SAP

Oracle's cloud apps slow, pointing to continued software growth pressure

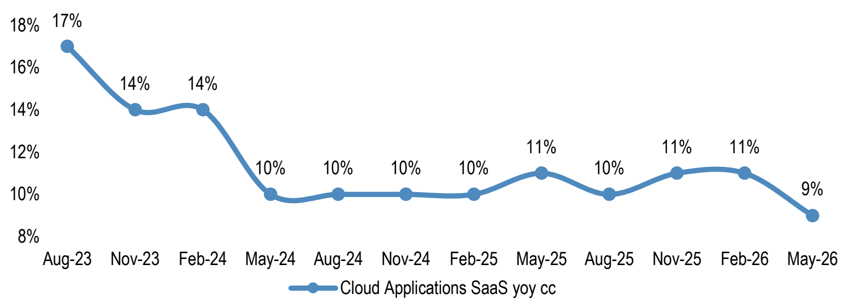
Neutral

SAPG.DE, SAP GR
Price (10 Jun 26):€147.90
Price Target (Dec-27):€175.00

Software Monitor is our chart-based read-across of the output of our model-based tech tracking (Software & IT Services).

What's the read-across to SAP? Oracle reported Q4'26 (May-Q) results yesterday post market. Oracle Cloud Applications grew +9% cc, a 2pt deceleration vs. +11% cc last quarter, the first deceleration in Oracle's blended apps growth this fiscal year (Q1 +10%; Q2 +11%; Q3 +11%; Q4 +9% cc), breaking the stabilising trend of recent quarters. On AI commercialisation, Co-CEO Mike Sicilia noted Oracle has delivered more than 1,000 AI agents across its application suites over the past year, with *"much of our AI innovation in our core applications continues to be included at no extra charge,"* and incremental monetisation layered on top via token bundles and outcome-based pricing. **Oracle's cloud apps growth trend could signal continued pressure in enterprise software and thus reflects a more negative read on the near-term outlook for growth in SAP/Enterprise apps. We also highlighted a similar slowdown dynamic in Microsoft's recent results, where Dynamics (software apps) was guided to slow notably in the upcoming quarter (link).**

Figure 1: Oracle Cloud Applications grew +9% cc, a 2pt deceleration vs. +11% cc last quarter



Source: Company data; Oracle Cloud Applications includes Fusion Back-Office, NetSuite, and Industry vertical applications (incl. Oracle Health), spanning finance, supply chain, manufacturing, HR, sales, service & marketing.

European Tech Software & IT Services

Toby Ogg AC
(44-20) 7742-3278
toby.ogg@jpmorgan.com
J.P. Morgan Securities plc

Joseph George
(44-20) 3493-6990
joe.george@jpmorgan.com
J.P. Morgan Securities plc

Priya R Suneja
(91-22) 6157 4721
priya.suneja@jpmchase.com
J.P. Morgan India Private Limited

Giulio Gambardella
(44-20) 3493-4181
giulio.gambardella@jpmorgan.com
J.P. Morgan Securities plc

US Enterprise Software

Arti Vula, CFA
(1-415) 315-5919
arti.vula@jpmchase.com
J.P. Morgan Securities LLC

Specialist Sales contact details:

Scott Silver - Specialist Sales - European TMT
(44-20) 7134-0412
scott.silver@jpmorgan.com

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	86	88	92	68	60
Growth	61	44	45		
Momentum	64	43	4	56	71
Quality	50	56	62	83	56
Low Vol	47	28	5	3	85
ESGQ	12	11	10	41	21

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

Toby Ogg [AC]
(44-20) 7742-3278
toby.ogg@jpmorgan.com

Price Performance

	YTD	1m	3m	12m
Abs	-29.0%	0.5%	-12.9%	-44.4%
Rel	-32.8%	-1.2%	-15.8%	-55.4%

Company Data

Shares O/S (mn)	1,175
52-week range (€)	269.35-135.44
Market cap ($ mn)	200,560.40
Exchange rate	0.87
Free float (%)	89.9%
3M ADV (mn)	3.12
3M ADV ($ mn)	547.9
Volatility (90 Day)	39
Index	Euro Stoxx 50 Pr
BBG ANR (Buy | Hold | Sell)	26|4|1

Key Metrics (FYE Dec)

