

21 October 2013 | 13 pages

Application Software  
Western Europe | Germany

# SAP AG (SAPG.DE)

## Q3 Results A Little Light, But Hold Up Better Than We Expected

- Top line weakness** — Overall, total software + cloud subs of €1.17B was slightly below street €1.18B while total non-IFRS SSRS of €3.36B was below street €3.39B, also slightly short. Europe software license grew 10% at CC following prior flat results with strength in UK, Netherlands and Switzerland. HANA revenue of €149M was ahead of our €102M (after just slight growth in Q2). Asia was OK, although not as bad as others have reported. Large, on-prem transactions are still challenging with deal counts down 6% Y/Y and ASP down 7%. The acquisition of Hybris may have contributed slightly more than expected, while FX was slightly less.
- Profits inline** — Operating profit of €1.30B was slightly below consensus of €1.31B as expenses were controlled. Non-IFRS EPS of €0.78 was below our €0.80 but inline with consensus.
- Adjusting estimates** — We are reducing our cloud revenue estimates to account for what we believe is a flattening of growth here (company endorsed low 30s organic), which is below our prior expectation and the market considering SAP is converting some perpetual business to cloud (cloud now 1/3 of new biz in U.S.)
- Significant downside off the table, but we'd like to see better numbers set-up** — Results that weren't as bad as feared are likely to drive a near-term relief rally. Q4 estimates are roughly inline with typical seasonality with software revenue (the most seasonal piece) +80% Q/Q (historical range +73-123%). The challenge remains that with core software revenue declining at an accelerating pace (-15% in Q3 vs. -12% in Q2 and -8% in Q1), aggressive cloud goal (€1.5B in 2015), and 35% total margins by 2015, there remains risk of a reset or continual miss of numbers (like in Q3). Shares do trade slightly below 5 year average vs. benchmark MSCI tech and if numbers do not have further downside, then risk-reward is compelling. Meanwhile, the company needs to address strategy with cloud offerings in core business (outside of M&A) to show it can fight secular challenge in software sector of move to SaaS in apps. We are cutting our price target to €57 on lower numbers.

- Estimate Change
- Target Price Change

<b>Neutral</b>	<b>2</b>
Price (21 Oct 13)	€57.03
Target price	€57.00
	from €58.00
Expected share price return	-0.1%
Expected dividend yield	1.8%
<b>Expected total return</b>	<b>1.7%</b>
Market Cap	€70,062M
	US\$95,876M

### Price Performance (RIC: SAPG.DE, BB: SAP GR)



### SAP AG (EUR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Sales (€M)	14,233.0	16,223.0	16,837.9	18,033.6	19,570.3
Net Income (€M)	3,363.0	3,609.0	3,957.6	4,337.0	4,931.0
Diluted EPS (€)	2.83	3.03	3.31	3.63	4.13
Diluted EPS (Old) (€)	2.83	3.03	3.42	3.95	4.48
PE (x)	20.2	18.9	17.2	15.7	13.8
EV/EBITDA (x)	12.8	11.8	11.5	10.1	8.6
DPS (€)	1.10	1.10	0.85	0.94	1.03
Net Div Yield (%)	1.9	1.9	1.5	1.6	1.8

