

Reinvent how businesses run

# ACCELERATING OUR CUSTOMERS' BUSINESS TRANSFORMATION IN THE CLOUD

October 26, 2020

Christian Klein  
CEO

Luka Mucic  
CFO

SAP SE

THE BEST RUN



# SAFE HARBOR STATEMENT

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# Q3 2020: Successful navigation through challenging environment

Cloud revenue		Cloud and software revenue		Total revenue		Operating profit	
in € millions		in € millions		in € millions		in € millions	
IFRS	Non-IFRS	IFRS	Non-IFRS	IFRS	Non-IFRS	IFRS	Non-IFRS
1,984	1,984	5,544	5,544	6,535	6,535	1,473	2,069
+11%	+10% (+14% cc)	-2%	-2% (+2% cc)	-4%	-4% (0% cc)	-12%	-1% (+4% cc)

Share of more predictable revenue reached **74%** in the third quarter of 2020 (+5pp)

Launch of **SAP HANA Enterprise Cloud Customer Edition** and new partnerships with **Lenovo, HPE and VMWare**

IFRS operating margin down **2.2pp** to **22.5%** | Non-IFRS up **1.3pp** to **31.9%** at constant currency

IFRS Earnings per share up **26%** to **€1.32** | Non-IFRS up **31%** to **€1.70**, supported by strong SAPHIRE Ventures contribution

Year-to-date operating cash flow at **€5.1bn** (+54%), free cash flow at **€4.2bn** (+79%)

# 2020 Outlook: Reduced revenue, resilient profit, increased cash flow

## 2019 Actuals (Non-IFRS)

Cloud revenue  
€7.01bn

Cloud and software revenue  
€23.09bn

Total revenue  
€27.63bn

Operating profit  
€8.21bn

## 2020 Outlook (Non-IFRS @cc)

Cloud revenue  
in a range of €8.0 – 8.2bn [prev. €8.3 – 8.7bn]  
Growth: 14% to 17%

Cloud and software revenue  
in a range of €23.1 – 23.6bn [prev. €23.4 – 24.0bn]  
Growth: 0% to 2%

Total revenue  
in a range of €27.2 – 27.8bn [prev. €27.8 – 28.5bn]  
Growth: -2% to 1%

Operating profit  
in a range of €8.1 – 8.5bn [prev. €8.1 – 8.7bn]  
Growth: -1% to 4%

Share of more predictable revenue  
to reach approx. 72%

Operating cash flow  
approx. €6.0bn [prev. above €5.0bn]

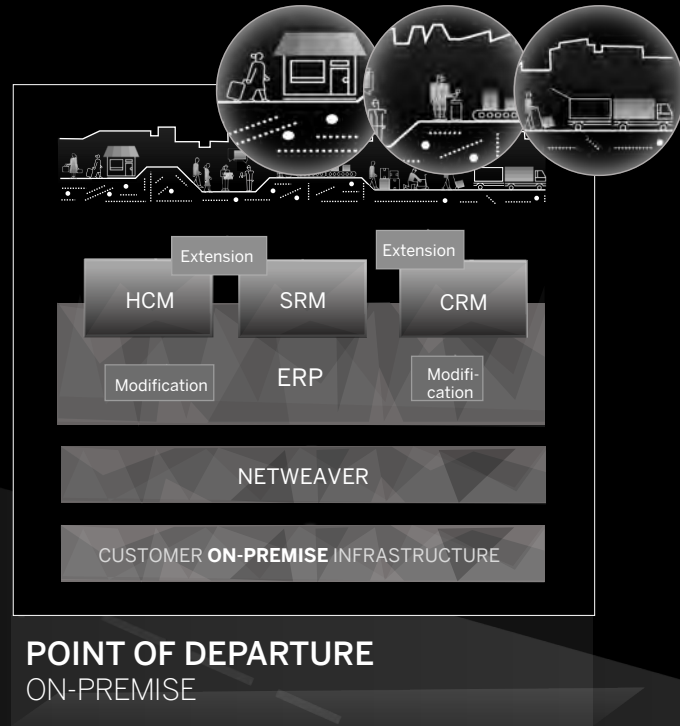
Free cash flow  
above €4.5bn [prev. approx. €4.0bn]

# We have achieved a lot over the last months

- ✔ **Streamlined organization** in Customer Success and Product Engineering  Year-to-date: Positive Net Promoter Score trend
- ✔ **Focus in our core portfolio** and continuous investment in **innovation close to our core**  New: Industry Cloud, Business Network  
Partnering: Siemens, Honeywell, Bosch  
Divest: Digital Interconnect
- ✔ **Business Technology Platform** as the foundation for the business transformation of our customers  Integration & development platforms: Leader in Gartner 2020 Magic Quadrant<sup>1</sup>

