

SAP SE

Cloud acceleration and cost reset support > 20% EBIT CAGR

Reiterate Rating: BUY | PO: 178.00 EUR | Price: 160.76 EUR

Reiterate Buy on confirmed Cloud momentum acceleration

We reiterate our Buy on SAP post a solid print. We raise 2025 EBIT and FCF by 11% and 7% respectively and raise our PO from €173 to €178 (ADR moves from \$186 to \$191). Cloud backlog accelerated to 27% in Q4 from 25%, providing significant visibility on a business that now accounts for >50% of software revenues. The €2bn / 8000 FTE (7% headcount) restructuring plan drives a 40% cut to 2024 FCF but supports >20% EBIT CAGR to 2025. Shares rose 7.6% to a record €160.8 high, reflecting the scope of 2025 upgrades (ie no multiple expansion), with arguably a stronger mid term revenue growth visibility. Reiterate Buy: (1) strong Cloud momentum with CCB +27% cc (2) EBIT accelerates to double digit in 2024-2026 supporting multiple expansion and (3) an unlevered balance sheet provides flexibility for capital deployments.

Growth algorithm in play: Cloud drives acceleration

We expect Software revenue growth to accelerate from 7.9% in 2023 to 9.6% in 2024 and 11.4% 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%, with the new segment Cloud ERP suite (82% of cloud) growing 33%, and supporting the revenue growth acceleration in 2024/2025 and beyond. 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. Operating leverage drives >20% EBIT CAGR from 2023 to 2025.

Cloud/EBIT upgrades, PO increased to €178

We raise 2024/25 revenue by 2% on increased confidence on Cloud growth with EBIT upgrades of 12% in 2025 following SAP's restructuring program and increased focus on scaling efficiently. PO raised from €173 (25x 2024 EBITDA for Cloud business) to €178 (26x EBITDA) on peers multiple. SAP currently trades at a 9% discount to peers at 17.1x 2024 EV/2024 EBITDA vs 19x with a highly predictable growth trajectory.

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	2.75
ADR EPS (Adjusted Diluted - US\$)	4.29	5.36	4.77	6.31	7.41
ADR Dividend / Share (US\$)	2.16	2.28	2.37	2.44	2.99
Valuation (Dec)					
P/E	39.4x	32.5x	36.7x	27.8x	23.7x
Dividend Yield	1.28%	1.31%	1.35%	1.39%	1.71%
EV / EBITDA*	19.2x	18.9x	20.5x	16.6x	14.5x
Free Cash Flow Yield*	2.55%	2.88%	2.01%	4.46%	5.24%

* For full definitions of *IQmethod*SM measures, see page 15.

25 January 2024

Equity

Key Changes

(EUR)	Previous	Current
Price Obj.	173.00	178.00
2024E Rev (m)	33,354.4	33,935.7
2025E Rev (m)	36,854.9	37,454.2
2026E Rev (m)	40,279.7	41,283.0
2024E EPS	4.60	4.37
2025E EPS	5.41	5.79
2026E EPS	6.21	6.79

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Stock Data

Price (Common / ADR)	160.76 EUR / 174.61 USD
Price Objective	178.00 EUR / 191.00 USD
Date Established	25-Jan-2024 / 25-Jan-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	101.46 EUR-161.98 EUR
Market Value (mn)	189,697 EUR
Shares Outstanding (mn)	1,180.0 / 1,180.0
Average Daily Value (mn)	293.34 USD
Free Float	86.8%
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™	High

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Timestamp: 25 January 2024 12:31AM EST

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Key Income Statement Data (Dec)

(EUR Millions)