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### See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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SAPG.DE: Fiscal year end 31-Dec						Price: €57.03; TP: €57.00; Market Cap: €70,062m; Recomm: Neutral					
Profit & Loss (€m)	2011	2012	2013E	2014E	2015E	Valuation ratios	2011	2012	2013E	2014E	2015E
Sales revenue	14,233	16,223	16,838	18,034	19,570	PE (x)	20.2	18.9	17.2	15.7	13.8
Cost of sales	-4,355	-4,997	-5,019	-5,216	-5,496	PB (x)	5.3	4.8	4.2	3.6	3.1
Gross profit	9,878	11,226	11,819	12,817	14,074	EV/EBITDA (x)	12.8	11.8	11.5	10.1	8.6
Gross Margin (%)	69.4	69.2	70.2	71.1	71.9	FCF yield (%)	4.9	4.8	4.4	6.2	7.2
<b>EBITDA (Adj)</b>	<b>5,437</b>	<b>6,075</b>	<b>6,386</b>	<b>7,020</b>	<b>7,900</b>	Dividend yield (%)	1.9	1.9	1.5	1.6	1.8
EBITDA Margin (Adj) (%)	38.2	37.4	37.9	38.9	40.4	Payout ratio (%)	39	36	26	26	25
Depreciation	-238	-299	-331	-364	-400	ROE (%)	30.6	21.0	21.7	21.2	21.2
Amortisation	-486	-564	-624	-686	-755	<b>Cashflow (€m)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
<b>EBIT (Adj)</b>	<b>4,713</b>	<b>5,212</b>	<b>5,432</b>	<b>5,970</b>	<b>6,746</b>	EBITDA	5,606	4,930	5,395	6,097	6,936
EBIT Margin (Adj) (%)	33.1	32.1	32.3	33.1	34.5	Working capital	-744	230	-407	94	117
Net interest	-44	-68	-60	-29	56	Other	-1,087	-1,338	-1,451	-1,334	-1,462
Associates	0	0	0	0	0	<b>Operating cashflow</b>	<b>3,775</b>	<b>3,822</b>	<b>3,538</b>	<b>4,858</b>	<b>5,590</b>
Non-op/Except	-77	-176	-16	0	0	Capex	-445	-541	-551	-652	-686
<b>Pre-tax profit</b>	<b>4,761</b>	<b>3,823</b>	<b>4,365</b>	<b>5,018</b>	<b>5,837</b>	Net acq/disposals	-188	-6,094	-1,131	0	0
Tax	-1,321	-1,000	-1,067	-1,305	-1,517	Other	-593	671	-7	0	0
Extraord./Min.Int./Pref.div.	-1	0	0	0	0	<b>Investing cashflow</b>	<b>-1,226</b>	<b>-5,964</b>	<b>-1,689</b>	<b>-652</b>	<b>-686</b>
<b>Reported net profit</b>	<b>3,439</b>	<b>2,823</b>	<b>3,298</b>	<b>3,714</b>	<b>4,319</b>	Dividends paid	-713	-1,310	-1,013	-1,115	-1,227
Net Margin (%)	24.2	17.4	19.6	20.6	22.1	<b>Financing cashflow</b>	<b>-1,176</b>	<b>-194</b>	<b>-925</b>	<b>-1,115</b>	<b>-1,227</b>
Core NPAT	3,363	3,609	3,958	4,337	4,931	<b>Net change in cash</b>	<b>1,447</b>	<b>-2,488</b>	<b>802</b>	<b>3,091</b>	<b>3,677</b>
<b>Per share data</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>Free cashflow to s/holders</b>	<b>3,330</b>	<b>3,281</b>	<b>2,987</b>	<b>4,206</b>	<b>4,904</b>
Reported EPS (€)	2.89	2.37	2.76	3.11	3.61						
Core EPS (€)	2.83	3.03	3.31	3.63	4.13						
DPS (€)	1.10	1.10	0.85	0.94	1.03						
CFPS (€)	3.17	3.20	2.96	4.06	4.68						
FCFPS (€)	2.80	2.75	2.50	3.52	4.10						
BVPS (€)	10.68	11.88	13.58	15.76	18.35						
Wtd avg ord shares (m)	1,189	1,192	1,193	1,193	1,193						
Wtd avg diluted shares (m)	1,190	1,193	1,195	1,195	1,195						
<b>Growth rates</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Sales revenue (%)	14.2	14.0	3.8	7.1	8.5						
EBIT (Adj) (%)	17.6	10.6	4.2	9.9	13.0						
Core NPAT (%)	23.0	7.3	9.7	9.6	13.7						
Core EPS (%)	22.9	7.0	9.5	9.6	13.7						
<b>Balance Sheet (€m)</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>						
Cash & cash equiv.	5,782	2,631	3,500	6,590	10,267						
Accounts receivables	3,493	3,917	3,859	4,140	4,475						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	2,823	3,329	3,419	3,707	3,993						
Goodwill & intangibles	10,733	16,508	16,828	16,142	15,387						
Financial & other assets	394	450	457	546	546						
<b>Total assets</b>	<b>23,225</b>	<b>26,835</b>	<b>28,062</b>	<b>31,125</b>	<b>34,668</b>						
Accounts payable	937	870	961	1,014	1,060						
Short-term debt	1,331	802	1,748	1,748	1,748						
Long-term debt	2,925	4,446	3,476	3,476	3,476						
Provisions & other liab	5,325	6,546	5,669	6,081	6,487						
<b>Total liabilities</b>	<b>10,518</b>	<b>12,664</b>	<b>11,854</b>	<b>12,319</b>	<b>12,771</b>						
Shareholders' equity	12,699	14,163	16,199	18,797	21,889						
Minority interests	8	8	9	9	9						
<b>Total equity</b>	<b>12,707</b>	<b>14,171</b>	<b>16,208</b>	<b>18,806</b>	<b>21,898</b>						
<b>Net debt</b>	<b>-1,526</b>	<b>2,617</b>	<b>1,724</b>	<b>-1,366</b>	<b>-5,043</b>						
Net debt to equity (%)	-12.0	18.5	10.6	-7.3	-23.0						

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For definitions of the items in this table, please click [here](#).