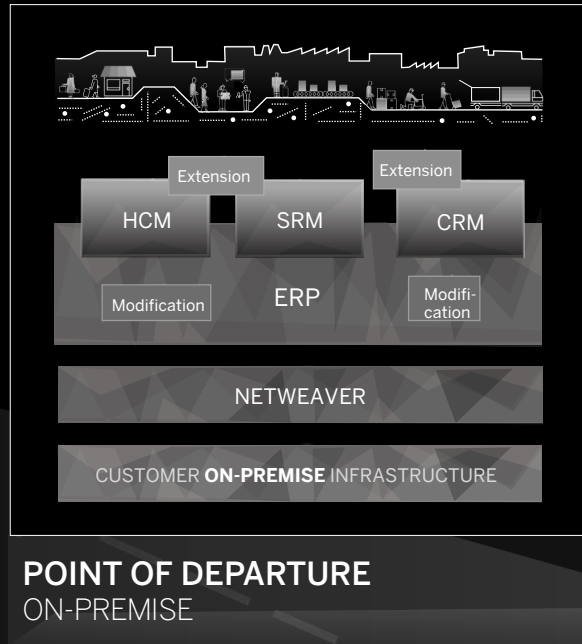
1. SAP as leader for Enterprise Integration Platform-as-a-Service (Published September 21, 2020) and SAP as leader for Multiexperience Development Platforms (Published July 7, 2020)

# Our customers' transformation journey to the cloud



WITH AGILITY & SPEED

# Our customers' transformation journey to the cloud



WITH AGILITY & SPEED



## HOLISTIC BUSINESS TRANSFORMATION INTELLIGENT ENTERPRISE

Innovate and drive resiliency, profitability & sustainability

# WHY SAP: Innovation, Speed & Tangible Business Benefits

VALUES ← INTELLIGENT ENTERPRISE →

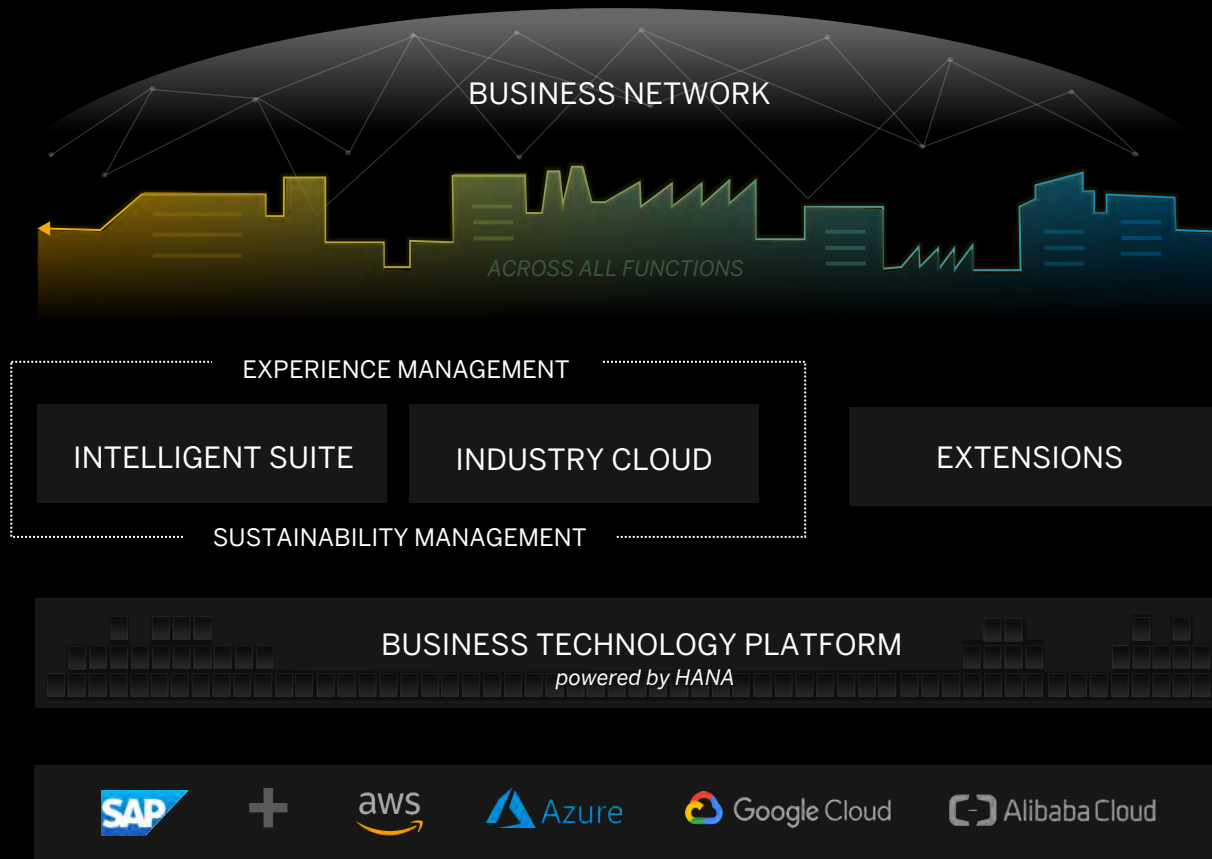
**ONE NETWORK**  
for business without boundaries

