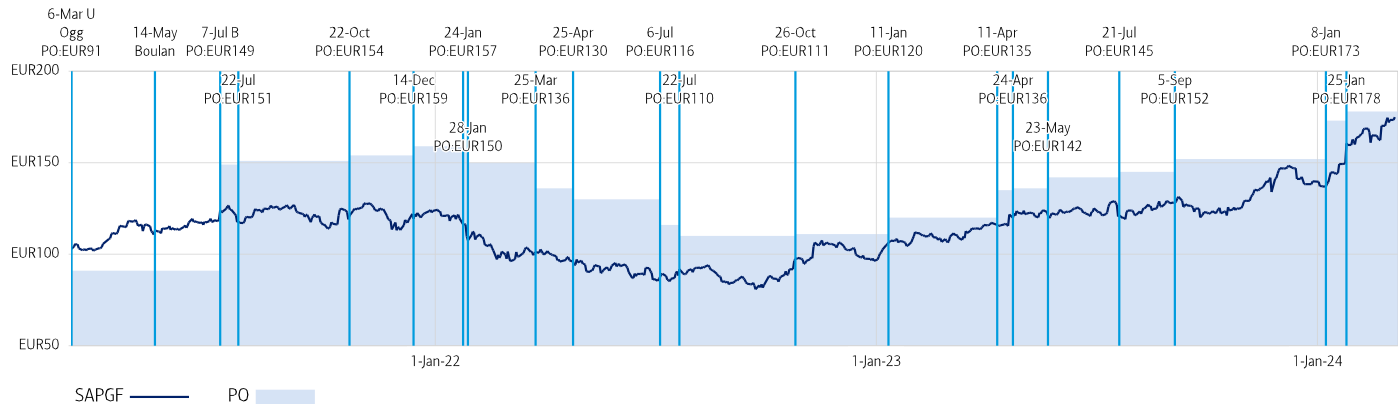
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Disclosures

Important Disclosures

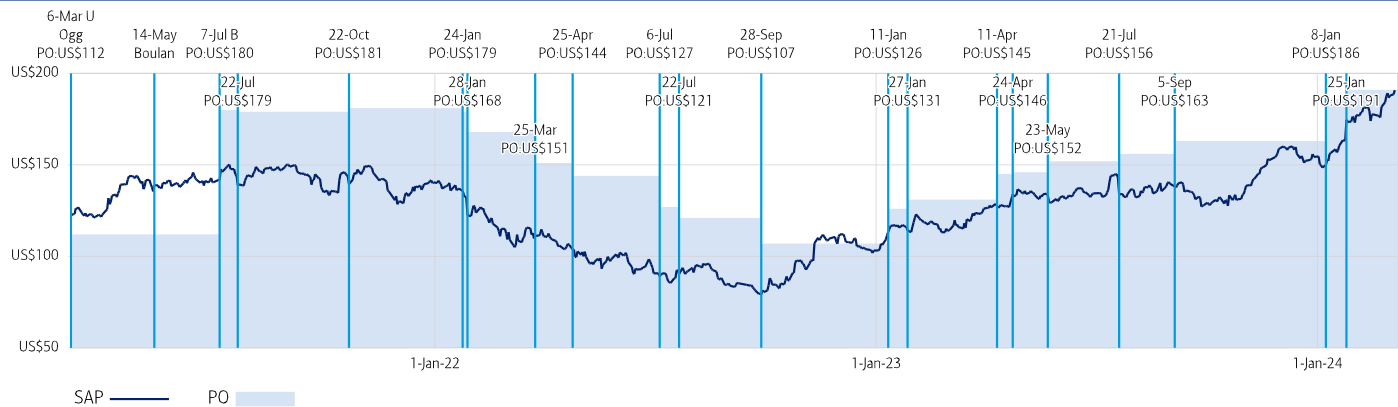
SAP (SAPGF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

SAP (SAP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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