	2022A	2023A	2024E	2025E	2026E
Sales	30,871	31,207	33,936	37,454	41,283
EBITDA Adjusted	9,929	10,094	9,311	11,523	13,166
Depreciation & Amortization	(1,896)	(1,373)	(1,493)	(1,528)	(1,560)
EBIT Adjusted	8,033	8,721	7,818	9,995	11,606
Net Interest & Other Income	(1,581)	(493)	(80.3)	(91.3)	(9.47)
Tax Expense / Benefit	(1,377)	(1,728)	(1,618)	(2,559)	(3,076)
Net Income (Adjusted)	4,778	5,844	5,162	6,833	8,018
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	6,818	8,009
Depreciation & Amortization	1,896	1,373	1,493	1,528	1,560
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	1,754
Cash Flow from Operations	5,646	6,193	4,613	9,496	11,024
Capital Expenditure	(874)	(785)	(848)	(1,124)	(1,197)
(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)	(1,063)
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	4,410
FX and other changes to cash	(1,769)	2,234	(122)	0	0
Change in Cash	(1,794)	1,606	(1,912)	2,651	4,410
Change in Net Debt	440	(6,308)	1,062	(3,551)	(5,510)
Net Debt	5,214	(1,094)	(32.4)	(3,584)	(9,094)

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	1,530
Other Non-Current Assets	11,716	11,891	11,891	11,891	11,891
Trade Receivables	6,258	6,361	6,880	7,593	8,202
Cash & Equivalents	9,862	11,468	9,556	12,208	16,618
Other Current Assets	2,449	2,702	3,756	3,976	4,298
Total Assets	72,160	68,291	67,223	70,310	75,154
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	14,030	14,324
Total Liabilities	29,307	24,926	25,514	24,761	23,955
Total Equity	42,853	43,365	41,710	45,549	51,199
Total Equity & Liabilities	72,160	68,291	67,223	70,310	75,154

Business Performance*

Return On Capital Employed	16.2%	22.3%	21.7%	28.5%	28.6%
Return On Equity	12.1%	14.0%	12.2%	15.8%	16.7%
Operating Margin	15.1%	18.5%	16.1%	25.5%	27.1%
Free Cash Flow (MM)	4,772	5,408	3,765	8,372	9,827

Quality of Earnings*

Cash Realization Ratio	1.18x	1.06x	0.89x	1.39x	1.37x
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 15.

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 <5% in 2023E.

Stock Data

Shares / ADR	1.00
Price to Book Value	4.5x

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.	186.00	191.00
2024E EPS	5.02	4.77
2025E EPS	5.90	6.31
2026E EPS	6.77	7.41

Changes to estimates and valuation

Exhibit 1: Changes to our estimates

Cloud upgrades of 2-3% as CCB accelerates and EBIT upgrades as SAP restructures and scales efficiently

In €mn (except per share values)	New estimates			Old estimates			Delta		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Licences	1,767	1,134	737	1,575	1,088	816	12.2%	4.2%	-9.7%
Cloud	13,664	17,086	21,280	13,520	16,702	20,701	1.1%	2.3%	2.8%
Maintenance	11,497	11,245	10,796	11,504	11,108	10,711	-0.1%	1.2%	0.8%
Services	4,279	4,471	4,642	4,280	4,457	4,627	0.0%	0.3%	0.3%
Revenue	€ 31,207	€ 33,936	€ 37,454	€ 30,880	€ 33,354	€ 36,855	1.1%	1.7%	1.6%
% YoY growth	5.7%	8.7%	10.4%	5.0%	8.0%	10.5%			
Ex FX	9.0%	8.9%	10.4%	6.6%	8.7%	10.5%			
Adjusted operating profit	€ 6,500	€ 7,818	€ 9,995	€ 6,550	€ 7,679	€ 8,938	-0.8%	1.8%	11.8%
% margin	20.8%	23.0%	26.7%	21.2%	23.0%	24.3%			
Reported operating profit	€ 5,785	€ 5,473	€ 9,567	€ 5,830	€ 7,189	€ 8,515	-0.8%	-23.9%	12.4%
% margin	18.5%	16.1%	25.5%	18.9%	21.6%	23.1%			
Adjusted EPS	€ 4.95	€ 4.37	€ 5.79	€ 3.82	€ 4.60	€ 5.41	29.6%	-4.9%	7.1%
% YoY growth	23.3%	-11.7%	32.4%	106.8%	20.4%	17.6%			
YoY, ex FX	37.2%	-11.6%	32.4%	110.8%	21.2%	17.6%			
Reported EPS	€ 5.17	€ 3.11	€ 5.78	€ 6.02	€ 4.12	€ 5.15	-14.1%	-24.3%	12.3%
FCF to equity	€ 5,083	€ 3,440	€ 8,047	€ 4,950	€ 5,784	€ 7,506	2.7%	-40.5%	7.2%