**END-TO-END PROCESSES**  
for seamless experiences

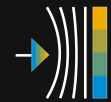
**EMBEDDED AI**  
for a high level of automation

**ONE DATA MODEL**  
for integration & extensibility

**INFRASTRUCTURE CHOICE**  
for improved TCO, operations & scale



OUTCOMES



## RESILIENCY

Flexibly adapt processes & business models



## PROFITABILITY

Increase productivity through intelligence and automation

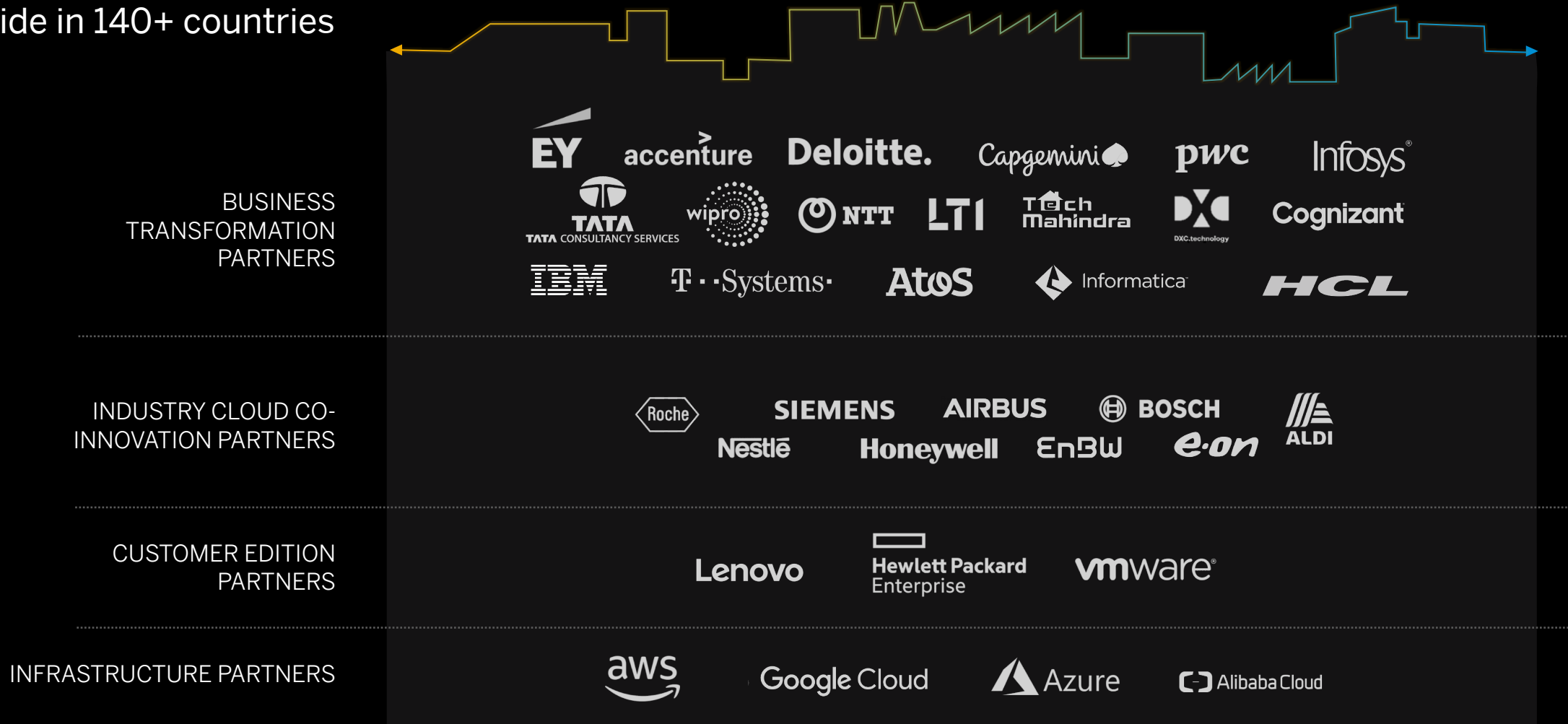


## SUSTAINABILITY

Reduce carbon footprint, waste and resource utilization

# WHY SAP: Best of the best Partner Ecosystem

SAP has 22,000+ partners worldwide in 140+ countries



# Our strategy and macroeconomic factors shape our new mid-term ambition

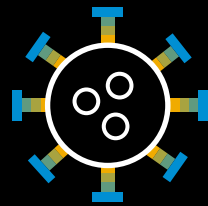
## PREVIOUS MID-TERM AMBITION

### MACROECONOMIC FACTORS



#### CURRENCY HEADWINDS

Negative impact of -3 to -4% on cloud & total revenue and operating profit in 2023



#### COVID IMPACT

All core metrics (cloud & total revenue and operating profit) pushed out by 1-2 years



#### REINVENT HOW BUSINESSES RUN

Cloud growth drives mix-shift effects impacting our operating margin in 2023 by -4 to -5pp



#### ACCELERATED PRODUCTIVITY

Faster cloud delivery modernization, supporting our operating margin on top of Best Run