€ in millions	FY25A	FY26E	FY27E	FY28E
Financial Estimates				
Revenue	36,801	40,266	44,952	50,363
Adj. EBIT	10,422	11,735	13,345	15,187
Adj. EBITDA	11,346	12,635	14,430	16,366
Adj. net income	7,178	8,233	9,547	11,076
Adj. EPS	6.11	7.09	8.38	9.73
BBG EPS	6.04	7.24	8.44	9.86
Cashflow from operations	9,157	10,834	12,108	13,711
FCFF	8,695	10,091	11,185	12,474
Margins and Growth				
Revenue Growth Y/Y (%)	7.7%	9.4%	11.6%	12.0%
EBIT margin	28.3%	29.1%	29.7%	30.2%
EBIT Growth Y/Y (%)	27.8%	12.6%	13.7%	13.8%
EBITDA margin	30.8%	31.4%	32.1%	32.5%
EBITDA Growth Y/Y (%)	23.6%	11.4%	14.2%	13.4%
Net margin	19.5%	20.4%	21.2%	22.0%
Adj. EPS growth	36.3%	16.1%	18.1%	16.2%
Ratios				
Adj. tax rate	32.6%	32.4%	32.3%	32.2%
Interest cover	49.1	382.4	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROE	15.9%	18.2%	20.2%	20.8%
Valuation				
FCFF yield	5.0%	5.9%	6.6%	7.4%
Dividend yield	1.6%	1.7%	1.8%	1.9%
EV/Revenue	4.8	4.4	3.9	3.2
EV/EBITDA	15.7	14.0	12.0	10.0
Adj. P/E	24.2	20.9	17.7	15.2

Summary Investment Thesis and Valuation

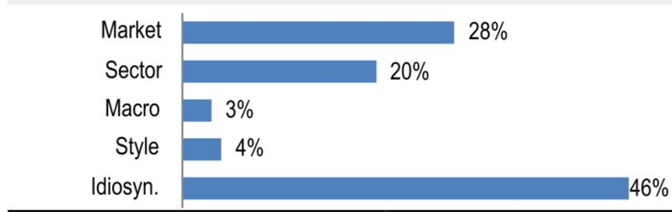
Investment Thesis

SAP's current cloud backlog (CCB) is likely to decelerate further given the sheer size of the base that has built up due to migrations that have already materialised, making it difficult to build conviction in a re-acceleration. In a market that now demands acceleration to counter prevailing software bear arguments, deceleration is unlikely to support near-term stock performance. Two additional headwinds cloud the outlook: (1) Business model transition: SAP appears to be charting a path toward a consumption/outcome-based revenue model, which could introduce volatility to numbers while this evolves; (2) Intensifying competition driving need to invest: Competition for the AI Agent layer is intensifying rapidly, with major LLM providers scaling capabilities and revenues at unprecedented speed. We think this will drive the need for more investment over time and likely more M&A, clouding the near-term equity story.

Valuation

Our price target for SAP is €175 Dec-27. €175 implies SAP trades on a ~18x 1yr fwd P/E (inc stock-based comp) multiple at that point in time. This is a function of the lower multiples the market now assigns to software earnings given the uncertain outlook due to AI. There is also a potential revenue model transition to navigate, which also introduces uncertainty.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI Europe ex UK	0.30	0.53
Sect: Technology	0.57	0.53
Ind: Software & Serv	0.96	0.95
Macro:		
Germany Govt 10Y Yield	-0.33	-0.16
Euro	-0.38	-0.15
Eurozone Exports	0.06	0.10
Quant Styles:		
DivYld	-0.41	-0.41
Growth	0.48	0.35
Value	-0.40	-0.33

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

Toby Ogg [AC]
(44-20) 7742-3278
toby.ogg@jpmorgan.com

Investment Thesis, Valuation and Risks

SAP *(Neutral; Price Target: €175.00)*

Investment Thesis

SAP's current cloud backlog (CCB) is likely to decelerate further given the sheer size of the base that has built up due to migrations that have already materialised, making it difficult to build conviction in a re-acceleration. In a market that now demands acceleration to counter prevailing software bear arguments, deceleration is unlikely to support near-term stock performance. Two additional headwinds cloud the outlook: (1) Business model transition: SAP appears to be charting a path toward a consumption/outcome-based revenue model, which could introduce volatility to numbers while this evolves; (2) Intensifying competition driving need to invest: Competition for the AI Agent layer is intensifying rapidly, with major LLM providers scaling capabilities and revenues at unprecedented speed. We think this will drive the need for more investment over time and likely more M&A, clouding the near-term equity story.