Figure 1. SAP AG – Q3 results vs. consensus

3Q13E			
Dec FY (EUR m)	Citi	Actual	Cons
Software revenue	986	977	986
Non-IFRS cloud subscription and support revenue	200	196	193
Non-IFRS cloud subscription and support revenue	<b>1,186</b>	<b>1,173</b>	<b>1,179</b>
Non-IFRS software and cloud subscription growth rate (%)	7.2%	6.1%	6.6%
Non-IFRS software and cloud subscription growth rate at	12.0%	13.0%	11.2%
Non-IFRS support revenue	2,271	2,189	2,221
<b>Non-IFRS SSRS</b>	<b>3,457</b>	<b>3,362</b>	<b>3,389</b>
Non-IFRS SSRS growth rate (%)	7.6%	4.7%	5.5%
Non-IFRS SSRS growth rate at constant currencies (%)	10.7%	12.0%	10.5%
Non-IFRS Professional services and other service revenue	770	695	761
<b>Non-IFRS total revenue</b>	<b>4,227</b>	<b>4,057</b>	<b>4,150</b>
Non-IFRS total revenue growth rate (%)	6.5%	2.2%	
Non-IFRS total revenue growth rate at constant FX (%)	9.5%	9.0%	
<b>IFRS total revenue</b>			
Non-IFRS operating income	1,325	1,296	1,310
<b>Non-IFRS operating margin (%)</b>	<b>31.3%</b>	<b>31.9%</b>	<b>31.6%</b>
<b>Non-IFRS earnings per share (in €)</b>	<b>0.80</b>	<b>0.78</b>	<b>0.78</b>
IFRS EPS			
Currency assumption USD/EUR	1.35		1.31

Source: Citi Research, Vara Consensus (October 2013)

Figure 2. SAP AG – Changes to our estimates

Financial Outlook	Consensus	Citi (Before)	Citi (After)	Comments
<b>Q4</b>				
Total revenue	–	€ 5,460	€ 5,128	Greater than forecast f/x impact
Software revenue	–	€ 2,001	€ 1,907	Normalizing cloud estimates
SSRS revenue	–	€ 4,638	€ 4,386	Reducing support forecast to ~10% cc growth
HANA revenue	–	€ 330	€ 330	
Operating income	–	€ 2,157	€ 2,013	
Operating margin %	–	39.5%	39.3%	
EPS (non-GAAP)	–	€ 1.31	€ 1.22	
Operating cash flow	–	€ 72	€ 497	Changed cash flow modeling methodology
<b>FY2013</b>				
Total revenue	€ 18,481	€ 17,347	€ 16,838	Greater than forecast f/x impact
Software revenue	€ 4,620	€ 4,625	€ 4,523	
SSRS revenue	€ 14,162	€ 14,313	€ 14,032	
HANA revenue	–	€ 678	€ 667	
Operating income	€ 5,559	€ 5,603	€ 5,431	
Operating margin %	32.4%	32.3%	32.3%	
EPS (non-GAAP)	€ 3.36	€ 3.42	€ 3.31	
Operating cash flow		€ 3,184	€ 3,538	

Source: Citi Research

Figure 3. SAP AG – Comparable company valuations

in millions

Company	Rating	Target Price	Price 10/21/13	Market Cap	Net Cash as % of Mkt Cap	Enterprise Value	EVs Multiple of FCFF		EVs Multiple of Revenue		Revenue Growth		P/E		Dividend Yield %
							CY13E	CY14E	CY13E	CY14E	'12-'13E	'13-'14E	CY13E	CY14E	
SAP	2	€ 57.00	€ 56.06	€ 66,852	-4%	€ 69,469	15.6x	11.9x	4.1x	3.9x	4%	7%	16.9x	15.4x	1.6%
IBM	1	\$235.00	\$173.83	\$190,692	NA	\$211,732	11.1x	9.4x	2.1x	2.1x	-4%	3%	10.3x	9.6x	2.2%
MSFT	1	\$35.00	\$35.10	\$291,798	25%	\$219,532	8.5x	7.7x	2.8x	2.6x	4%	6%	13.2x	12.4x	3.2%
ORCL	1	\$38.00	\$33.04	\$150,396	9%	\$136,674	9.4x	9.2x	3.6x	3.5x	2%	4%	11.8x	10.9x	1.5%
RHT	2	\$49.00	\$42.87	\$8,168	16%	\$6,849	17.3x	15.4x	4.6x	4.1x	14%	11%	31.4x	27.8x	NA
TDC	NR	–	\$43.23	\$7,010	8%	\$6,447	12.0x	10.9x	2.4x	2.2x	1%	8%	15.5x	13.8x	NA
VMW	2	\$78.00	\$81.75	\$35,199	12%	\$31,018	14.6x	13.8x	6.0x	5.2x	13%	15%	24.6x	21.7x	NA
Median							11.5x	10.2x	3.2x	3.0x	3%	7%			
Mean							12.1x	11.1x	3.6x	3.3x	5%	8%			
Software Median							18.1x	16.5x	3.8x	3.5x	11%	12%			
Software Mean							24.2x	28.4x	5.2x	4.4x	13%	14%			