### OUR STRATEGY

## NEW MID-TERM AMBITION



MACROECONOMIC FACTORS

# Currency & COVID: Macroeconomic factors impact our ambition



## CURRENCY HEADWINDS

Hit on our USD denominated business due to **APPRECIATED EUR vs. USD**



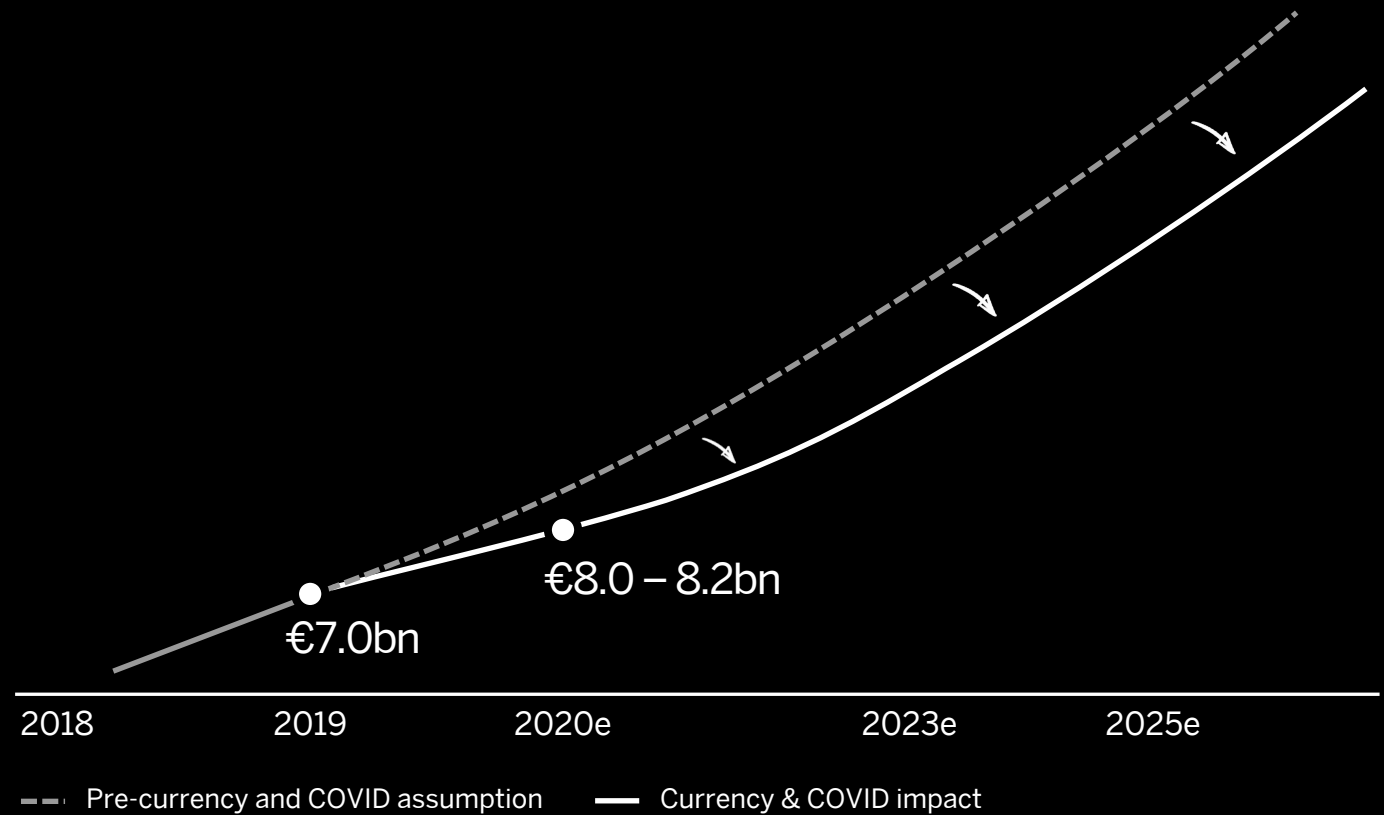
## COVID IMPACT

Several industries with **INVESTMENT DELAYS**