Source: BofA Global Research estimates

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Exhibit 2: SAP Sum of the Parts valuation (€mn except per share data when stated)

Cloud accounts for c85% of current equity value

SOTP Valuation	Methodology	2024		EV	Stake	EV SAP	Multiple Comment	Per share
		EV Sales Mult (x)	2024 EBITDA Mult (x)					
Cloud (ex Qualtrics)	Target Multiple	9.6x	26x	165,988	100%	165,988	26x 2024 EBITDA, in line with US cloud software for respective growth	142
License + Maintenance	DCF	2.6x	7x	32,458	100%	32,458		28
Services	Target Multiple	1.4x	14x	6,080	100%	6,080	Blend of Accenture, Capgemini & IBM	5
Enterprise Value (€m)				-	-	204,526	-	
Net Debt 2024 (BofAe, €m)				-	-	-3,521	-	
Equity Value (€m)				-	-	208,047	-	
Fully diluted share count (m)				-	-	1,172	-	
Value per share (€/share)				-	-	178	-	
Value per share (€/share)				-	-	178	-	
Share price						161		
Upside (downside) potential						11%		

Source: BofA Global Research estimates

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Exhibit 3: New 2024 /2025 guidance

Consensus to increase

In €mn (except per share values)	2024			Δ (%)		
	Guidance	BofA	Cons.	Guidance vs. BofA	Guidance vs cons	BofA vs Cons.
Licences		1,134	1,121			1.2%
Maintenance		11,245	11,173			0.6%
Cloud Subscription	17,150	17,086	17,001	0.4%	0.9%	0.5%
SSRS Revenue	€ 29,250	€ 29,465	€ 29,192	-0.7%	0.2%	0.9%
Total Revenue		€ 33,936	€ 33,647			0.9%
Adjusted Operating Profit (post SBC)	€ 7,750	€ 7,818	€ 7,727	-0.9%	0.3%	1.2%
% margins		23.0%	23.0%			
FCF to equity	€ 3,500	€ 3,440	€ 6,046	1.8%	-42.1%	-43.1%
In €mn (except per share values)	2025			Δ (%)		
	Guidance	BofA	Cons.	Guidance vs. BofA	Guidance vs cons	BofA vs Cons.
Licences		737	872			-15.5%
Maintenance		10,796	10,700			0.9%
Cloud Subscription	21,500	21,280	21,197	1.0%	1.4%	0.4%
SSRS Revenue		€ 32,812	€ 32,459			1.1%
Total Revenue	€ 37,500	€ 37,454	€ 37,282	0.1%	0.6%	0.5%
Adjusted Operating Profit (post SBC)	€ 10,000	€ 9,995	€ 9,426	0.0%	6.1%	6.0%
% margins	26.7%	26.7%	25.3%			
FCF to equity	€ 8,000	€ 8,047	€ 7,419	-0.6%	7.8%	8.5%

Source: BofA Global Research estimates

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Earnings call key takeaways

Summary

1. Positive on medium term revenue outlook with Cloud ERP suite (82% of cloud) growing 33%, driving growth acceleration in 2024/2025 and acceleration beyond 2025.
2. 27% Cloud growth (cc) : translate to 24-27% cloud growth in 2024 with some drag from transactional (c1.5%) but to ease over time
3. Business AI: Rise premium grow premium: 50% of customers selecting Premium offer. Moving from discovery to adoption.
4. FCF/restructuring €2bn cost, savings reinvested in 2024 but benefits in 2025 and beyond. 2025 FCF driven by profit growth, moderate assumptions on working cap. 2025 upgraded to 10bn post 2bn SBC, benefits more apparent in coming years, net of restructuring of spilling out in further years
5. M&A: don't need to buy growth, but will keep eyes open to further complement our portfolio