Valuation

Our price target for SAP is €175 Dec-27. €175 implies SAP trades on a ~18x 1yr fwd P/E (inc stock-based comp) multiple at that point in time. This is a function of the lower multiples the market now assigns to software earnings given the uncertain outlook due to AI. There is also a potential revenue model transition to navigate, which also introduces uncertainty.

Risks to Rating and Price Target

- Macro-economic conditions could be tougher than we anticipate (including supply chain issues, wage inflation, rising interest rates and economic growth), which could have an impact on corporate IT budgets and directly affect SAP’s sales opportunities.
- Conversely, macro conditions could improve, with digital transformation possibly accelerating adoption of SAP's products, which could drive revenue growth faster than currently expected.
- The mix shift to cloud revenues could be faster or slower than expected, which could alter the timing of revenue recognition and gross and operating margin achievements.
- The competitive environment remains strong, with a number of SaaS competitors providing strong offerings to compete with SAP in the areas of CRM, marketplace, big data analytics, etc. Major LLM providers capabilities also represent a competitive risk to monitor at the AI Agent layer.
- Competitors could be more aggressive than we anticipate, especially on the SaaS front. Likewise, the conversion to the S/4HANA could cause customers to delay or resist the upgrade (and in the worst-case scenario, seek another vendor's ERP products). On the other hand, accelerated digital transformation could compel customers to shift faster to SAP’s S/4HANA ERP product.
- SAP’s S/4HANA, Cloud or Network (Concur and Ariba) products may not grow as expected. Or licences and support could decline faster than expected, which could put pressure on margins if the cloud has also not reached full economies of scale to offset that pressure.
- Any delays in product development or releases could disappoint investors – particularly

if they were around the S/4HANA, the Business Technology Platform, industry cloud, or data analytics. On the other hand, acceleration of product offerings in these areas could see better customer uptake of such SAP products.

Toby Ogg [AC]
(44-20) 7742-3278
toby.ogg@jpmorgan.com

SAP: Summary of Financials

Income Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue	**34,176**	**36,801**	**40,266**	**44,952**	**50,363**
COGS	(8,623)	(9,274)	(10,192)	(11,448)	(12,892)
Gross profit	**25,553**	**27,527**	**30,075**	**33,504**	**37,471**
SG&A	(9,175)	(9,336)	(9,954)	(10,843)	(11,897)
Adj. EBITDA	**9,180**	**11,346**	**12,635**	**14,430**	**16,366**
D&A	(1,280)	(1,311)	(1,475)	(1,569)	(1,677)
Adj. EBIT	**8,152**	**10,422**	**11,735**	**13,345**	**15,187**
Net Interest	(63)	(231)	(33)	102	413
Adj. PBT	**7,791**	**10,309**	**11,702**	**13,447**	**15,600**
Tax	(2,849)	(3,361)	(3,795)	(4,344)	(5,017)
Minority Interest	7	(10)	0	0	0
Adj. Net Income	**5,278**	**7,178**	**8,233**	**9,547**	**11,076**
Reported (DIL) EPS	6.23	7.35	8.41	9.80	11.33
Adj. (DIL) EPS	**4.48**	**6.11**	**7.09**	**8.38**	**9.73**
DPS	**2.29**	**2.38**	**2.52**	**2.67**	**2.83**
Payout ratio	36.7%	32.4%	30.0%	27.3%	25.0%
Shares outstanding (DIL)	1,178	1,175	1,161	1,140	1,138

