

COMPANY PROFILE

SAP SE

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COMPANY OVERVIEW

SAP SE (SAP or 'the company') is a provider of enterprise application software and related services. The company offers customer relationship management, data management, human capital management and supply chain management solutions. SAP lines of business include asset management, commerce, finance, human resource, manufacturing, marketing, supply chain, engineering and sustainability. It caters to a range of industries including consumer, discrete manufacturing, energy and natural resources, financial services and public services. SAP operates across the Americas, Europe, the Middle East and Africa and Asia Pacific. It is headquartered in Walldorf, Germany.

The company reported revenues of (Euro) EUR22,062 million for the fiscal year ended December 2016 (FY2016), an increase of 6.1% over FY2015. In FY2016, the company's operating margin was 23.3%, compared to an operating margin of 20.4% in FY2015. In FY2016, the company recorded a net margin of 16.5%, compared to a net margin of 14.7% in FY2015.

The company reported revenues of EUR5,590 million for the third quarter ended September 2017, a decrease of 3.3% over the previous quarter.

KEY FACTS

Head Office	SAP SE Dietmar-Hopp-Allee 16 Walldorf Baden-Wuerttemberg Walldorf Baden-Wuerttemberg DEU
Phone	49 6227 747474
Fax	49 6227 757575
Web Address	www.sap.com
Revenue / turnover (EUR Mn)	22,062.0
Revenue (USD Mn)	24,412.4
Financial Year End	December
Employees	84,183
New York Stock Exchange Ticker	SAP

SWOT ANALYSIS

SAP SE (SAP) is a provider of enterprise application software. The company offers customer relationship management, data management, human capital management and supply chain management solutions. The company's leading position indicates large addressable market which can be tapped for cross selling to enhance revenues. However, intense competition may lead to pricing pressures thereby adversely impacting the financial performance and market share of the company.

Strength Extensive partner ecosystem Leading position in enterprise software market Presence across diversified end markets and geographies	Weakness Lack of scale and product diversification
Opportunity Increased focus on IoT solutions Positive outlook for enterprise mobility market Cloud computing market represents growth opportunity Robust growth in big data market	Threat Intense competition could lead to pricing pressures Stringent regulatory requirements in Germany and the US Risk from exchange rate fluctuations

Strength

Extensive partner ecosystem

SAP has an extensive partner network comprising of more than 13,000 partners. The company's partners operate independently of SAP and complement SAP's business by selling software and cloud services, developing complementary software and solutions, and by providing implementation and other services. SAP partners help companies of all sizes identify, purchase, and deploy the ideal solutions to address their business needs. SAP value-added resellers (VARs) and multitier distribution channels offer local market and industry expertise that addresses specific market needs. SAP also engages with the partner community in the development of new solutions, and works with partners on new product initiatives. The company's partners are classified into five levels based on their depth of expertise and experience. Its entry level partners, SAP PartnerEdge Open Ecosystem Partners, represent smaller organizations. SAP's other partner categories include SAP PartnerEdge Silver Partners, SAP PartnerEdge Gold Partners, SAP PartnerEdge Platinum Partners, and SAP Recognised Expertize. SAP has strong partnerships with a broad network of IT professional services firms that provide consulting, system integration, hosting, education, and more. The company's strong partner network provides significant and sustainable value to the company in expanding its revenues and geographical spread. It also acts as a competitive advantage over its peers.

Leading position in enterprise software market

SAP has a leading position in all the markets that it serves. The company is the leader in business application and analytics software in terms of market share and the market leader in digital commerce. Also, the company is the largest enterprise cloud company with more than 125 million cloud users and is a growing database company. Furthermore, SAP extended its position as the overall leader in worldwide supply chain management market. The company is also a leader in the markets for sales and operations planning systems and utilities customer information systems. Similarly, it was recognized as a leader in cloud-based talent management software based on its product and service offerings, capabilities and strategies, and current and future market success. In FY2016, the company registered a 7% growth in cloud and software, and 1.6% in services. Furthermore, the company holds leadership positions in markets for corporate performance management solutions, enterprise business intelligence platforms, big data predictive analytics solutions, transportation management systems, customer management solutions, and enterprise data virtualization solutions, among others. Overall, SAP enjoys significant market presence and dominates the enterprise software market. This indicates that the company's products have appealed to the target customers. Additionally, the leading position indicates large addressable market which can be tapped for cross selling to enhance revenues.

Presence across diversified end markets and geographies

The company has developed deep expertise within specific industry groups. The company follows a vertical strategy and offers around 25 industry-specific solutions, which are categorized into six groups: energy and natural resources, discrete manufacturing, consumer, public services, financial services and services. In FY2016, the company generated 25% of revenue from consumer industry, followed by energy and natural resources with 22.5%, discrete manufacturing with 17.6%, services with 16.5%, public services with 9.7% and financial services with 8.7%. By catering to diversified industries, the company reduces vulnerability to industry specific risks and also enhances the revenue generation opportunities for the company.