Citi Research Coverage: Jim Suva and Ashwin Shirvalkar cover IBM

Source: FactSet and Citi Research

Figure 4. SAP AG – Income Statement

(in € millions, FY End: December)

	F09A	F10A	F11A	F12A	Mar 13A	Jun 13A	Sep 13A	Dec 13E	F13E	Mar 14E	Jun 14E	Sep 14E	Dec 14E	F14E	F15E	F16E
Software and Cloud Subscriptions	2,911	3,661	4,125	5,002	824	1,165	1,173	2,108	5,270	894	1,260	1,269	2,262	5,685	6,271	6,843
Support	5,297	6,207	7,221	8,244	2,113	2,182	2,189	2,278	8,762	2,253	2,334	2,373	2,483	9,443	10,293	11,219
Total SSRS (Software and software-related service revenue)	8,208	9,868	11,346	13,246	2,937	3,347	3,362	4,386	14,032	3,146	3,594	3,642	4,745	15,128	16,564	18,062
Services Revenues	2,474	2,670	2,914	3,058	699	745	695	759	2,897	705	753	704	775	2,938	3,010	3,083
<b>Total Revenues (Non-IFRS)</b>	<b>10,682</b>	<b>12,538</b>	<b>14,260</b>	<b>16,304</b>	<b>3,636</b>	<b>4,092</b>	<b>4,057</b>	<b>5,145</b>	<b>16,930</b>	<b>3,852</b>	<b>4,348</b>	<b>4,346</b>	<b>5,520</b>	<b>18,066</b>	<b>19,573</b>	<b>21,145</b>
Cost of software license and support	(1,473)	(1,621)	(1,822)	(2,138)	(507)	(522)	(544)	(671)	(2,244)	(519)	(575)	(583)	(735)	(2,412)	(2,629)	(2,853)
Cost of services	(1,848)	(2,053)	(2,216)	(2,384)	(577)	(586)	(571)	(592)	(2,326)	(571)	(603)	(556)	(597)	(2,327)	(2,354)	(2,412)
Gross profit	7,361	8,864	10,222	11,782	2,552	2,984	2,942	3,882	12,360	2,761	3,170	3,207	4,188	13,326	14,591	15,881
Gross margin %	68.9%	70.7%	71.7%	72.3%	70.2%	72.9%	72.5%	75.5%	73.0%	71.7%	72.9%	73.8%	75.9%	73.8%	74.5%	75.1%
Research and development	(1,586)	(1,708)	(1,897)	(2,124)	(535)	(550)	(521)	(576)	(2,182)	(558)	(565)	(565)	(607)	(2,296)	(2,439)	(2,615)
% of revenue	14.8%	13.6%	13.3%	13.0%	14.7%	13.4%	12.8%	11.2%	12.9%	14.5%	13.0%	13.0%	11.0%	12.7%	12.5%	12.4%
Sales and marketing	(2,124)	(2,550)	(2,954)	(3,684)	(923)	(1,015)	(940)	(1,100)	(3,978)	(989)	(1,089)	(1,006)	(1,173)	(4,258)	(4,556)	(4,856)
% of revenue	19.9%	20.3%	20.7%	22.6%	25.4%	24.8%	23.2%	21.4%	23.5%	25.7%	25.0%	23.2%	21.3%	23.6%	23.3%	23.0%