Impact on **TRANSACTIONAL BUSINESS**

Accelerated **DECLINE OF ON-PREMISE**

## CLOUD REVENUE ILLUSTRATIVE





# Reinvent how businesses run: Accelerate cloud transition & invest into innovation

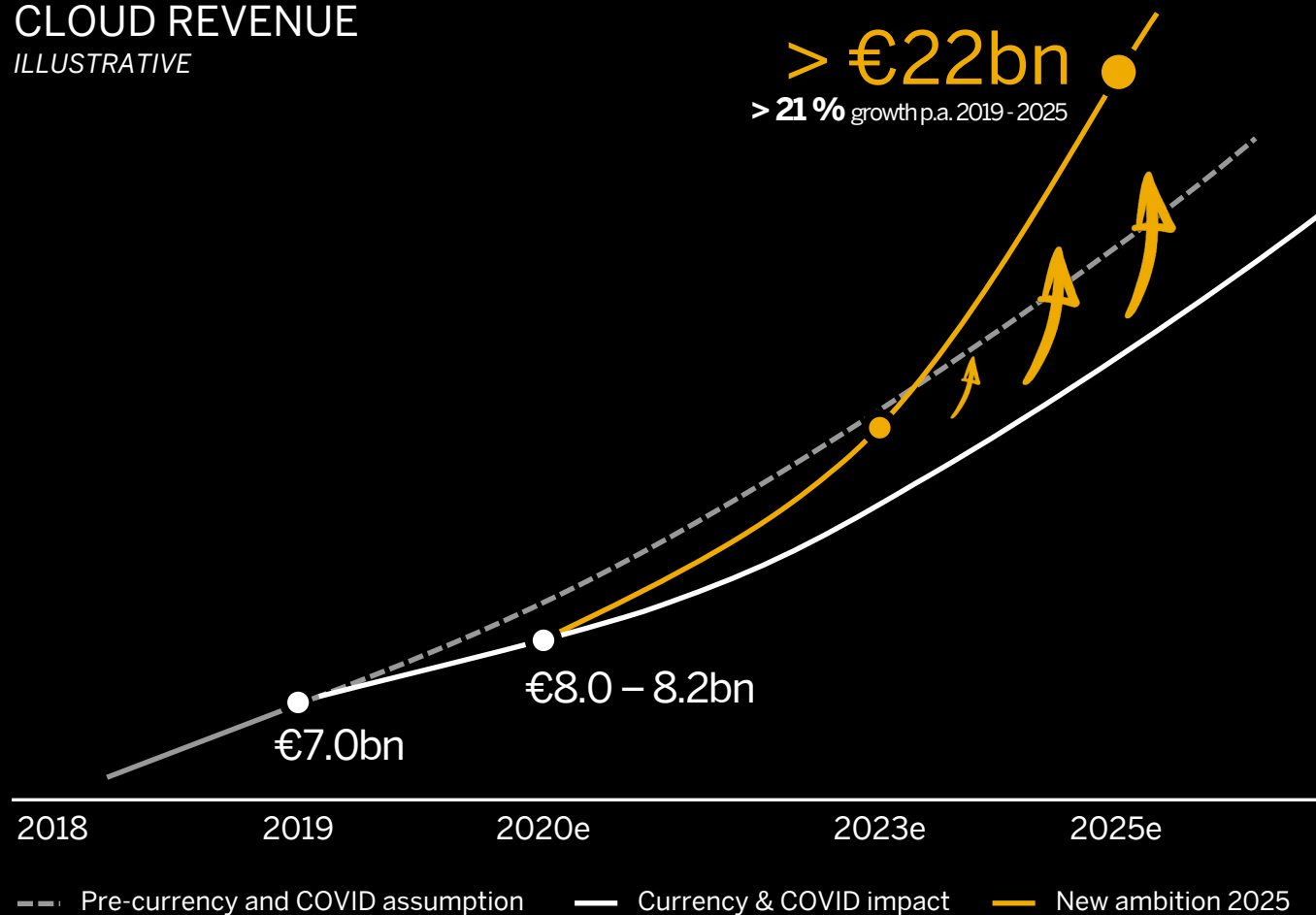
Customers will accelerate the shift of **core application workloads to the cloud**

