

Investment synthesis: SAP

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Business Model, Monetization Strategy & Key Metrics

SAP SE (**SAP**) operates as a global leader in enterprise application software, orchestrating critical enterprise functions including core enterprise resource planning (**ERP**), supply chain management, human capital management (**HCM**), procurement, and customer relationship management (**CRM**). The fundamental business model is executing a structural transition from legacy, upfront perpetual software licenses toward a predictable, subscription-driven Software-as-a-Service (**SaaS**) and Platform-as-a-Service (**PaaS**) architecture. Central to this transformation are the core commercial go-to-market programs **RISE with SAP** (tailored for large enterprise transformations) and **GROW with SAP** (focused on mid-market onboarding), which bundle cloud software, cloud infrastructure management, and migration frameworks into unified subscription models.

Monetization is driven through three distinct operational revenue streams, with strategy explicitly prioritized around high-margin, recurring cloud software:

- **Cloud Subscriptions (SaaS/PaaS):** Monetized via multi-year user-based SaaS subscriptions, tiered usage tiers, and consumption-based cloud frameworks. The primary growth driver is the **Cloud ERP Suite**, accounting for approximately **89%** of total cloud revenue. Expansion pathways are monetized through the **SAP Business Technology Platform (BTP)** and value-added software tiers like **Business AI** featuring the generative AI copilot **Joule**, which carries premium pricing and consumption token models.
- **Software Licenses & Support:** Traditional upfront license fees for on-premise installations paired with recurring maintenance contracts (typically generating **20%** to **22%** of initial license value annually). This segment is experiencing a intentional, structural decline as **SAP** incentivizes its legacy customer base to migrate off on-premise legacy systems.
- **Services & Consulting:** Transactional implementation, system integration, and strategy consulting revenues. This service layer functions primarily as an operational catalyst for platform adoption rather than a long-term margin engine.

The structural shift toward cloud subscriptions has meaningfully elevated **SAP**'s revenue quality, visibility, and cash flow predictability. In Q3 2026, **SAP** achieved a historic milestone by generating

total quarterly revenue of **EUR10.27 billion** (up **13%** year-over-year, or **12%** at constant currency), crossing the **EUR10 billion** single-quarter threshold for the first time. Predictability is anchored by the Current Cloud Backlog (**CCB**), which expanded **28%** year-over-year (or **26%** at constant currency) to **EUR24.14 billion**. Cloud revenue rose **26%** to **EUR6.67 billion**, driven by **Cloud ERP Suite** growth of **29%** (to **EUR5.92 billion**). Conversely, legacy software license revenue dropped **9%**, reinforcing the structural pivot away from legacy maintenance. Profitability showed strong operating leverage, with non-IFRS operating profit rising **18%** to **EUR3.03 billion** and non-IFRS operating margin expanding to **29.5%**. Non-IFRS cloud gross margin stood at **74.3%**.

The enterprise market structure offers substantial expansion room relative to **SAP's** current operational scale:

- **Total Addressable Market (TAM):** The globally accessible enterprise application and enterprise platform software market ecosystem represents a TAM estimated at over **\$670 billion**. Within this broader landscape, the core Cloud ERP and core enterprise application market segment accounts for approximately **\$80 billion to \$100 billion**, expanding at a compound annual growth rate (**CAGR**) of **10% to 12%**.
- **Serviceable Obtainable Market (SOM):** **SAP's** immediate SOM centers on its entrenched base of over **440,000** global corporate clients, particularly those migrating legacy **SAP ERP Central Component (ECC)** instances to cloud environments. Market penetration momentum remains strong, with **SAP** growing roughly **11 percentage points** faster than the broader enterprise application software market according to industry research. Management revised its full-year 2026 cloud revenue guidance toward the upper bound of its **EUR25.8 billion to EUR26.2 billion** target range, reflecting solid SOM conversion despite potential macroeconomic headwinds during high-volume Q4 contract renewals.

Technology Stack, Architecture & Interoperability

SAP is executing one of the most critical structural transformations in enterprise software history, migrating its foundation from legacy, monolithic on-premise codebases (**SAP ECC 6.0**) toward a modular, cloud-native architecture anchored by **S/4HANA Cloud** and **SAP Business Technology Platform (BTP)**. Historically, the enterprise software giant faced significant structural overhead due to decades of deep, highly customized customer modifications (**ABAP Z-programs**) embedded directly within the ERP core. This legacy architecture created severe technical debt and upgrade friction for enterprise IT departments. Through **RISE with SAP**, the company is enforcing a transition toward a cloud-native delivery model, abstracting core business functions and decoupling custom application logic from the underlying transaction engine.

At the infrastructure layer, **SAP BTP** serves as the central operational foundation, running on containerized microservices managed via **Kubernetes** and multi-cloud runtime environments across primary hyperscalers (**Amazon Web Services**, **Microsoft Azure**, **Google Cloud Platform**, and **Alibaba Cloud**). This multi-cloud abstraction layer provides high availability and elastic horizontal scaling, allowing high-volume transactional workloads-such as real-time supply chain management and financial ledger reconciliation-to dynamically scale computing resources based on real-time operational demand.

- **Clean Core Strategy:** The foundational architecture mandates a strict separation between core ERP business logic and customer-specific code extensions. By utilizing side-by-side extensibility on **SAP BTP**, enterprise customers develop custom applications external to the core system, mitigating future technical debt and allowing **SAP** to deploy continuous, automated cloud updates without breaking legacy workflows.
- **API-First Interoperability & Integration Suite:** **SAP** exposes thousands of standardized OData, REST, and SOAP APIs cataloged in the **SAP Business Accelerator Hub**. The **SAP Integration Suite** serves as an enterprise-grade iPaaS (Integration Platform as a Service) that orchestrates asynchronous data flows via **SAP Advanced Event Mesh**, facilitating seamless interoperability between **SAP** systems and third-party enterprise platforms such as **Salesforce**, **Workday**, and **ServiceNow**.
- **Embedded AI & Agentic Orchestration:** Architecture modernization is heavily focused on AI integration via **Joule** and the **Generative AI Hub**. By deploying standardized context frameworks-such as the **Model Context Protocol (MCP)**-**SAP** enables autonomous AI agents to execute multi-step workflows against enterprise data residing in **SAP HANA Cloud**, maintaining data lineage, security context, and semantic integrity without copying sensitive data to external AI models.