General and administrative	(560)	(609)	(685)	(784)	(188)	(208)	(185)	(196)	(777)	(195)	(217)	(194)	(204)	(810)	(858)	(917)
% of revenue	5.2%	4.9%	4.8%	4.8%	5.2%	5.1%	4.6%	3.8%	4.6%	5.1%	5.0%	4.5%	3.7%	4.5%	4.4%	4.3%
Other operating expense	(161)	9	27	22	(3)	9	0	3	9	2	2	2	2	8	8	8
Total operating expenses	(7,752)	(8,532)	(9,547)	(11,092)	(2,733)	(2,872)	(2,761)	(3,132)	(11,498)	(2,831)	(3,047)	(2,902)	(3,315)	(12,096)	(12,828)	(13,644)
Operating income	2,930	4,006	4,713	5,212	903	1,220	1,296	2,013	5,432	1,020	1,301	1,444	2,205	5,970	6,746	7,502
% of revenue	27.4%	32.0%	33.1%	32.0%	24.8%	29.8%	31.9%	39.1%	32.1%	26.5%	29.9%	33.2%	39.9%	33.0%	34.5%	35.5%
Y/Y change	8.5%	36.7%	17.6%	10.6%	8.3%	4.0%	4.6%	2.4%	4.2%	13.0%	6.6%	11.4%	9.6%	9.9%	13.0%	11.2%
Q/Q change					-54.1%	35.1%	6.2%	55.3%		-49.3%	27.5%	11.0%	52.7%			
Total other income	(155)	(245)	(129)	(243)	(26)	(26)	(7)	(16)	(75)	(21)	(2)	(4)	(2)	(29)	56	155
Pre-tax income	2,775	3,761	4,584	4,969	877	1,194	1,289	1,997	5,357	1,000	1,299	1,440	2,203	5,941	6,801	7,656
Income taxes	(771)	(1,024)	(1,220)	(1,360)	(188)	(320)	(356)	(535)	(1,399)	(270)	(351)	(389)	(595)	(1,604)	(1,870)	(2,106)
Tax rate % (non-IFRS)	27.8%	27.2%	26.6%	27.4%	21.4%	26.8%	27.6%	26.8%	26.1%	27.0%	27.0%	27.0%	27.0%	27.0%	27.5%	27.5%
Non-IFRS Net income	2,002	2,735	3,363	3,609	689	874	933	1,462	3,958	730	948	1,051	1,608	4,337	4,931	5,551
% of revenue	18.7%	21.8%	23.6%	22.1%	18.9%	21.4%	23.0%	28.4%	23.4%	18.9%	21.8%	24.2%	29.1%	24.0%	25.2%	26.3%
Basic shares outstanding (avg)	1,188	1,188	1,189	1,192	1,193	1,193	1,193	1,193	1,193	1,193	1,193	1,193	1,193	1,193	1,193	1,193
Diluted shares outstanding (avg)	1,189	1,189	1,190	1,193	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195	1,195
<b>Non-IFRS EPS</b>	<b>1.68</b>	<b>2.30</b>	<b>2.83</b>	<b>3.03</b>	<b>0.58</b>	<b>0.73</b>	<b>0.78</b>	<b>1.22</b>	<b>3.31</b>	<b>0.61</b>	<b>0.79</b>	<b>0.88</b>	<b>1.35</b>	<b>3.63</b>	<b>4.13</b>	<b>4.65</b>