Prepared remarks

- Met or exceeded outlook on all key metrics. Need to lead the way to lead in Business AI
- Major set of update: Announced new transformation program, investment in strategic growth areas, esp in Gen AI, Sharing outlook for 2024 , Update on 2025 ambitions including effect of transformation plan
- Customer wins include Vodafone with Signavio, EMS, VW SuccessFactor, NVIDIA
- Guidance: total revenue expected to accelerate to 2027, lead with RISE, hundreds of net new every year.
- Cloud: Targeted incentive to accelerate migration. GROW big success, 700 new subs.
- BTP: 2.5bn run rate and growing at double digits
- Top 1,000 customers using average 4 solution, (3 last year), top 100 at 5 up from 4.
- €1bn investment on business AI
- M&A: don't need to buy growth, but will keep eyes open to further complement our portfolio
- Infusion of Business AI across all the business
- Further opportunities to enhance operating model
- Cloud ERP 82% of cloud, 33% growth, sustain v high growth rate
- Region: strong APJ and EMEA, solid US
- EBIT impacted accelerated cap sales, higher bonus pool, 109mln Q4 2022 Litmus baseline.
- Tax: 28-32% non IFRS tax rate, higher end in 2024 due to restructuring costs



- FCF support but some capex pushed out to 2024
- €2bn restructuring, vast majority recognised in H1 2024. Preliminary number, could evolve. Any saving we can extract to be reinvested in that investment.
- 2025 upgraded to 10bn post 2bn SBC, benefits more apparent in coming years, net of restructuring of spilling out in further years. 5.9bn FCF in 2024 excluding one-offs.
- 2025: significant reduction in cash SBC in FCF.
- 1000 customers using Cloud for sustainable enterprise.

Q&A

Update S4 HANA and S4 HANA cloud migration? How is traction with large / complex customers? Users like NVIDIA want to build more resilient supply chains. Significant uptick in >5mln deals, and total backlog committed coming especially from large enterprise to remodel business models. Overall very confident with traction with large enterprise customers. To navigate macro uncertainty they need operationally efficient processes and need to find ways to monetise - only answer is cloud with SAP. Order entry reflects market demand.

Business AI progress? Launched two new products recently - RISE premium and GROW premium (50% of customers selecting Premium offer). Business AI is moving from discovery to adoption.

Cloud ERP - what is outside of Cloud ERP in cloud and what actions are being taken here? Ariba and S4 come as one procurement platform. Former HANA Enterprise is in decline. We have 32% to 33% growth in Cloud ERP. Outside of Cloud ERP the remainder of the SaaS / PaaS portfolio was under pressure in 2023. Extension suite is a mid-size digit grower with IaaS c16%. Applying same growth rates over the next two years would get us to the 2025 guidance.

Restructuring plan: further benefits post 2025? Much higher recurring growth with total cloud backlog €44bn. RISE has 50% net new customers. For 2025 and beyond we expect higher recurring revenue share with lower share of licence. We see further total revenue acceleration in 2025 and beyond, no lack of new solutions to win market share in the coming years. We expect all these levers to help drive margin expansion beyond 2025.

Business AI / SAP: access to customer data and processes, how does it differentiate SAP, customers willing to share their data? Develop strong platform, predictive sales, inventory, can take a ton of opex out for customers.

27% CCB growth in Q4: Litmus lapping, LeanIX, quantify growth drivers, reconciliation with 24-27% guide, assumptions transactional side? 10mln contribution from LeanIX in Q4 / December with about 100mln translation into Cloud revenue guidance with transactional cloud being the delta. EUR800mln is transactional which stagnated in 2023 and we expect will stagnate in 2024 which we expect will shave of about 1.5% in 2024 but this will ease over time. HSD possible in 2025. Supplier networks is a strategic investment.