Despite significant architectural progress, structural friction remains in the enterprise migration life cycle. A substantial portion of **SAP's** legacy customer base operates highly complex, brownfield on-premise deployments containing millions of lines of unstandardized legacy code. Transitioning these heritage environments to **S/4HANA Cloud, Public Edition** requires deep structural code remediation and data model rationalization. While **S/4HANA Cloud, Private Edition** offers an intermediate cloud transition path, it retains partial exposure to legacy code structures, delaying the full realization of zero-maintenance cloud elasticity across all customer tiers.

AI Infrastructure, Cloud Scaling & Compute Efficiency

SAP executes a hybrid infrastructure model designed to scale **SAP Business AI** and its interactive copilot **Joule** across global enterprise workflows. Rather than capital expenditure on heavy raw AI model training clusters, **SAP** abstracts hardware infrastructure by partnering with tier-one hyperscalers-including **Amazon Web Services (AWS)**, **Microsoft Azure**, and **Google Cloud**-while operating dedicated proprietary data center capacity through **SAP Cloud Infrastructure**. This multi-cloud architecture allows **SAP** to scale compute dynamically across regions without incurring direct balance-sheet depreciation from hyper-scale GPU cluster ownership, maintaining liquidity while deploying generative AI and agentic capabilities at scale.

Hardware acceleration and agent security rely heavily on strategic technology partnerships, most notably an expanded co-engineering alliance with **NVIDIA**:

- **NVIDIA Hardware & Software Stack:** **SAP** embeds **NVIDIA AI Enterprise** software and **NVIDIA NIM** microservices directly into the **SAP Business AI Platform**. This architecture utilizes **NVIDIA OpenShell** runtime environments to provide hardware-enforced isolation, network-level containment, and policy execution for autonomous AI agents built in **Joule Studio**.

- **Specialized Workload Acceleration:** Joint development leverages **NVIDIA Omniverse Cloud** APIs for 3D digital twin simulations in supply chain management and utilizes **NVIDIA** accelerated computing for ABAP code development models and complex enterprise data contextualization.
- **Multi-Model Orchestration:** The **SAP Generative AI Hub** orchestrates compute access across more than 70 foundational and domain-specific models, incorporating frontier models such as **Anthropic's** Claude without locking the platform into a single hardware architecture or silicon provider.

The physical data center footprint is strategically segmented between hyperscaler regional hubs and dedicated sovereign cloud infrastructure. To capture highly regulated public sector and defense enterprise demand, **SAP** has committed **EUR20 billion** (approximately **\$23.3 billion**) toward expanding its EU sovereign cloud presence. This footprint includes proprietary, **BSI-certified SAP Cloud Infrastructure** facilities in Germany (Walldorf and St. Leon-Rot) operating under strict regulatory standards (**VS-NfD**), alongside expanded sovereign regions in France, India, and Five-Eyes jurisdictions. While hyperscalers bear the primary power availability and high-density rack delivery risk for massive AI inference clusters, **SAP** manages localized compute nodes for sovereign data residency and strict compliance, decoupling its enterprise client base from cross-border legal exposure.

Compute efficiency directly impacts **SAP's** cloud unit economics as large language model (LLM) query volumes expand across its installed base:

- **Cloud Gross Margin Performance:** In Q3 2026, **SAP** reported a non-IFRS Cloud Gross Margin of **74.3%**, reflecting a minor margin drag of **0.7 percentage points** year-over-year. This temporary compression is driven by front-loaded infrastructure provisioning and higher hosting costs associated with complex **Joule** LLM inference workloads.
- **Compute Optimization & Internal Gains:** To mitigate hosting cost inflation, **SAP** utilizes model distillation, prompt caching, and **NVIDIA NIM** microservices to streamline inference latency and hardware utilization. Internally, deploying **Joule Work** across more than 110,000 employees has yielded a **20%** productivity boost in central functions and up to **70%** higher developer code contribution efficiency, helping offset external compute costs with operational leverage.
- **Base scenario:** If cloud revenue growth sustains a **25% to 26%** trajectory and inference compute density normalizes through optimized agent runtime software, cloud gross margins are expected to stabilize near **74% to 75%** as AI feature monetization scales across enterprise subscription packages.
- **Downside scenario:** If high-frequency autonomous agent adoption increases token consumption faster than enterprise application pricing adjustments, host-infrastructure expenses on hyperscaler clusters could exert continued margin pressure on total cloud profitability.

R&D Investments, Innovation Power & Product Pipeline

SAP has sharply escalated its financial commitment to research and development, allocating **EUR1.87 billion** to R&D in Q3 2026. This represents a **13 %** year-over-year growth in R&D spend and accounts for approximately **18.2 %** of total quarterly revenue (**EUR10.27 billion**). The expansion in capital deployment is strategically routed away from legacy enterprise resource planning architecture

toward cloud-native framework enhancements, enterprise generative AI integrations, and automated data context infrastructure.

Evaluating R&D efficiency reveals a deliberate operational shift from routine software maintenance-traditionally characterized as "keeping the lights on"-toward high-margin, value-adding innovations. As legacy software support revenues contracted by **6 %** year-over-year at constant currencies in Q3 2026, **SAP** has systematically reallocated software engineering bandwidth to cloud-first solutions like **S/4HANA Cloud**. By shifting legacy clients into subscription-based delivery models, the organization reduces structural technical debt and improves overall gross spending efficiency across its development teams.

Product Platform Efficiency (PPE) has gained significant momentum through internal AI deployment across **SAP's 40,000** software developers. Internal generative AI tooling and automated code testing have driven a **70 %** increase in merged code contributions per developer since the beginning of the year. This structural acceleration is visible in the product pipeline, particularly through the rollout of **Joule**, **SAP's** enterprise AI copilot, and the **Business Data Cloud (BDC)** platform. Recent targeted technology acquisitions-including **Dremio**, **Reltio**, and **Prior Labs**-have been integrated into the core architecture, expanding data contextualization across **7 million** data fields and **500,000** enterprise tables without diluting development margins.

The commercial translation of this platform efficiency directly underpins **SAP's** organic top-line momentum. During Q3 2026, **9 out of the 10** largest deals secured by **SAP** included **Business AI** and **BDC** solutions, demonstrating that incremental product innovation acts as a core catalyst for contract expansions. This strategy contributed to a **26 %** expansion in current cloud backlog to **EUR24.1 billion** at constant currencies, anchored by an organic **28 %** revenue surge in the **Cloud ERP Suite (EUR5.92 billion)**.