In addition, SAP has diversified geographic presence with operations in more than 180 countries. In FY2016, the company generated 44.2% of the total revenue from the EMEA region, followed by Americas with 40.5% and APJ (Asia Pacific Japan) with 15.3%. The company's revenue growth from all the regions has been fairly balanced and all regions except Japan registered a growth on a year on year basis in FY2015. SAP's diversified presence across geographies diversifies its business risks. Furthermore, the company is well positioned to tap into growth opportunities offered across the regions.

Weakness

Lack of scale and product diversification

The company lacks the scale and product diversification to compete with other major players. Some of its competitors such as Microsoft Corporation and Oracle Corporation have greater financial strength and diversified product portfolio. Microsoft reported revenues of US\$85,320 million during the year ended June 30, 2016, while Oracle Corporation recorded revenues of US\$37,047 million during the year ending May 31, 2016. Comparatively, SAP SE reported revenues of EUR22,062 million in FY2016. In addition, the company lacks product diversification when compared to its competitors. SAP concentrates on the

business software segment, while competitors also address other segments of the IT market, such as database management applications, operating systems, desktop applications, and servers. Its major competitor, Microsoft, is diversified into networking, operating systems, hardware and online business services. Oracle provides database and middleware software and applications software for enterprises. SAP's relative lack of scale and product diversification limits its ability to compete effectively.

Opportunity

Increased focus on IoT solutions

With increasing adoption of cloud services and the big data services, the Internet of Things (IoT) market is rapidly growing. According to an in-house research report, the IoT market is expected to reach US\$662 billion in 2021 from US\$157 billion in 2016, growing at a CAGR of over 33% during 2016-21 period. Furthermore, it is estimated that over 20.8 million devices will be connected by 2020, compared to 6.4 billion devices in 2016.

SAP offers IoT solutions with a pragmatic approach which helps its customers leverage existing equipment and data to make the most of current technology investments. It also increased its focus on these solutions in the recent times. For instance, in October 2017, the company entered into a partnership with VMware to develop an IoT solution that supports the implementation and management of IoT use cases across devices, infrastructure, edge, cloud and application domains. The goal is to enable fast deployment, scalability and on-schedule execution of IoT projects. Earlier in February 2016, the company and Vodafone signed an agreement to allow enterprises to connect and manage devices using Vodafone's IoT connectivity platform and to collect and move data from the devices into the SAP HANA platform to support predictive maintenance. The company's increased focus and rapidly growing end market would represent a growth opportunity for SAP to increase its revenues and market share in coming years.

Positive outlook for enterprise mobility market

The market for enterprise mobility solutions has been growing at a rapid pace. Increasing mobile worker population, emergence of sophisticated mobile devices such as tablets and smartphones and introduction of several business applications is expected to drive the market for enterprise mobility over the next few years. According to an in-house research report, the global enterprise mobility market is expected to grow at a CAGR of 24.7% during 2015-22. The enterprise mobility market is forecasted to be valued at US\$510.4 billion by 2022 from US\$86.4 billion in 2014.

SAP has increased its focus on enterprise mobility solutions in the recent times. For instance, in March 2016, SAP introduced the SAP Single Sign-On application which delivers improvements such as expanding the existing coverage for mobile and cloud scenarios, simplified implementation, and continuous improvement of security protocols based on market requirements. In June 2016, the company introduced enterprise information management (EIM) portfolio to offer support for cloud and Big Data environments, enhancements for self-service capabilities and support for governing enterprise information. The positive outlook for the enterprise mobility solutions and the company's increased focus on this business will enable it to enhance its customer base and market share in the coming years.

Cloud computing market represents growth opportunity

The worldwide demand for cloud computing services is expected to grow significantly in the coming years. Cloud computing is a computing infrastructure model, which enables delivery of software-as-a-service (SaaS). Appeal to cloud computing has been increasing as it enables companies to reduce their expenses related to upfront royalty or licensing payments, investment in hardware infrastructure and other operating expenses. Several organizations around the world have been realizing the potential benefits of cloud and are adopting these disruptive technologies to gain business advantage. According to an in-house research report, the global cloud computing market is expected to grow at a CAGR of 35.1% to reach US\$297.2 billion by 2020 from US\$66 billion in 2015. During the forecast period, public cloud is expected to attract the major share of investments from enterprises with a market share of 58.4%, followed by private cloud with 27% and hybrid cloud with 14.6%. In terms of variants of cloud, Software-as-a-Service (SaaS) is projected to remain the most popular cloud computing solution among enterprises with 56.9% of the market share by 2020, followed by Infrastructure-as-a-Service (IaaS) and Platform-as-a-Service (PaaS) with 24.8% and 18.3% market share, respectively. Geography wise, North America is expected to account for 60.3% market share, followed by Europe with 20.6%, Asia-Pacific with 13.5%, Central and Latin America with 4.2%, and the Middle East and Africa by 1.4% during 2015-2020.