FCF: levers on working cap, others? Lion share of bridge is uplift in profits. Some cash SBC. Moderate assumption in working cap, already progress in 2023 driving outperformance in FCF. Already worked through some factoring unwind in 2023 with only EUR200mln left to go in 2024.

2024 Software guidance: implication on maintenance? Good Q4 in licence. Some customers had to upsell due to growing businesses. Prudent to project continuous decline. Good licence performance make YoY comp tougher going forward. With underlying growth increasing it is only a matter of time until we report double digits for total revenue. Possible in 2024, very likely to happen in 2025. Extremely confident on total revenue trajectory.

Q4 EBIT commentary? impact on higher bonuses, higher Department of Justice settlement cost (c200mln impact vs 155mln already booked), impact from sales commissions for a strong Q4.

Product cycle? Consistent feedback from Davos was strong momentum with partners with SAP growing faster than the rest of their portfolio. We will be onboarding further partners for RISE. We are working with partners to ramp up capacity.

Q4 results review

Solid Q4, bullish outlook bar 2024 FCF

SAP delivered a solid Q4 with a 1.8% revenue beat vs consensus and Adj EBIT 1.5% beat. Group revenue was up 9% YoY on a constant currency basis with Cloud and Software revenues 2.3% ahead. Cloud backlog was strong at + 27% YoY (cc), an unexpected acceleration from 23% in Q3. FY24 guidance was strong on top line with Cloud revenue +24-27% c.c vs consensus + 24.2% with total cloud and software revenue 8-10% cc. However, 2024 FCF is impacted by €2.4bn headwinds (restructuring and one-offs) with a 2024 outlook of €3.5bn vs c.s. €6bn. Reit Buy

Guidance: cloud acceleration in '24 but €2.4bn FCF hit

2024 outlook: Cloud revenue +24-27% vs consensus + 24.2%, Cloud and software revenue +8-10% vs street +9.1%. EBIT guidance €7.6-7.9bn, up 17-21% c.c (post share-based compensation) vs street c€7.65bn. Guidance for free cash flow at c€3.5bn is below consensus at €6bn due to c.€2bn program payouts, €0.2 billion impact from FY23 settlement payout and €0.2 billion adverse impact from factoring discontinuation. The current 2025 revenue ambition was reiterated for >€21.5bn of Cloud revenues which implies a 2023-'25E CAGR of c.25% however the EBIT target was upgraded/ restated post SBC to c.€10bn (previously c€11.5bn before c €2bn of SBC). FCF was upgraded to c€8bn from €7.5bn, supported by the benefit from the restructuring plan.

Q4 in detail: beat on licence

SAP delivered a solid Q4 with a 1.8% revenue beat vs Visible Alpha consensus driven by a licence beat, up 9% YoY on a constant currency basis, with Software revenues 2.3% ahead (licences 36% ahead, maintenance -0.8% miss, Cloud -0.6% miss). Cloud backlog was strong, + 27% YoY (cc) from 25% in Q3. Adj EBIT of €2,510 (pre SBC) was 1.5% above c.s. Adj EPS -12% miss, FCF 18% ahead.