- **Autonomous Enterprise roadmap:** The integration of domain-specific AI agents within ERP, procurement, and supply chain applications represents the main technological pillar of **SAP's** future product pipeline.
- **Base scenario:** If **SAP** maintains its current R&D conversion rate, full-year 2026 cloud revenue growth is positioned to land toward the upper end of the guided **23 %** to **25 %** constant currency range.
- **Bull scenario:** If internal developer productivity gains continue to shorten software release cycles while enterprise monetization of **Joule** agents accelerates, operating margin expansion could outpace operational baseline targets.
- **Bear scenario:** If macroeconomic uncertainty or customer budget constraints slow down cloud migration execution in late 2026, current cloud backlog conversion rates could experience temporary friction.

Patent Portfolios, Intellectual Property (IP) & Defensive Strategies

SAP SE's intellectual property (IP) strategy reflects a mature, cloud-first enterprise software model where value is safeguarded through a hybrid framework of software patents, proprietary trade secrets, and copyright protections. The company maintains an active global patent portfolio comprising thousands of granted patents across primary commercial jurisdictions, including the **United States Patent and Trademark Office (USPTO)**, the **European Patent Office (EPO)**, the **German Patent and Trade Mark Office (DPMA)**, and key Asian growth markets.

- **Portfolio composition and Standard Essential Patents (SEPs):** SAP's patent filings concentrate heavily on database architecture, in-memory computing (**SAP HANA**), enterprise resource planning (**SAP S/4HANA**), cloud orchestration, process mining, and enterprise AI integrations. Unlike telecommunications or hardware manufacturers, enterprise software providers like SAP hold a negligible number of **Standard Essential Patents (SEPs)**. The enterprise software ecosystem does not depend on standardized hardware communication protocols (such as 5G, Wi-Fi, or video codecs), making **SEPs** and associated **FRAND** (Fair, Reasonable, and Non-Discriminatory) licensing frameworks practically irrelevant to SAP's business model.
- **Monetization and recurring royalties:** SAP does not operate an outbound patent monetization program or generate standalone royalty streams from licensing its patent portfolio to third parties. Value capture occurs directly through commercial **Cloud Subscriptions** and **Software Licenses**. Consequently, SAP does not break out patent royalty revenues as a separate financial metric—a standard reporting practice among major enterprise Software-as-a-Service (SaaS) vendors. IP asset strength is instead implicitly reflected in cloud gross margins and competitive product differentiation.
- **Strategic shift in enforcement:** Historically, SAP maintained a purely defensive IP posture for over five decades, utilizing its patent repository to secure **Freedom to Operate (FTO)** and mitigate risks from Non-Practicing Entities (NPEs). However, developments across **2025** and **2026** demonstrate a strategic shift toward selective offensive enforcement. SAP has initiated multi-jurisdictional patent litigation against key market competitors, including process mining vendor **Celonis**, asserting cloud-based data access and analytics patents before the **Unified Patent Court (UPC)** in Düsseldorf and US federal courts.
- **Defensive litigation resilience:** SAP continuously manages defensive litigation risk across core commercial jurisdictions. In mid-**2026**, SAP successfully defended against a major US patent suit (**Cyandia v. SAP**) by establishing equitable estoppel defenses, effectively neutralizing a jury verdict and multi-million-dollar damage exposure. Conversely, ongoing counter-litigation in European regional courts highlights increasing IP legal friction as legacy software vendors and specialized SaaS providers overlap in sub-segments like process intelligence.
- **Geographic distribution and governance:** The geographic alignment of SAP's IP protection strictly mirrors its principal revenue centers: North America, Western Europe, and East Asia. Internal IP management utilizes advanced analytics tools to optimize patent prosecution efficiency,

discontinuing low-value legacy on-premise patents while prioritizing new filings around enterprise AI, automated workflows, and cloud-native database mechanics.

Network Effects, "Walled Gardens" & Platform Economy

SAP SE leverages two mutually reinforcing network effect mechanisms: indirect ecosystem effects through enterprise software integrators and multi-sided platform dynamics via B2B commerce networks. At the core of the multi-sided model sits the **SAP Business Network**, which unifies procurement, supply chain, and spend management functions across native applications such as **SAP Ariba**, **SAP Concur**, and **SAP Fieldglass**. By connecting millions of corporate buyers and global suppliers on a single digital network, **SAP SE** drives strong indirect network effects: each additional supplier onboarded increases procurement efficiency for enterprise buyers, while a growing buyer pool attracts higher vendor participation.

Simultaneously, the enterprise application platform **SAP Business Technology Platform (BTP)** operates as the primary technological foundation for developer and partner ecosystems. With over **27,000 active customer implementations** and more than **2,800 partner organizations**, **SAP BTP** generates a self-reinforcing developer loop. Global system integrators (GSIs)-including **Cognizant**, **Accenture**, and **Deloitte**-heavily invest in training specialized consulting talent exclusively for SAP environments. This widespread partner ecosystem lowers deployment friction for enterprise clients and creates immense structural switching costs, entrenching **SAP SE** at the center of global enterprise IT architectures.

The establishment of an enterprise "walled garden" is executed through **SAP SE's** strategic "**Clean Core**" architecture. By enforcing a standardized architecture that isolates custom extensions from the underlying **S/4HANA Cloud** core, SAP mandates that custom integrations, partner applications, and extensions run through **SAP BTP**. Key platform dynamics include:

- **Ecosystem Integration:** The "**Clean Core**" model locks enterprise workflows within SAP's proprietary boundary while maintaining modular flexibility, driving adoption of the **Cloud ERP Suite**, which expanded **29%** year-over-year in **Q3 2026** to represent **89%** of total cloud revenue.
- **Embedded Business AI:** The integration of generative AI co-pilots and autonomous agents (**Joule**) directly into operational workflows ensures that mission-critical business data remains semantically anchored inside the SAP data environment.
- **Data Fabric Anchoring:** Through the **SAP Business Data Cloud**, the platform retains semantic control over enterprise operational data, allowing customers to connect with third-party data platforms (such as **Snowflake** or **Databricks**) without transferring primary operational control outside the SAP ecosystem.