Source: Company Reports and Citi Research

Figure 5. SAP AG – Balance Sheet

(in € millions, FY End: December)

	F09A	F10A	F11A	F12A	Mar 13A	Jun 13A	Sep 13A	Dec 13E	F13E	Mar 14E	Jun 14E	Sep 14E	Dec 14E	F14E	F15E	F16E
Cash and cash equivalents	1,884	3,518	4,965	2,477	4,473	3,386	3,255	3,279	3,279	6,198	5,896	6,216	6,369	6,369	10,046	14,158
Restricted cash	0	0	0	0	0			0	0	0	0	0	0	0	0	0
Marketable securities	486	158	817	154	279	296	221	221	221	221	221	221	221	221	221	221
Trade receivables, net	2,546	3,099	3,493	3,917	3,872	3,379	3,052	3,859	3,859	4,102	3,590	3,270	4,140	4,140	4,475	4,817
Other non-financial assets	147	181	187	294	346	408	413	282	282	337	337	337	337	337	337	337
Tax assets	192	187	207	156	299	308	256	175	175	209	209	209	209	209	209	209
Assets held for sale	0	0	0	0					0					0	0	0
Total current assets	5,255	7,143	9,669	6,998	9,269	7,777	7,197	7,815	7,815	11,066	10,253	10,253	11,276	11,276	15,288	19,742
Goodwill	4,994	8,431	8,709	13,274	13,512	13,333	13,876	13,876	13,876	13,876	13,876	13,876	13,876	13,876	13,876	13,876
Intangible assets, net	894	2,376	2,024	3,234	3,168	2,996	3,108	2,951	2,951	2,784	2,608	2,438	2,265	2,265	1,511	681
Property, net	1,371	1,449	1,551	1,708	1,725	1,751	1,771	1,838	1,838	1,903	1,962	2,024	2,126	2,126	2,412	2,693
Other financial assets	284	475	538	633	531	495	524	524	524	524	524	524	524	524	524	524
Trade and other receivables	52	78	84	88	97	92	81	81	81	81	81	81	81	81	81	81
Other non-financial assets	35	31	39	70	93	97	90	90	90	90	90	90	90	90	90	90
Tax assets	91	122	146	170	185	192	192	192	192	192	192	192	192	192	192	192
Deferred tax assets	398	736	465	660	715	761	693	693	693	693	693	693	693	693	693	693
Total assets	13,374	20,841	23,225	26,835	29,295	27,494	27,534	28,062	28,062	31,211	30,280	30,172	31,125	31,125	34,668	38,572
Trade and other payables	638	922	937	870	809	883	793	961	961	814	939	810	1,014	1,014	1,060	1,111
Tax liabilities	125	164	409	511	552	395	374	374	374	374	374	374	374	374	374	374
Financial liabilities	146	142	1,331	802	873	1,365	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748
Other non-financial liabilities	1,577	1,726	1,981	2,136	1,471	1,404	1,697	1,697	1,697	1,697	1,697	1,697	1,697	1,697	1,697	1,697
Provisions	332	1,284	562	936	646	625	584	584	584	584	584	584	584	584	584	584
Deferred income	598	911	1,046	1,386	3,959	3,125	2,235	1,627	1,627	4,333	3,598	2,717	2,038	2,038	2,444	2,913
Liabilities held for sale	0	0	0	0					0	0				0	0	0
Current liabilities	3,416	5,149	6,266	6,641	8,310	7,797	7,431	6,991	6,991	9,550	8,939	7,930	7,455	7,455	7,907	8,427
Trade and other payables	35	30	43	63	45	47	45	45	45	45	45	45	45	45	45	45
Tax liabilities	239	371	408	388	394	396	387	387	387	387	387	387	387	387	387	387
Financial liabilities	729	4,449	2,925	4,446	4,500	3,859	3,799	3,476	3,476	3,476	3,476	3,476	3,476	3,476	3,476	3,476
Other non-financial liabilities	12	85	92	97	111	107	108	108	108	108	108	108	108	108	108	108
Provisions	198	292	266	393	382	330	277	277	277	277	277	277	277	277	277	277
Deferred tax liabilities	190	578	474	574	535	518	506	506	506	506	506	506	506	506	506	506
Deferred income	64	63	44	62	65	62	64	64	64	64	64	64	64	64	64	64
Total liabilities	4,883	11,017	10,518	12,664	14,342	13,116	12,618	11,854	11,854	14,414	13,803	12,794	12,319	12,319	12,771	13,291
Shareholder's equity	8,477	9,807	12,699	14,163	14,944	14,369	14,907	16,199	16,199	16,788	16,468	17,369	18,797	18,797	21,889	25,272
Noncontrolling interests	14	17	8	8	9	9	9	9	9	9	9	9	9	9	9	9
Total liabilities and shareholder's equity	13,374	20,841	23,225	26,835	29,295	27,494	27,534	28,062	28,062	31,211	30,280	30,172	31,125	31,125	34,668	38,572

Source: Company Reports and Citi Research

Figure 6. SAP AG – Cash Flow Statement

(in € millions, FY End: December)