Exhibit 4: Q4'23 results review

Revenues c.1.8% ahead, Adj EBIT c.1.5% beat, FCF 18% beat

In €mn (except per share values)	Q4'23			Δ (%)	
	Actual	Cons.	Guidance	Actual vs. Cons.	Actual vs. Guidance
	27%				
Licences	841	618		36.0%	
Maintenance	2,846	2,868		-0.8%	
Cloud Subscription	3,699	3,722	3,791	-0.6%	-2.4%
SSRS Revenue	€ 7,386	€ 7,218	€ 6,896	2.3%	7.1%
% yoy growth reported	5.8%	3.4%	-1.2%	241 bps	702 bps
% yoy growth constant currency	10.0%				
Services revenue	1,082	1,099		-1.5%	
Total Revenue	€ 8,468	€ 8,317		1.8%	
% yoy growth reported	5.0%	3.1%		188 bps	
Adjusted Operating Profit (old def pre SBC)	€ 2,510	€ 2,473	€ 2,269	1.5%	10.6%
% margins	29.6%	29.7%		-10 bps	
YoY ex FX growth	2.0%				
Reported Operating profit	1,900				
% margins	22.4%				
Adjusted EPS	€ 1.41	€ 1.60		-12.1%	
Reported EPS	€ 1.01				
FCF to equity	€ 1,660	€ 1,405	€ 1,397	18.1%	18.8%

Source: BofA Global Research estimates, Company compiled consensus (*Visible Alpha consensus), Company report

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Exhibit 5: FY'23 actuals vs consensus

Revenue beat of 0.5% driven by a 14.3% beat vs consensus in licenses

In €mn (except per share values)	FY'23			Δ (%)	
	Actual	Cons.	Guidance	Actual vs. Cons.	Actual vs. Guidance
Current Cloud Backlog	27.0%				

Exhibit 5: FY'23 actuals vs consensus

Revenue beat of 0.5% driven by a 14.3% beat vs consensus in licenses

	FY'23			Δ (%)	
Licences	1,767	1,546		14.3%	
Maintenance	11,497	11,518		-0.2%	
Cloud Subscription	13,664	13,691	13,757	-0.2%	-0.7%
SSRS Revenue	€ 26,928	€ 26,762	€ 26,438	0.6%	1.9%
% YoY growth reported	6.1%	5.4%	4.1%	66 bps	193 bps
% YoY growth constant currency	9.0%				
Services revenue	4,279	4,298		-0.4%	
Total Revenue	€ 31,207	€ 31,060		0.5%	
% YoY growth reported	5.7%	5.2%		50 bps	
Adjusted Operating Profit (old def pre SBC)	€ 8,721	€ 8,687	€ 8,480	0.4%	2.8%
% margins	27.9%	28.0%		-2 bps	
YoY ex FX growth	13.0%				
Reported Operating profit*	5,785				
% margins	19%				
Adjusted EPS (Basic)	€ 5.01	€ 5.20		-3.6%	
Reported EPS (Diluted)*	€ 5.17				
FCF to equity*	€ 5,083	€ 4,859	€ 4,900	4.6%	3.7%

Source: BofA Global Research estimates, Company compiled consensus, Company guidance (mid-point of range), Company report

BofA GLOBAL RESEARCH

Exhibit 6: SAP P&L Summary (€mn)