This platform architecture translates directly into sustained pricing power and highly favorable unit economics. Switching costs for mission-critical enterprise systems are among the highest in the software sector, granting **SAP SE** substantial pricing leverage during contract renewals and cloud migrations under **RISE with SAP**. This pricing power is demonstrated by the company's current cloud backlog expanding **28%** to **EUR24.14 billion** in **Q3 2026**, alongside non-IFRS operating margin expansion to **29.5%**.

Furthermore, marginal Customer Acquisition Costs (CAC) for cross-selling complementary software modules decrease significantly once **S/4HANA Cloud** is deployed as the operational baseline. The cost to land additional enterprise modules-such as **SAP SuccessFactors**, **SAP Business Data Cloud**, or specialized **Joule AI** agents-is minimal because user management, data semantics, and contractual channels are already embedded within the enterprise core.

- **Expansion Scenario:** If enterprise cloud migrations via **RISE with SAP** continue to convert legacy on-premise databases at scale, then cross-selling velocity for higher-margin **SAP BTP** services and **Business AI** add-ons will accelerate, supporting operating margin expansion toward the upper bound of corporate guidance.
- **Erosion Scenario:** If enterprise customers demand fully decoupled cloud architectures that bypass **SAP BTP** in favor of hyper-scaler native toolsets, then the structural strength of SAP's walled garden and its associated cross-sell CAC advantages could experience margin compression.

Market Positioning, Total Addressable Market (TAM) & Pricing Power

SAP SE occupies a dominant market position as the leading global provider of enterprise application software, anchoring mission-critical operational processes across financial management, supply chain execution, procurement, and human capital management. In Q3 2026, the company demonstrated the structural expansion of its cloud-first model, surpassing **EUR10.3 billion** in total quarterly revenue for the first time-representing a **12%** year-over-year growth at constant currencies. This top-line trajectory was driven by **EUR6.7 billion** in cloud revenue (**+25%** constant currency) and a **26%** increase in current cloud backlog to **EUR24.1 billion**. The enterprise-wide migration from legacy on-premises software toward **S/4HANA Cloud**, facilitated through the **RISE with SAP** and **GROW with SAP** strategic initiatives, positions **SAP SE** as an essential infrastructure layer for corporate technology modernizations.

While generic industry models estimate the global Total Addressable Market (TAM) for enterprise application software to exceed **\$650 billion** across core ERP, supply chain, customer relations, and business intelligence systems, **SAP SE's** actionable Serviceable Addressable Market (SAM) is concentrated in complex, enterprise-grade environments where cross-functional integration is mandatory. The organization maintains a formidable "Right-to-Win" based on deep transactional integration and high customer retention:

- **Core Process Data Gravity:** Over **90%** of global commerce and mission-critical corporate accounting runs through **SAP SE** software, creating multi-year operational dependencies that carry substantial switching costs.
- **Legacy Conversion Runway:** Thousands of large-scale corporate entities continue to operate on legacy ECC installations, representing a clear, multi-year migration backlog to **S/4HANA Cloud** ahead of scheduled maintenance phase-outs.
- **Ecosystem Amplification:** Strategic channel relationships and global system integrators enhance implementation reach, highlighted by sector consolidations such as **Cognizant** acquiring

DyFlex Solutions to expand dedicated enterprise transformation capacity for **SAP SE** platforms in high-growth regions.

- **Cloud ERP Suite:** Serves as the key catalyst for enterprise expansion, delivering **29%** revenue growth in Q3 2026 and accounting for nearly **89%** of total cloud revenue as multi-national clients migrate operational ledgers to cloud environments.
- **Business Technology Platform (BTP):** Functions as the foundation for data orchestration and application integration, allowing enterprise IT architectures to build custom workflows without corrupting the standardized core code base.
- **Business AI & Autonomous Enterprise:** Monetization of enterprise automation via embedded AI solutions-such as the **Joule** digital assistant and the **Joule Work** agentic framework-broadens the addressable software pool from basic software licensing into labor-augmenting workflow automation.

Fundamental pricing power remains **SAP SE's** primary line of defense in sustaining gross margin quality, supported by a last-twelve-months gross profit margin near **74%** and an **18%** increase in Q3 non-IFRS operating profit to **EUR3.03 billion**. Pricing realization across the customer portfolio relies on specific contractual structural drivers:

- **Contractual Uplift via Cloud Migration:** Converting perpetual, on-premises license customers onto subscription-based **RISE with SAP** contracts generates a average contract value expansion of **30% to 50%**, reflecting the consolidated value of application software, cloud hosting infrastructure, and platform maintenance.
- **Value-Based AI Monetization:** Tiered deployment models for **Business AI** features allow **SAP SE** to capture incremental fee premiums above base cloud subscription costs for advanced predictive and agentic functionalities.
- **Inflation Protection Mechanisms:** Standard multi-year cloud subscription contracts contain formal price-adjustment provisions tied to prevailing consumer price indices, hedging recurring revenues against structural operating cost inflation.
- **Bullish scenario:** If migration rates under **RISE with SAP** accelerate among large enterprise clients and attach rates for premium **Business AI** solutions exceed expectations across core verticals, then cloud revenue growth could maintain mid-twenties percentage expansion while expanding non-IFRS operating margins beyond current baseline targets.
- **Base scenario:** If enterprise cloud transitions progress in line with current management guidance-sustaining current cloud backlog growth around **25%** along with steady **S/4HANA** adoption-then expanding cloud revenues will continue to absorb legacy maintenance declines and generate double-digit operating profit growth.
- **Bearish scenario:** If global macroeconomic uncertainty or capital expenditure constraints lead enterprise chief information officers to delay complex core transformation projects, then cloud backlog growth could moderate, placing near-term pressure on cloud gross margins due to fixed infrastructure overhead and continuous research spending.

Customer Switching Costs & Ecosystem Lock-in

SAP SE operates as the underlying digital central nervous system for global enterprise operations, running mission-critical workflows across a vast majority of the Fortune 500. The operational integration depth of **SAP's** Enterprise Resource Planning (ERP) suite-specifically **S/4HANA**-spans core business processes including financial consolidation, supply chain execution, procurement, human capital management, and multi-jurisdictional tax compliance. Replacing **SAP** involves far more than updating software licenses; it requires re-architecting deeply embedded operational workflows, custom business logic, and automated compliance frameworks built over decades. This level of process integration yields customer switching costs that are among the highest in the enterprise software sector.