	F09A	F10A	F11A	F12A	Mar 13A	Jun 13A	Sep 13A	Dec 13E	F13E	Mar 14E	Jun 14E	Sep 14E	Dec 14E	F14E	F15E	F16E
<b>Cash flow from operations</b>																
<b>Profit After tax</b>	1,748	1,811	3,439	2,823	520	725	762	1,291	3,298	590	795	902	1,427	3,714	4,319	4,733
Depreciation and amortization	499	534	724	863	233	245	236	240	954	256	270	260	264	1,050	1,155	1,270
Income tax expense		525	1,329	1,000	101	239	274	454	1,068	207	279	317	501	1,305	1,517	1,887
Financial income, net		67	38	68	15	22	7	16	60	21	2	4	2	29	(56)	(155)
Gains/losses on disposals of non-current assets	(3)	(3)	0						0					0	0	0
Decrease/increase in sales and bad debt allowances on tra	64	(49)	(18)	(25)	24	14	6		44					0	0	0
Other adjustments for non-cash items	14	32	14	31	17	27	20		64					0	0	0
Deferred income taxes	(39)								0					0	0	0
Decrease/increase in trade and other receivables	593	(123)	(426)	(298)	97	373	296	(807)	(41)	(243)	511	321	(871)	(282)	(335)	(342)
Decrease/increase in other assets	205	(112)	(59)	(34)	(81)	(48)	(51)	212	32	(89)	0	0	0	(89)	0	0
Decrease/increase in trade payables, provisions and other	(116)	1,116	(380)	408	(881)	(64)	89	168	(688)	(147)	125	(129)	204	53	46	51
Decrease/increase in deferred income	48	66	121	154	2,446	(711)	(837)	(608)	290	2,707	(736)	(881)	(679)	412	406	469
Cash outflows due to TomorrowNow litigation		(102)	(52)	7	(7)	6	0		(1)					0	0	0
Interest paid		(66)	(139)	(165)	15	(95)	(21)	(46)	(147)	(46)	(46)	(46)	(46)	(183)	(183)	(183)
Interest received		52	92	92	(337)	370	17	30	80	25	43	42	44	154	238	338
Income taxes paid, net of refunds		(818)	(908)	(1,102)		(782)	(240)	(454)	(1,476)	(207)	(279)	(317)	(501)	(1,305)	(1,517)	(1,887)
<b>Net cash provided by operating activities</b>	3,013	2,930	3,775	3,822	2,162	321	558	497	3,538	3,074	965	473	346	4,858	5,590	6,182
										4,690	(260)	(30)	(234)			
<b>Cash flows from investing activities</b>																
Business combinations, net of cash and cash equivalents ac	(73)	(4,194)	(188)	(6,094)	(12)	(87)	(1,032)		(1,131)					0	0	0
Purchase of intangible assets and property, plant, and equipr	(225)	(334)	(445)	(541)	(113)	(152)	(136)	(150)	(551)	(154)	(152)	(152)	(193)	(652)	(686)	(720)
Proceeds from sales of intangible assets or property, plant, a	45	44	55	39	12	11	17		40					0	0	0
Purchase of equity or debt instruments of other entities	(1,073)	(842)	(2,046)	(1,022)	(250)	(950)	(158)		(1,358)					0	0	0
Proceeds from sales of equity or debt instruments of other en	1,027	1,332	1,398	1,654	143	936	232		1,311					0	0	0
<b>Net cash used for investing activities</b>	(299)	(3,994)	(1,226)	(5,964)	(220)	(242)	(1,077)	(150)	(1,689)	(154)	(152)	(152)	(193)	(652)	(686)	(720)
<b>Cash flows from financing activities</b>																
Purchase of non-controlling interests			(28)													
Purchase of treasury shares	0	(220)	(246)	(53)	0				0					0	0	0
Proceeds from reissuance of treasury shares	24	127	251	90	4	5	27		36					0	0	0
Proceeds from issuing shares (share-based payments)	6	23	46	15	0			0	0	0	0	0	0	0	0	0
Dividends paid	(594)	(594)	(713)	(1,310)	0	(1,013)	0	0	(1,013)	0	(1,115)	0	0	(1,115)	(1,227)	(1,350)
Proceeds from borrowings	697	5,380	519	5,778	0		1,000		1,000					0	0	0
Repayments of borrowings	(2,303)	(2,196)	(1,005)	(4,714)	0		(624)	(323)	(948)	0	0	0	0	0	0	0
Other	4	(10)							0					0	0	0
<b>Net cash provided by financing activities</b>	(2,166)	2,510	(1,176)	(194)	4	(1,008)	403	(323)	(925)	0	(1,115)	0	0	(1,115)	(1,227)	(1,350)
Effect of exchange rates on cash	56	188	74	(152)	50	(158)	(14)		(122)					0	0	0
Discontinued ops																
Net increase (decrease) cash	604	1,634	1,447	(2,488)	1,996	(1,087)	(131)	24	802	2,920	(302)	321	153	3,091	3,677	4,111
Cash at beginning of period	1,280	1,884	3,518	4,965	2,477	4,473	3,386	3,255	2,477	3,279	6,198	5,896	6,216	3,279	6,369	10,046
<b>Cash at end of period</b>	1,884	3,518	4,965	2,477	4,473	3,386	3,255	3,279	3,279	6,198	5,896	6,216	6,369	6,369	10,046	14,158

Source: Company Reports and Citi Research Estimates

## SAP AG

### Company description

SAP is the leading enterprise application software vendor worldwide. SAP develops and sells a complete suite of software that includes ERP, supply-chain management, customer relationship management, product lifecycle management, and other front- and back-office support software.