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	21,280	25,792
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	29,465	32,812	36,573
Consulting	3,713	3,361	3,078	3,558	3,500	3,669	3,816	3,892
Other services	827	749	686	792	779	802	826	817
Total Revenue	27,634	27,343	27,842	30,871	31,207	33,936	37,454	41,283
% YoY growth reported	11.7%	-1.1%	1.8%	10.9%	5.7%	8.7%	10.4%	10.2%
% YoY growth constant currency	9.0%	1.0%	3.0%	5.0%	9.0%	8.9%	10.4%	10.2%
% YoY growth organic	6.7%	0.4%	3.4%	4.4%	7.7%	8.9%	10.4%	10.2%
Cost of SSRS	4,246	4,369	4,697	5,201	5,075	5,738	6,365	6,935
% 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	3,438
% margin	25%	27%	30%	29%	29%	28%	28%	27%
Cost of revenues	7,653	7,363	7,328	8,286	8,103	8,966	9,730	10,373
Gross Profit	19,981	19,980	20,514	22,585	23,104	24,970	27,724	30,910
% gross margin	72.3%	73.1%	73.7%	73.2%	74.0%	73.6%	74.0%	74.9%
Research & Development	3,852	4,153	4,666	5,530	5,611	5,981	6,542	7,145
% of revenue	14%	15%	17%	18%	18%	18%	17%	17%
Sales & Marketing	6,783	6,371	6,480	7,749	7,583	7,808	7,842	8,565
% 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	9,995	11,606
% 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	-6
Adjusted Profit before taxation	8,334	8,880	10,421	6,452	8,228	7,738	9,904	11,600
Taxation	-2,180	-2,350	-2,078	-1,903	-2,413	-2,476	-2,971	-3,480
% 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	6,933	8,120
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	6,833	8,020
Adjusted EPS (Diluted)	5.11	5.42	6.74	4.08	4.95	4.37	5.79	6.80
Dividends (cash)	1,887	2,183	2,891	2,390	2,464	2,538	2,614	3,205
DPS (cash)	1.58	1.85	2.45	2.05	2.11	2.17	2.24	2.75
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 7: 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	6,918	8,111
Depreciation and amortization	1,872	1,831	1,775	1,896	1,373	1,493	1,528	1,560
Income tax expense	1,231	1,938	1,467	1,378	1,728	1,618	2,559	3,077
Finance income and finance costs, net	-196	-776	-2,174	1,385	469	80	91	6
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	-609
Decrease/increase in other assets	-574	-664	-679	-1,294	-666	-1,054	-70	-322
Decrease/increase in trade payables, provisions and other liabilities	326	304	386	120	661	1,065	631	314
Increase/decrease in contract liabilities	1,007	128	139	733	495	498	-358	305
Interest paid	-341	-244	-183	-248	-356	-310	-282	-254
Interest received	97	122	48	166	469	229	191	247
Income taxes paid, net of refunds	-2,338	-1,194	-2,063	-1,675	-2,242	-1,418	-2,359	-3,077
Others (SBC)	0	0	0	0	1,130	1,300	1,500	1,654
Net cash (used in)/generated from operating activities	3,497	7,193	6,207	5,646	6,193	4,613	9,646	11,026
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	-1,124	-1,197
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	-1,063
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	2,801	4,412
Cash and cash equivalents at the beginning of the period	8,628	5,315	5,311	8,898	9,008	8,002	6,212	9,014
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	9,014	13,426
FCF (SAP definition)	2,276	5,999	5,008	4,348	5,083	3,440	8,197	9,504

Source: BofA Global Research estimates, Company report

BofA GLOBAL RESEARCH

Exhibit 8: 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	9,014	13,426
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	8,202
Other non-financial assets	1,179	1,333	1,626	2,152	2,358	3,412	3,482	3,804
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	23,778	29,121
-								
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	1,530
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	47,030	46,532	46,036
Total assets	60,229	58,476	71,173	72,160	68,291	67,223	70,310	75,156
-								
Trade and other payables	1,576	1,213	1,545	2,106	1,775	2,840	3,471	3,785
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	4,516	4,495
Total current liabilities	14,462	12,868	16,050	17,452	14,576	15,814	15,761	16,055
-								
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	24,761	23,955
-								
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	48,574	55,637
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	50,652
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	51,201
Total Equity and Liabilities	60,229	58,476	71,173	72,160	68,291	67,223	70,310	75,156
Net Debt	11,385	9,776	4,774	4,509	-1,792	-730	-4,432	-9,944

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 26x 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 14x EV/EBITDA multiple, in line with IT Services peers. This results in a €178 (US\$191) 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
	Amadeus	AMADF	AMS SQ	Victor Cheng, CFA
	Amadeus	AMADY	AMADY US	Victor Cheng, CFA
	Capgemini	CAPMF	CAP FP	Frederic Boulan, CFA
	Capgemini	CGEMY	CGEMY US	Frederic Boulan, 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				
	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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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.