Balance Sheet	FY24A	FY25A	FY26E	FY27E	FY28E
Cash and cash equivalents	9,609	8,220	12,144	17,664	30,428
Accounts receivable	6,774	6,675	7,162	7,715	8,367
Inventories	-	-	-	-	-
Other current assets	3,389	3,810	4,139	4,512	4,945
Current assets	**21,401**	**20,257**	**24,997**	**31,443**	**45,292**
PP&E	4,493	4,497	4,457	4,412	4,361
LT investments	7,141	7,269	7,269	7,269	7,269
Other non current assets	14,375	14,313	14,791	15,349	16,017
Total assets	**74,122**	**70,363**	**75,151**	**81,719**	**95,797**
Short term borrowings	4,277	2,050	2,050	2,050	2,050
Payables	1,990	2,431	2,779	3,122	3,527
Other short term liabilities	12,812	12,769	14,072	15,374	16,933
Current liabilities	**19,079**	**17,250**	**18,901**	**20,546**	**22,510**
Long-term debt	7,169	6,021	7,961	10,310	13,210
Other long term liabilities	8,741	7,323	9,265	11,614	14,514
Total liabilities	**28,314**	**25,123**	**28,716**	**32,710**	**37,575**
Shareholders' equity	45,440	44,752	45,947	48,521	57,735
Minority interests	368	488	488	488	488
Total liabilities & equity	**74,122**	**70,363**	**75,151**	**81,719**	**95,797**
BVPS	**38.97**	**38.39**	**39.90**	**42.91**	**51.13**
y/y Growth	*5.5%*	*(1.5%)*	*3.9%*	*7.5%*	*19.2%*
Net debt/(cash)	208	(1,701)	(3,685)	(6,856)	(16,720)

Cash Flow Statement	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operating activities	**5,220**	**9,157**	**10,834**	**12,108**	**13,711**
o/w Depreciation & amortization	1,280	1,311	1,475	1,569	1,677
o/w Changes in working capital	593	(888)	686	535	644
Cash flow from investing activities	**(656)**	**(966)**	**(99)**	**94**	**501**
o/w Capital expenditure	(797)	(739)	(765)	(854)	(957)
as % of sales	*2.3%*	*2.0%*	*1.9%*	*1.9%*	*1.9%*
Cash flow from financing activities	**(3,412)**	**(8,744)**	**(6,813)**	**(6,682)**	**(1,448)**
o/w Dividends paid	(2,566)	(2,745)	(2,774)	(2,905)	(3,023)
o/w Shares issued/(repurchased)	-	-	-	-	-
o/w Net debt issued/(repaid)	1,582	(3,189)	0	0	0
Net change in cash	**1,485**	**(1,389)**	**3,921**	**5,520**	**12,764**
Adj. Free cash flow to firm	**4,585**	**8,695**	**10,091**	**11,185**	**12,474**
y/y Growth	*(20.8%)*	*89.6%*	*16.1%*	*10.8%*	*11.5%*

Ratio Analysis	FY24A	FY25A	FY26E	FY27E	FY28E
Gross margin	74.8%	74.8%	74.7%	74.5%	74.4%
EBITDA margin	26.9%	30.8%	31.4%	32.1%	32.5%
EBIT margin	23.9%	28.3%	29.1%	29.7%	30.2%
Net profit margin	15.4%	19.5%	20.4%	21.2%	22.0%
ROE	11.9%	15.9%	18.2%	20.2%	20.8%
ROA	7.4%	9.9%	11.3%	12.2%	12.5%
ROCE	9.9%	13.2%	15.0%	15.9%	15.8%
SG&A/Sales	26.8%	25.4%	24.7%	24.1%	23.6%
Net debt/Equity	0.0	NM	NM	NM	NM
Net debt/EBITDA	0.0	NM	NM	NM	NM
Sales/Assets (x)	0.5	0.5	0.6	0.6	0.6
Assets/Equity (x)	1.6	1.6	1.6	1.7	1.7
Interest cover (x)	145.7	49.1	382.4	NM	NM
Operating leverage	267.2%	362.5%	133.9%	117.9%	114.7%
Tax rate	36.6%	32.6%	32.4%	32.3%	32.2%
Revenue y/y Growth	9.5%	7.7%	9.4%	11.6%	12.0%
EBITDA y/y Growth	17.9%	23.6%	11.4%	14.2%	13.4%
EPS y/y Growth	21.0%	36.3%	16.1%	18.1%	16.2%

Valuation	FY24A	FY25A	FY26E	FY27E	FY28E
P/E (x)	33.0	24.2	20.9	17.7	15.2
P/BV (x)	3.8	3.9	3.7	3.4	2.9
EV/EBITDA (x)	19.6	15.7	14.0	12.0	10.0
Dividend Yield	1.5%	1.6%	1.7%	1.8%	1.9%

Source: Company reports and J.P. Morgan estimates.
Note: € in millions (except per-share data).Fiscal year ends Dec. o/w - out of which