SAP is becoming the **end-to-end business transformation platform** in the cloud

SAP will **invest to drive co-innovation** with its customers e.g., with the Industry Cloud

Relentless focus on **customer success** will deliver best in class renewal rates

## CLOUD REVENUE ILLUSTRATIVE



Note: Figures based on non-IFRS



# Reinvent how businesses run: Rationale for accelerated cloud transition



## STRATEGIC

Strategic partner in business transformation, delivering **resiliency, agility and speed**

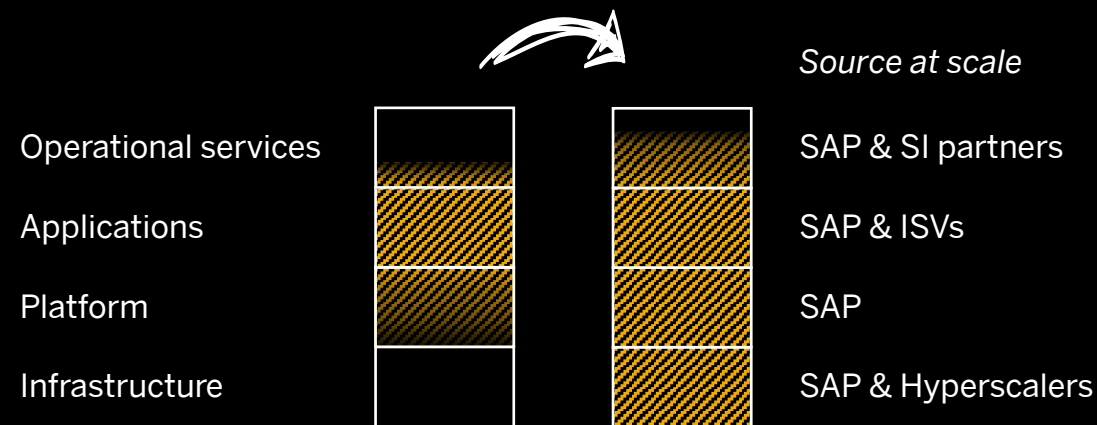
- COVID reinforces shift in customer preference to cloud consumption and subscription licensing
- SAP as strategic, responsible provider
- SAP Business Technology Platform in every account



## FINANCIAL

**Higher customer lifetime revenue and value** for every transitioned customer

*SAP increases share of customer wallet*





# Reinvent how businesses run: Higher customer lifetime revenue

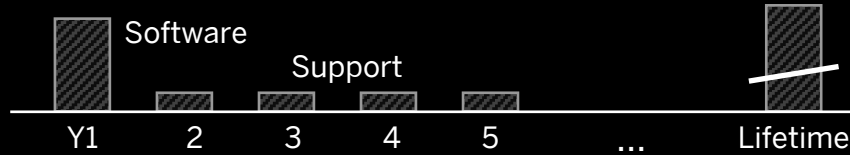
Illustrative

## Cloud transition of one customer (transition in year 1)

(transition in year 1)

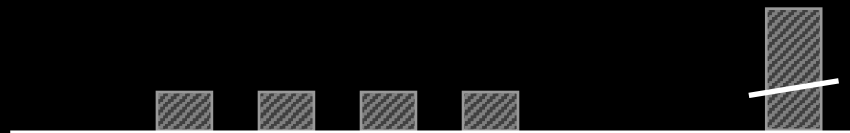
### ON-PREMISE

Software & support revenue



### CLOUD

Cloud (subscription) revenue



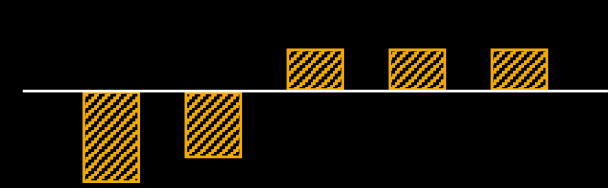
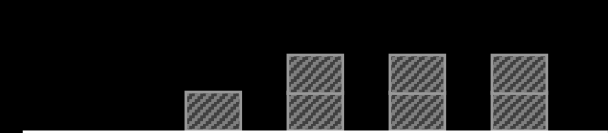
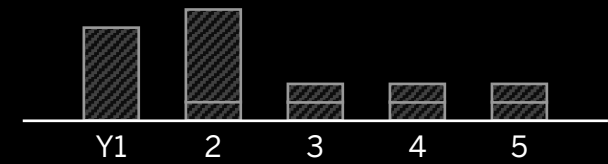
### NET EFFECT

Total revenue



## Cloud transition of two customers (transitions in year 1 and year 2)

(transitions in year 1 and year 2)