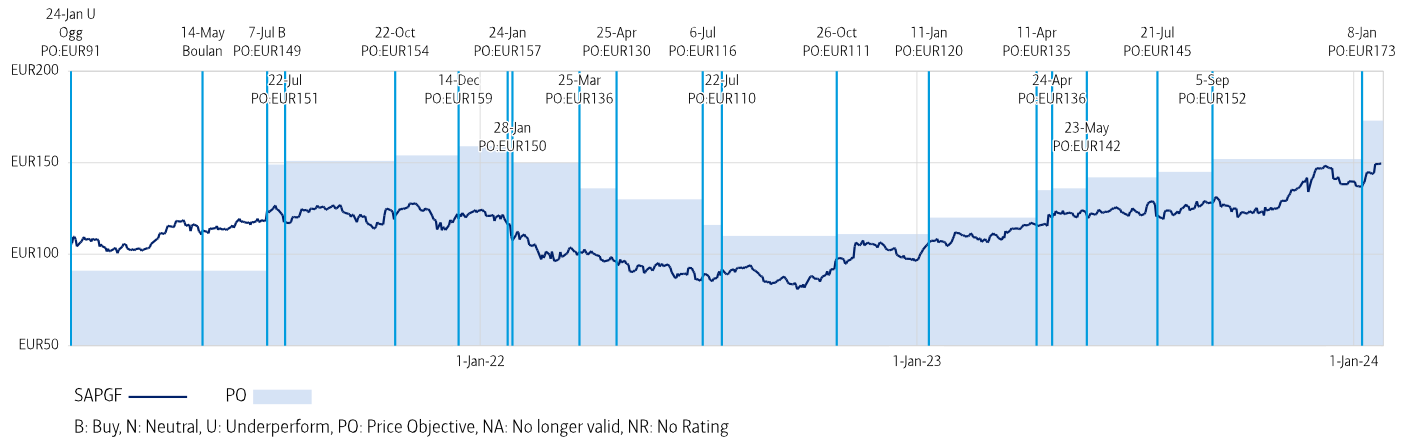
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Disclosures

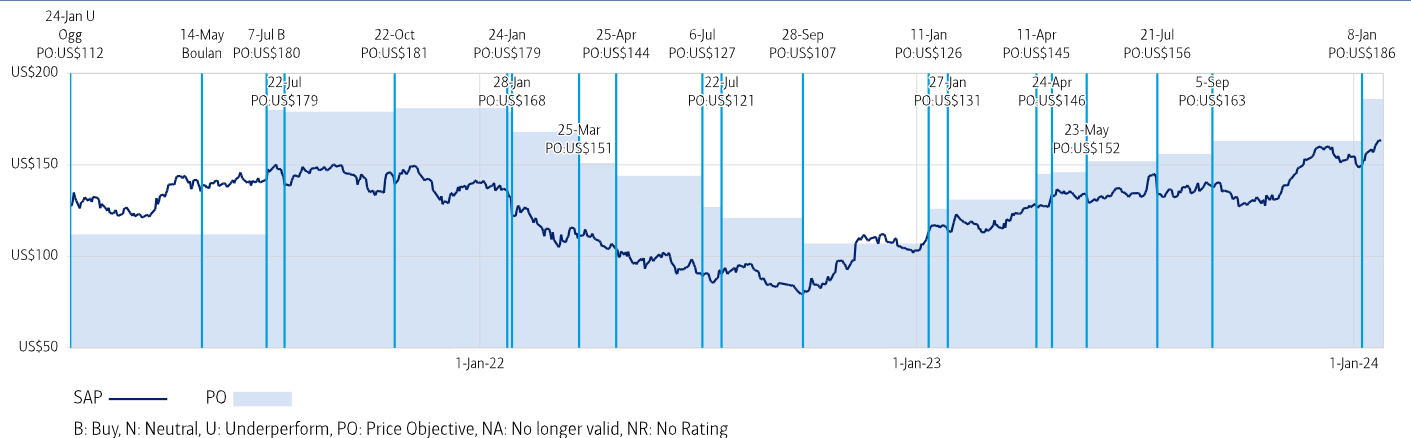
Important Disclosures

SAP (SAPGF) Price Chart



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



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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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