The company provides the complete set of cloud offerings, including, cloud platform, cloud services, cloud applications, and business network services. To strengthen its presence in the rapidly growing market for cloud computing, the company also made a number of significant acquisitions, including Multiposting, a French cloud-computing company which provides software for the automatic posting of jobs and internships on the Internet. Through the acquisition, the company provides end-to-end cloud recruiting suite. The other acquisitions include Ariba and SuccessFactors. SAP's increasing presence in the expanding cloud computing domain coupled with the rapidly growing end market will provide the company with the steady revenues and increasing customer base.

Robust growth in big data market

Big data, which is a primary contributor to the pace of overall data growth, refers to the large repositories of corporate and external data, including unstructured information created by new applications including medical, entertainment, energy and geophysical, social media and other web repositories. It also refers to the new analytics and other technologies that are available to help people do things with the significant amount of enterprise and external data. According to an in-house research report, the big data market is expected to grow from US\$28.6 billion in 2016 to US\$66.8 billion by 2021 at a CAGR of 18.5%.

The company is keen to take advantage of this growth opportunity. SAP's technology strategy centers on SAP HANA as the real-time in-memory computing platform for analytics and applications. SAP HANA enables organizations to analyze business operations based on a large volume and variety of detailed data in real time. The company has established strategic partnerships with leading companies to enhance its big data offerings. For instance, in May 2016, the company introduced the latest version of the SAP HANA platform which delivers a range of enterprise reliability and data-center scale features including hybrid data management service in the cloud. In April 2016, SAP introduced the SAP Business One Sales mobile app, a mobile application for the SAP Business One application supported by SAP HANA platform. The mobile app is designed to support customers representing small and midsize enterprises

(SMEs) as well as subsidiaries of large enterprises. Earlier in March 2016, the company introduced SAP HANA Vora, an in-memory query engine which provides contextual analytics across all data stored in Hadoop, enterprise systems and other distributed data sources. The company's strong presence, increased focus, and the positive outlook for the end market provide it with an opportunity to gain more customers and increase its revenues in future.

Threat

Intense competition could lead to pricing pressures

The company operates in a highly competitive and rapidly evolving software industry. SAP's primary competitors in applications include IBM, Oracle, and Microsoft. The company's key competitors in analytics include IBM (Cognos), SAS Institute, and Oracle (Hyperion). The mobile market is still highly fragmented. Competitors with offerings that overlap with SAP's include Pega Systems and Spring Mobile Solutions. Similarly, in the cloud market, the company faces line-of-business players such as Salesforce.com, Workday, and NetSuite. In addition, SAP's principal competitors in the database and technology business include IBM, Microsoft, and Oracle. Its offerings also compete with those of specialized vendors in various local markets and sub-segments. Intense competition may lead to pricing pressures thereby adversely impacting the financial performance and market share of the company.

Stringent regulatory requirements in Germany and the US

The laws and regulatory requirements in Germany, the US and other regions has become much more stringent. The company with its operations in various countries is subject to European, German, the US, and other governance-related regulatory requirements. In the recent times, the regulatory requirements have become stringent and some legislation are applied rigorously such as the anti-corruption legislation in Germany, the US Foreign Corrupt Practices Act, the UK Bribery Act, and other local laws prohibiting corrupt payments by employees, vendors, distributors, or agents. The emerging markets present strong laws and regulations. Any failure by the company to comply with the laws and regulations would have an effect on its business, financial position, profit, cash flows and reputation.

Risk from exchange rate fluctuations

SAP operates globally and is exposed to foreign exchange risk arising from various currencies. The magnitude of foreign exchange exposures changes over time as a function of the company's presence in different markets and the prevalent currencies used for transactions in those markets. The company generated about 73% of its total revenue from non-euro participating countries in FY2016 (2015: 74%). SAP's non-Euro based sales gives rise to substantial foreign exchange exposure. In general, depreciation of another currency relative to the Euro will have a negative impact on the company's sales and operating profit. In FY2016, the company incurred a loss of EUR164 million as compared to a gain of EUR1,504 million in FY2015. SAP is also exposed to the translation of foreign currency earnings to the local currency. In addition, foreign currency denominated assets and liabilities together with foreign currency denominated cash flows from highly probable or probable purchases and sales contribute to foreign exchange exposure. These transaction exposures are managed against various local currencies because of the company's substantial production and sales outside the Euro zone. Since the company has

subsidiaries outside the Euro zone, the Euro-denominated value of the shareholders' equity of SAP is also exposed to fluctuations in exchange rates. Exchange rate fluctuations from time to time may significantly weaken the company's results of operations and financial condition.

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