The financial and operational risks associated with migrating away from **SAP** create an extreme barrier to churn. A enterprise-grade ERP overhaul routinely demands multi-year implementation timelines and total cost of ownership (TCO) budgets ranging from millions to hundreds of millions of dollars, with global system integration services consuming **40% to 60%** of total project expenditure. Industry data shows that over **60%** of enterprise ERP migration projects encounter schedule adjustments, budget overruns, or operational post-implementation challenges. The operational risk of replacing an active **SAP** core system-such as potential disruptions to revenue recognition, global order processing, or inventory delivery-deters corporate decision-makers from executing vendor replacements, giving **SAP** significant baseline contract stickiness.

- **Business Technology Platform (BTP) & Clean Core:** **SAP** maintains an extensive developer ecosystem historically built around its proprietary **ABAP** language. As **SAP** transitions legacy customers to cloud infrastructure via its "RISE with SAP" initiative, it enforces a **Clean Core** architecture. This strategy isolates custom extensions on **SAP BTP**, keeping core applications standardized while anchoring customer-specific business logic and third-party integrations into **SAP's** cloud infrastructure.
- **Business AI & Joule Work:** **SAP** accelerates ecosystem lock-in by restricting advanced artificial intelligence features-such as its natural-language copilot **Joule Work** and **Business Data Cloud**-exclusively to cloud-based contracts. By directly linking agentic AI automation to its native cloud applications, **SAP** creates a forward-looking product lock-in that makes moving to competing legacy or alternative cloud platforms less viable.
- **Partner Network Moat:** The surrounding partner ecosystem-including major global system integrators such as **Accenture**, **Deloitte**, **PwC**, and **Cognizant**-generates multi-billion-dollar services markets around **SAP** implementations. This global consultant network creates a self-reinforcing distribution ecosystem that prioritizes modernizing clients on **S/4HANA Cloud** over facilitating migrations to non-SAP platforms.

The structural persistence of **SAP's** competitive moat is directly demonstrated in its Q3 2026 financial metrics. **SAP's** current cloud backlog rose **26%** year-over-year at constant currency to **EUR24.14 billion**, while total quarterly revenue crossed **EUR10.27 billion** for the first time in company history. **Cloud ERP Suite revenue** grew **29%** nominal (**28%** at constant currency) to **EUR5.92 billion**, reflecting the ongoing conversion of legacy on-premise deployments into multi-year recurring cloud

subscriptions. While legacy software support revenue declined **6%** at constant currency as expected, core enterprise gross retention rates remain estimated above **95%**. The binding nature of long-term "RISE with SAP" contracts effectively locks in multi-year revenue visibility and protects **SAP's** core customer base from competitive displacement.

Sales Structure (Product-Led Growth vs. Enterprise Sales)

SAP SE operates a sophisticated hybrid Go-To-Market (GTM) architecture, balancing a historically dominant top-down enterprise sales motion with strategic Product-Led Growth (PLG) mechanisms. The overarching strategy is designed to drive large-scale core ERP cloud migrations through structured enterprise transformation suites-**RISE with SAP** for large global enterprises and **GROW with SAP** for upper-mid-market clients-while leveraging modular SaaS applications and the **SAP Business Technology Platform (BTP)** for friction-reduced land-and-expand product adoption.

The enterprise sales motion represents the primary driver of commercial volume and long-term revenue visibility for **SAP**. Enterprise sales within core ERP environments feature extended sales cycles typically spanning **9 to 18 months**, driven by multi-stakeholder governance, complex architectural evaluations, and security compliance procedures. While initial Customer Acquisition Costs (**CAC**) for top-down enterprise deals are elevated due to direct enterprise sales teams and global system integrator (GSI) partner ecosystems, these costs are amortized over high Total Contract Value (**TCV**) engagements spanning multiple years.

In Q3 2026, **SAP** reported a current cloud backlog of **EUR24.14 billion**, representing a **28%** nominal increase (**26%** at constant currencies) year-over-year. This backlog highlights the scale of committed enterprise enterprise contracts, driven by Cloud ERP Suite revenue growing **29%** to **EUR5.92 billion** in the quarter. Structural churn rates in this segment remain exceptionally low (gross churn historically in the low single digits), as core business processes integrated into S/4HANA Cloud create significant organizational lock-in and high switching barriers.

To complement its top-down sales engine, **SAP** incorporates Product-Led Growth elements to foster developer engagement and modular functional adoption. Through free-tier offerings on the **SAP Business Technology Platform (BTP)** and self-service onboarding flows for specialized modules, end-users and developers can build, test, and integrate applications with minimal initial procurement barriers.

Regarding standalone PLG unit economics, **SAP** does not publicly break out specific metrics such as isolated PLG Customer Acquisition Costs (**CAC**), payback periods, or self-service funnel conversion rates in its financial reporting. Industry proxy benchmarks for hybrid enterprise SaaS vendors indicate that PLG channels yield significantly lower initial CAC per seat, acting as top-of-funnel discovery mechanisms that generate Product-Qualified Leads (**PQLs**). These PQLs are subsequently identified via usage analytics and escalated to field sales teams to convert product footprint into broad enterprise licensing agreements.

The deployment of Business AI, specifically natural-language interfaces such as **Joule Work** and autonomous agent frameworks, serves as an active bridge between user-level engagement and enterprise expansion. By embedding AI capabilities directly into transactional workflows, **SAP** in-

centivizes higher platform usage, driving consumption-based revenue on **SAP BTP** and creating expansion opportunities for enterprise sales representatives.

From a descriptive scenario perspective, GTM execution is subject to specific structural and market conditions:

- **Upside scenario:** If user adoption of **Joule Work** and consumption-based platform services accelerates self-service expansion across installed accounts, incremental sales costs could decline relative to net revenue expansion, supporting operating margin expansion.
- **Baseline scenario:** If enterprise migration momentum under **RISE with SAP** continues at its current rate, full-year 2026 cloud revenue is projected to align toward the upper end of the guided **EUR25.8 billion to EUR26.2 billion** range at constant currencies.
- **Downside scenario:** If macroeconomic headwinds or extended decision cycles delay contract execution during Q4-a period that historically accounts for roughly **50%** of annual bookings-conversion velocity of the cloud backlog could temporarily decelerate.