Higher customer **lifetime revenue**, but at later point on average

Lower gross margin, but greater customer **lifetime value**

Initial revenue and profit headwind, which turns into **tailwind**

Note: Assuming respective transactions close in Q4 and recognition of support revenue or cloud revenue starts on January 1 of subsequent year



**Productivity:** We remain fully committed to productivity improvements



## BEST RUN SAP TRANSFORMATION PROGRAM

AUTOMATE &  
OPTIMIZE PROCESSES

DRIVE FURTHER CLOUD  
GROSS MARGIN EXPANSION

REMOVE  
PORTFOLIO OVERLAPS

SALES & MARKETING

PORTFOLIO

### **CLOUD DELIVERY**

RESEARCH & DEVELOPMENT

GENERAL & ADMINISTRATION

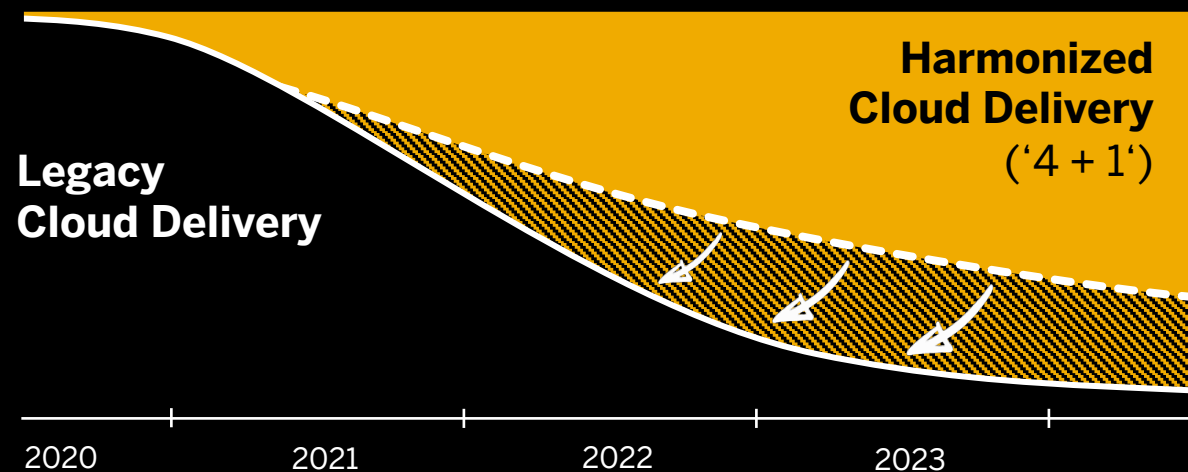
Move existing cloud customer base to either hyperscalers ("4")  
or SAP "Converged Cloud" ("+1") infrastructure



# Productivity: Expedited move to harmonized '4+1' delivery

## CLOUD DELIVERY MODERNIZATION

- Replace 3rd party databases** with SAP HANA
- Establish "Converged Cloud"** as internal delivery infrastructure (new customers)
- Enable **SAP cloud solutions to run on hyperscaler** infrastructure
- Lift existing cloud base** to state of the art cloud delivery: Hyperscalers ("4") or SAP "Converged Cloud" ("+1")



