



Stock Story: SAP

Powering the world's largest companies.

Enterprise software is home to some of the best business models in the world, and nowhere is this more evident than in Enterprise Resource Planning (ERP). ERP is the central nervous system of the enterprise, powering mission-critical processes across an organisation in a seamless suite of integrated software. Companies simply cannot run without it.

SAP is the market leader in ERP and related application software, formed through decades of expertise since its founding in 1972. This leadership is evident in the fact that 99 of the 100 largest companies in the world run SAP, and 87% of total global commerce volume (\$46 trillion) is generated by SAP customers. Its solutions span many functional areas including finance, procurement, human resources, and warehouse and transportation management.

The critical role ERP plays for enterprise customers to function and differentiate their business processes confers strong pricing power and customer retention rates for SAP. Its comprehensive product portfolio provides ample opportunity to expand its footprint both within its customer base and with new customers, and this opportunity extends as these customers expand and encounter greater complexity. SAP solves complexity.

SAP is now embarking on the largest business model shift in its history to support its customers as they digitally transform their businesses to the new cloud paradigm. Having undergone a period of transition with new management, restructuring, and divestment of non-core businesses, the company is now at an early phase of renewed growth momentum. The majority of SAP's customer installed base have yet to undergo or complete their cloud transitions, and this will provide significant runway for sales growth and margin expansion in the years to come.

This momentum is evident in SAP's cloud revenue, which has tripled over the last five years and now represents half of its €27 billion in total software revenue, within which its most strategic

cloud businesses grew over 50% in 2023 alone. The total value of contracted deals, a forward-looking indicator, continues to grow as does the size of individual deals as projects develop. The predictability of SAP's revenue stream will keep improving as cloud becomes a greater share of the business and the company's historical reliance on traditional licence sales diminishes.

ERP and related application software have been around for decades, but the innovation pipeline is arguably more exciting than it has ever been. Cross-border regulatory complexity is rising. Supply chains are becoming more sophisticated. Emissions-reporting frameworks require new ways to track and manage climate-related disclosures. The use of Artificial intelligence (AI) has accelerated.

Rapid advancements in AI offer the potential to solve new problems or operate more effectively, and companies are increasingly looking towards leveraging it. The rich proprietary data flowing through ERP systems make SAP particularly well suited to deliver these solutions. Integrating AI can help companies extend workflow automation, enhance predictive analytics, and improve decision-making.

These represent multi-year opportunities for SAP to capture additional value from innovation, all while driving further operating efficiencies. We believe the company's journey is only getting started.

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