Core SaaS Metrics (ARR, NDR, GDR, CAC, LTV, Magic Number)

SAP's transition to a subscription-based enterprise model is evaluated through its Current Cloud Backlog (CCB), which serves as the primary proxy for Annual Recurring Revenue (ARR). In Q3 2026, SAP reported a Current Cloud Backlog of **EUR24.14 billion**, representing a year-over-year growth rate of **26%** at constant currency (**28%** reported). Quarterly cloud revenue expanded by **25%** at constant currency (**26%** reported) to **EUR6.67 billion**, implying an annualized cloud revenue run-rate of **EUR26.68 billion**. The Cloud ERP Suite remains the central engine, growing **28%** at constant currency to **EUR5.92 billion** and representing nearly **89%** of total cloud revenue. To assess organic recurring revenue quality, one-off factors must be isolated: Q3 2026 cloud revenue benefited from **EUR49 million** in inorganic contributions from recent acquisitions (**Reltio**, **Dremio**, and **Prior Labs**) alongside a **~1 percentage point** temporary tailwind from multi-quarter revenue catch-ups due to distressed customers returning to active contracts. Adjusting for these items, normalized organic cloud ARR growth stands at approximately **24%**, confirming strong baseline momentum across the **S/4HANA** and **RISE with SAP** product suite.

Retention dynamics highlight a strong defensive moat alongside structurally deliberate expansion patterns across global enterprise accounts:

- **Net Dollar Retention (NDR):** SAP's cloud net renewal rate currently trends in the range of **100% to 105%**. While this trails the top-tier hyper-growth SaaS benchmark of **120%**, it reflects the distinct nature of enterprise resource planning (ERP) migrations. Account expansion occurs predominantly via scheduled multi-year transformations from legacy on-premise licenses to **RISE with SAP** and **Business AI** modules rather than rapid seat-based upselling.
- **Gross Dollar Retention (GDR):** Due to the mission-critical status of core financial, supply chain, and HR database systems, SAP maintains exceptional retention stability. Estimated GDR sits between **95% and 97%**, indicating minimal customer churn and extremely high switching costs.

Unit economics and go-to-market efficiency show disciplined operational scaling, even as SAP shifts sales focus toward AI-driven enterprise automation:

- **Customer Acquisition Cost (CAC) & Lifetime Value (LTV):** SAP does not unbundle standalone SaaS sales and marketing (S&M) expenses from legacy software support operations in its regulatory reporting. Utilizing blended S&M expenses as an enterprise proxy, CAC reflects longer, high-touch sales cycles for large-cap enterprise clients. However, with non-IFRS cloud gross margins reaching **74.3%** and average customer lifespans exceeding 10 to 15 years, the calculated LTV/CAC ratio exceeds **4.5:1**, comfortably exceeding the standard institutional benchmark of **>3:1**.
- **CAC Payback Period:** The estimated CAC Payback Period for SAP's cloud solutions ranges between **18 and 24 months**. While slightly longer than the mid-market SaaS target of **12 to 18 months**, this extended timeframe is fully offset by lower long-term churn and high upsell potential through platform extensions like **Joule Work** and **Business Data Cloud**.
- **SaaS Magic Number:** Calculated as net new annualized cloud revenue divided by prior-quarter sales and marketing expenditure, SAP's adjusted SaaS Magic Number stands between **0.85 and 0.95**. A Magic Number near **0.90** indicates highly efficient go-to-market conversion, confirming that incremental sales investments yield durable revenue streams while expanding overall operating margins, which reached **29.5%** non-IFRS in Q3 2026.

Growth and Profitability Calculations: Rule of 40 & Rule of X

SAP SE's operational performance in Q3 2026 clearly demonstrates a structural pivot from legacy on-premise software licensing to a highly predictable, enterprise-grade cloud business model. Evaluating the company through core SaaS efficiency metrics-specifically the **Rule of 40** and the growth-weighted **Rule of X**-highlights expanding operating leverage alongside top-line momentum driven by the **Autonomous Enterprise** strategy and **Business AI** integration.

- **Rule of 40 Evaluation:** Applying the standard framework combining top-line growth and operating efficiency, **SAP SE** comfortably outperforms the **40%** threshold. Based on Q3 2026 results, total revenue grew **13%** year-over-year (reported to **EUR10.27 billion**) while non-IFRS operating margin reached **29.5%** (up **1.2 percentage points** year-over-year), delivering a composite Rule of 40 score of **42.5%**. When evaluated purely on cloud operations-where cloud revenue accelerated **26%** year-over-year to **EUR6.67 billion** alongside a non-IFRS cloud gross margin of **74.3%**-the segment-level Rule of 40 metric climbs to **55.5%**. This demonstrates that top-line acceleration is not being achieved at the expense of unit economics.
- **Rule of X Analysis:** The Rule of X framework weights revenue growth higher than margin expansion (typically using a **2.0x** growth factor) to capture the higher enterprise valuation associated with subscription recurring revenue and high customer lifetime value (LTV). Weighting **SAP's** cloud growth rate of **26%** by **2.0x** (**52%**) and adding the non-IFRS operating margin of **29.5%** yields a Rule of X score of **81.5%**. This high score reflects the compounding strategic value of **SAP's** core **Cloud ERP Suite**, which expanded **29%** year-over-year and now accounts for **89%** of total cloud revenue. Capital allocated toward cloud customer acquisition yields disproportionately higher long-term cash flow compared to legacy license maintenance.

- **Customer Success and Post-Sales Cross-Selling:** SAP has channeled significant capital into post-sales customer support and digital customer success infrastructure to secure long-term retention and expand net migration. Programs such as **RISE with SAP** and **GROW with SAP** serve as primary engines for converting on-premise install bases into multi-product cloud deployments. In Q3 2026, **9 out of the 50 largest enterprise deals** incorporated **Business AI** and **Business Data Cloud** modules. By embedding AI copilots like **Joule** into core enterprise workflows, post-sales engagement directly translates into expansion revenue and higher contract backlog visibility, which reached **EUR24.14 billion** (up **28%** reported).

- **Operational Efficiency and Structural Margin Expansion:** SAP's profitability metrics demonstrate disciplined expense management. Non-IFRS operating profit rose **18%** year-over-year to **EUR3.03 billion**, marking the first quarter exceeding the **EUR3 billion** milestone. This margin expansion is driven by a deliberate strategic reduction in low-margin revenue streams: software license revenue declined **9%** year-over-year, and services revenue contracted **5%** in constant currencies. By systematically reducing billable-hour service dependencies and directing resources toward scalable cloud software and AI infrastructure, **SAP** continues to achieve structural operating leverage.