### INCREASE IN:

Capacity utilization

Scale in procurement

Service automation

Resilience & stability

Innovation speed

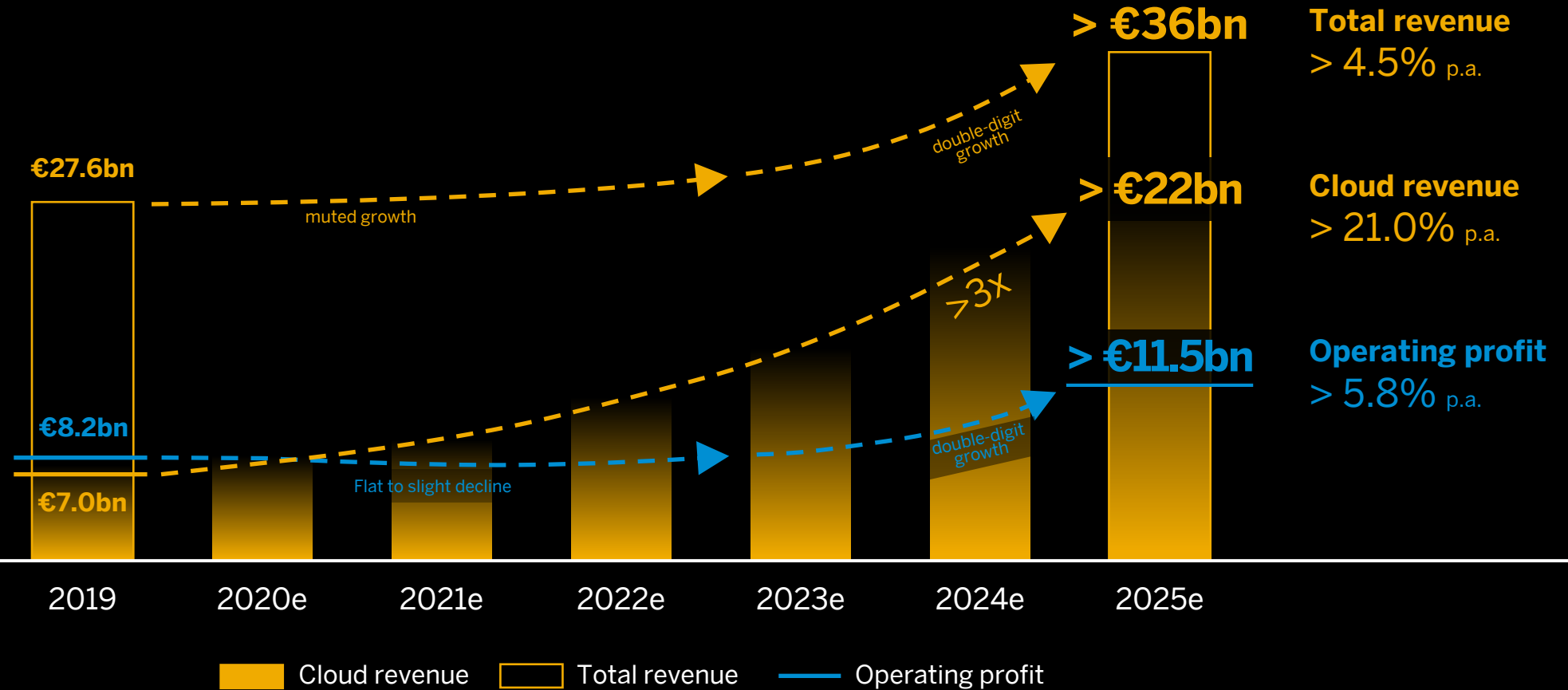
 **Cloud gross margin**

 **Customer success & cloud revenue**

# Ambition 2025: Sustainable growth through 2025

## REVENUE AND OPERATING PROFIT

Illustrative



Note: Annual growth rates for 2019 to 2025; figures based on non-IFRS

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# Ambition 2025: Sustainable growth through 2025

CLOUD REVENUE

~ 60%

cloud revenue share 2025

+35 pp vs. 2019

TOTAL REVENUE

~ 85%

more predictable revenue share 2025

+18 pp vs. 2019

CLOUD GROSS MARGIN

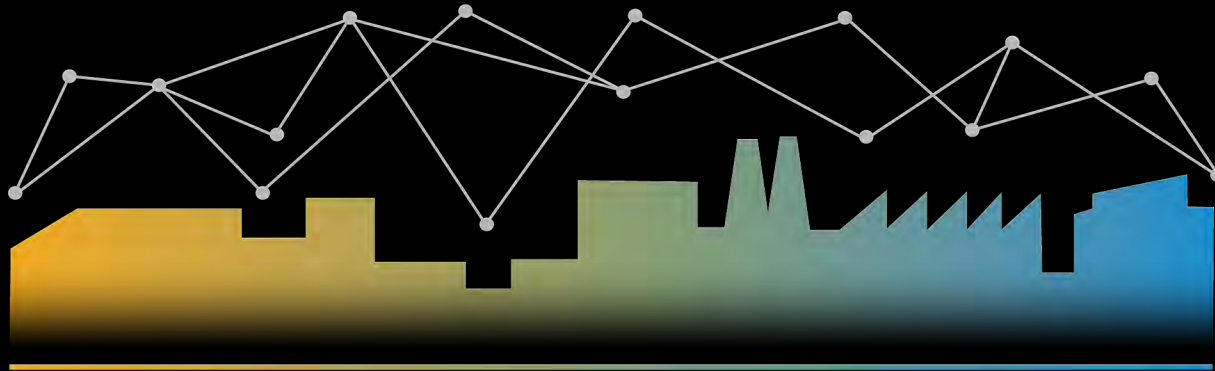
~ 80%

cloud gross margin in 2025

OPERATING PROFIT

> 10%

operating profit growth p.a. from 2023



**REINVENT**  
HOW BUSINESSES RUN



... LIKE WE DID ALMOST **50 YEARS AGO**

## CUSTOMERS

Transform business for increased productivity, resilience and sustainability

## EMPLOYEES

Reinvent how businesses run & help the world run better

## INVESTORS

Accelerate profitable growth in the cloud & higher recurring revenue share