### Investment strategy

We rate SAP Neutral as we believe the forward earnings multiple has peaked and number revisions will now drive the stock. Our estimates are below consensus as we believe core business will see just modest growth. We don't believe growth accelerants such as cloud, mobile, cloud and emerging markets will be enough to offset the core.

### Valuation

As with the rest of our software coverage, we value SAP using a 10-year DCF model. With our DCF assumptions, we arrive at a €57 price target. Key assumptions include revenue growth of 9% CAGR over the next 3-5 years, revenue growth of 9% over the next 6-10 years, a terminal margin of 42%, and a 10x terminal multiple on FCF.

### Risks

The key risks to our investment thesis on SAP are: 1) The slowdown being witnessed in the US and European economies impacting SAP's customers and therefore revenues; and 2) Potential that growth accelerators don't drive the kind of growth that is embedded in street estimates.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

## Appendix A-1

### Analyst Certification

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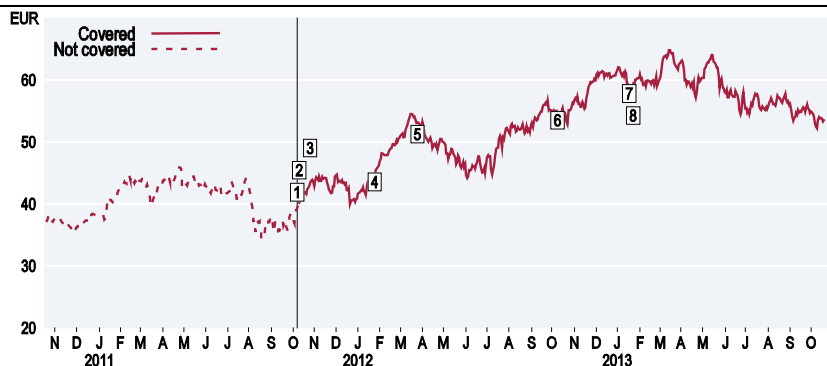
### SAP AG (SAPG.DE)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Walter H Pritchard, CFA

Covered since October 12 2012



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	11-Oct-11	*1	*46.00	40.16
3	26-Oct-11	1	*50.00	43.48

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	25-Jan-12	1	*54.00	44.50
5	26-Mar-12	1	*65.00	53.11
6	9-Oct-12	1	*63.00	54.60

	Date	Rating	Target Price	Closing Price
7	17-Jan-13	*2	63.00	58.13
8	23-Jan-13	2	*58.00	59.20

Rating/target price changes above reflect Eastern Standard Time

### SAP AG (SAPG.DE)

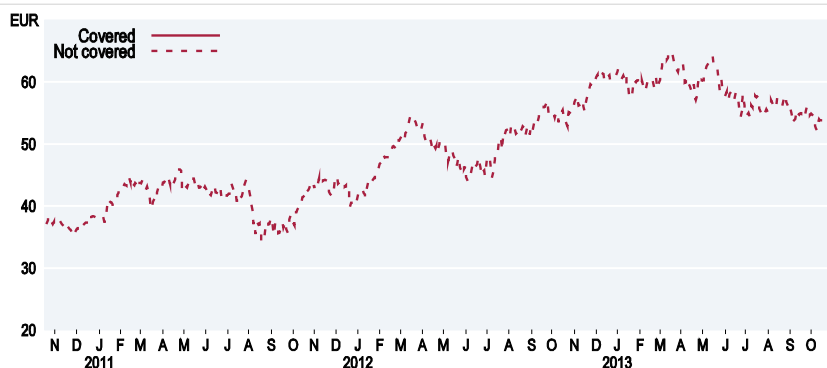
#### Ratings and Target Price History

#### Best Ideas Research

#### Relative Call (3 Month)

Analyst: Walter H Pritchard, CFA

Covered since October 12 2012



\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Sep 2013

	12 Month Rating			Relative Rating		
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% of companies in each rating category that are investment banking clients	55%	50%	43%	64%	51%	48%

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Citigroup Global Markets Inc	Walter H Pritchard, CFA; Robert Chen; Jim Suva, CPA
Citigroup Global Markets Ltd	Amit B Harchandani

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The subject company's share price set out on the front page of this Product is quoted as at 21 October 2013 02:54 PM on the issuer's primary market.

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