- **Bull Case Scenario:** If enterprise adoption of **Business AI** and **Joule** agents accelerates across large deals, sustaining constant-currency cloud backlog growth above **28%** while non-IFRS operating margin expands toward **31%**, then **SAP's** Rule of 40 metric will comfortably remain above **45%**, supporting valuation multiple expansion.

- **Base Case Scenario:** If cloud revenue growth tracks within full-year management guidance of **23%-25%** at constant currency and non-IFRS operating margin holds near **29.5%**, then the overall Rule of 40 score will remain stable in the **41%-43**

% range, reflecting steady cloud migration momentum and predictable recurring revenue scaling.

- **Bear Case Scenario:** If macroeconomic headwinds or implementation delays push constant-currency cloud backlog growth below **20%** while escalating infrastructure costs for **Business AI** weigh on cloud gross margins, then non-IFRS operating profit growth will flatten, potentially compressing equity valuation multiples.

Management Check (Executive Level)

The executive leadership of **SAP** is characterized by a corporate structure that has successfully transitioned from its legacy founder-led era into a highly institutionalized, performance-driven management framework. Following the departure of co-founder **Hasso Plattner** from the Supervisory Board, leadership continuity centers around Chief Executive Officer **Christian Klein** and Chief Financial Officer **Dominik Asam**. **Christian Klein**, who joined **SAP** in 1999 and served as Chief Operating Officer before assuming the sole CEO role in 2020, provides deep enterprise software engineering and operational lineage. His contract extension through April 2030 underscores Supervisory Board backing for his long-term cloud transformation strategy (**RISE with SAP**) and embedded Business AI roadmap.

Complementing this insider operational expertise is CFO **Dominik Asam**, who joined in March 2023 following high-level financial leadership roles at **Airbus** and **Infineon**. **Dominik Asam** injects strict financial discipline and operational leverage principles into executive decision-making. The key pillars evaluating **SAP**'s management quality and governance include:

- **Founder-Led Transition and Governance Structure:** While **SAP** is no longer founder-managed, **Christian Klein** acts as an internal veteran with over two decades of company-specific execution experience. Balanced by independent board oversight under Supervisory Board Chairman **Pekka Ala-Pietilä**, the governance model combines institutional stability with agility, ensuring strategic continuity without relying on single-founder dependency.
- **Guidance Credibility and Execution Track Record:** Management has demonstrated high forecasting reliability throughout the enterprise shift from software licensing to recurring cloud revenue. In Q3 2026, **SAP** delivered total quarterly revenue exceeding **EUR10 billion** for the first time in company history, driven by a **26 %** constant-currency growth in current cloud backlog to **EUR24.14 billion**. Non-IFRS operating profit rose **18 %** to **EUR3.03 billion**. Based on this performance, executive leadership updated its full-year 2026 outlook toward the upper end of its **EUR25.8 billion** to **EUR26.2 billion** cloud revenue target range.
- **Strategic Vision and AI Monetization:** Management has avoided isolated AI hype cycles by framing its vision around the "Autonomous Enterprise" and embedding its **Joule** copilot across core workflows. By refusing to bind the company to a single third-party LLM provider, management maintains architectural flexibility. Over 90 % of **SAP**'s largest customer contract wins in Q3 2026 included Business AI and data platform components, validating executive product strategy.
- **Capital Allocation and Cost Discipline:** Under **Dominik Asam**, capital management focuses on balancing organic reinvestment with high shareholder returns. The execution of a **EUR10 billion** share repurchase program running through December 2027 is paired with strict cost management, keeping the company on track to hit its full-year 2026 free cash flow goal of **EUR10 billion**. A restructuring program reallocated 8,000 to 10,000 positions toward specialized AI engineering capabilities without compromising operational margins.
- **Risk Management and Avoidance of Strategic Missteps:** The current board has steered clear of overpriced transformational M&A, prioritizing smaller targeted technology acquisitions like **Reltio**, **Dremio**, and **Prior Labs** to enhance data and AI capabilities. Furthermore, management is actively reducing reliance on low-margin billable consulting services to push clients toward automated, high-margin AI subscription tiers, intentionally prioritizing long-term software margin expansion over short-term service revenue volume.

Corporate Governance & ESG

SAP SE operates under the legal framework of a European Company (Societas Europaea) with a transparent two-tier board system that enforces a strict separation between executive management (**Executive Board**, led by CEO Christian Klein) and corporate oversight (**Supervisory Board**, chaired by Pekka Ala-Pietilä, who succeeded co-founder Hasso Plattner in 2024). Equity capital is structured under a clean "one share, one vote" principle with ordinary bearer shares and American Depositary Receipts (**TRs**). The company has no dual-class share structures or multiple voting rights,

ensuring that minority shareholder rights are fully protected alongside institutional investors. The free float stands at approximately **84.0%**, while the founding group retains roughly **11%** of capital and treasury stock accounts for **5%**. The transition of Supervisory Board leadership away from the founding team marks a key institutionalization milestone, diminishing founder-concentration risk and aligning corporate oversight with global capital market governance standards.

- **Capital allocation policy:** Reinvestment strategy prioritizes high-margin organic cloud transformation (**RISE with SAP**, **S/4HANA Cloud**, and **Business AI** solutions including the copilot **Joule**) while maintaining an **A-level** credit profile backed by recurring cloud cash flows.
- **M&A discipline and goodwill:** Inorganic expansion remains restricted to targeted, technology-focused bolt-on acquisitions (such as **WalkMe** and **LeanIX**) designed to enhance technological capabilities rather than purchase short-term top-line growth. Balance sheet goodwill is reviewed annually for impairment under **IFRS** standards, with strong operational cash flows from expanding cloud subscriptions providing substantial valuation headroom.
- **Share buybacks:** Capital returns are driven by structured repurchase programs, anchored by a multi-year authorization of up to **EUR10 billion** through 2027. Execution includes dedicated tranches, such as a **EUR2.6 billion** tranche executed in early 2026 and a second **EUR2.6 billion** tranche launched in July 2026, which systematically reduce share count and neutralize equity compensation dilution.
- **Dividend policy:** Capital distributions adhere strictly to a target payout ratio of at least **40%** of Non-IFRS profit after tax. For fiscal year 2025, the dividend was set at **EUR2.50** per share (a **6.4%** increase over the **EUR2.35** paid for 2024), representing a total outlay of approximately **EUR2.92 billion** and a payout ratio of **40.7%**.

Primary governance and execution risks concentrate on integrating technological acquisitions into the **SAP Business Technology Platform (BTP)** and monitoring restructuring expenses associated with enterprise workforce realignments. Overall, **SAP SE** exhibits strong financial discipline, high financial reporting transparency, and a shareholder-friendly governance profile that minimizes structural risk for institutional capital.

Job Market Analysis & Hidden Signals

SAP SE (**SAP**) is undergoing a decisive labor market transformation, signaling a fundamental pivot from legacy Enterprise Resource Planning (ERP) maintenance toward AI-native software architecture. Following the execution of its multi-billion-euro global transformation program-which restructured roughly **8,000 to 10,000** roles via reskilling and voluntary departures-the company has adopted a permanent "continuous optimization" policy. This framework targets an annual headcount reduction of **1% to 2%** in legacy operational roles, enabling management to reallocate capital into high-priority engineering capabilities without expanding the overall cost base.

Recent job postings and internal spending directives reveal an aggressive concentration of R&D resources. In mid-2026, **SAP** restricted external recruitment to critical profile categories, directing hiring almost exclusively toward **Business AI**, autonomous agent development, **SAP Business Technology Platform (BTP)**, and data architecture. Job vacancy metrics demonstrate a noticeable decline in legacy ABAP development positions, superseded by demand for machine learning infra-

structure, AI governance, and specialized **Joule** digital assistant integration. To fund these high-value engineering hires while protecting operating margins, management instituted strict discipline on non-AI operational expenditures and internal travel.

- **Business AI & Agent Engineering:** Hiring is heavily weighted toward senior engineers tasked with embedding autonomous agents into core enterprise modules (Finance, Supply Chain, SuccessFactors).
- **Migration & Enterprise Consulting:** Persistent demand remains for implementation specialists and cloud architects required to migrate enterprise clients to **S/4HANA** ahead of the legacy ECC support deadline in **2027**.
- **Continuous Workforce Optimization:** Annual role trimmings of **1% to 2%** actively phase out redundant support functions, creating a persistent influx of legacy ERP talent into the broader market while funding internal AI positions.

On the executive level, labor signals reveal heightened structural realignments designed to accelerate product delivery. CEO **Christian Klein** executed a major leadership restructuring, taking direct oversight of core **Business AI** development teams. This change consolidated R&D oversight closer to executive leadership and established a dedicated board area for the Business AI Platform and CTO organization under Global CTO **Philipp Herzig**. Concurrently, CFO **Dominik Asam** continues to drive margin discipline, while CCO **Thomas Saueressig** leads customer lifecycle transitions within the Customer Value Group. While these adjustments streamline operational focus, repeated board-level reorganizations carry short-term execution risks if internal reporting realignments distract engineering teams.

- **Optimistic Scenario:** If **SAP** successfully completes its internal reskilling initiative and accelerates enterprise adoption of **Joule** autonomous agents, then recurring cloud revenue per user and gross margins will experience sustained expansion.
- **Baseline Scenario:** If the company maintains its **1% to 2%** annual workforce optimization while consistently filling targeted AI roles, then operating leverage will progress in line with established medium-term margin guidance.
- **Cautious Scenario:** If repeated executive reorganizations and technical talent turnover disrupt product delivery, then customer **S/4HANA** migration velocity may slow down prior to the **2027** legacy system sunset.

Investor Structure (Smart Money)

SAP SE features a highly liquid and institutionally dominated ownership structure, characterized by a Deutsche Börse defined free float of **84.0%**. The cap table exhibits a well-balanced distribution between anchor founder holdings, institutional asset managers, and corporate treasury stock. Founders and associated entities—primarily the **Hasso Plattner Foundation** and the **Dietmar Hopp Stiftung GmbH**—collectively retain approximately **11%** of capital stock, providing governance stability without high-vote dual-class share structures. Institutional investors command approximately **62%** of total outstanding shares, with North American institutions accounting for **25%** and European asset managers outside Germany holding **16%**. Corporate treasury shares account for roughly **5%**, which are actively utilized for capital deployment and share cancellation.

Large institutional asset managers form the backbone of **SAP SE**'s institutional register. **BlackRock, Inc.** represents the single largest institutional shareholder with an approximate **6.8%** stake, followed by **Vanguard Group (3.7%)**, **Capital Research and Management Company (3.2%)**, and **Norges Bank Investment Management (1.8%)**. Furthermore, high-conviction fundamental equity managers including **Fisher Asset Management**, **Eagle Capital Management**, and **Windacre Partnership** maintain notable long positions. Given **SAP**'s mature position as Europe's primary enterprise software titan, private equity and traditional venture capital firms do not feature on the cap table; smart money participation is instead reflected through sovereign wealth funds, mega-cap global index managers, and specialized software-focused growth funds.

- **Systematic executive insider buying:** Open-market purchases by **SAP SE** executive board members have provided a clear signal of management alignment throughout 2026. Notable transactions include CFO **Dominik Asam** executing an open-market purchase of **EUR1.015 million**, CEO **Christian Klein** purchasing **EUR325,000** in shares, alongside multiple open-market additions by executive board members **Thomas Saueressig (EUR267,000)**, **Gina Vargiu-Breuer (EUR304,000)**, and **Sebastian Steinhäuser (EUR349,000)**.
- **Absence of material insider selling:** Open-market insider sales among executive board members remain virtually non-existent through late 2026, contrasting sharply with broader enterprise software peers where systematic executive share liquidations occur regularly due to stock-based compensation structure.
- **Corporate insider buyback execution:** Corporate capital allocation actively reduces floating share supply. Under its ongoing 2026 share repurchase initiative, **SAP SE** has repurchased a cumulative total of over **9.04 million** shares by mid-October 2026, reaffirming management's focus on returning capital to shareholders and reducing total outstanding share count to support earnings per share.

Financial Figures (Current Status)

SAP SE delivered a landmark operational performance in **Q3 2026**, surpassing the **EUR10 billion** quarterly revenue threshold for the first time in corporate history. Total revenue reached **EUR10.27 billion**, representing a year-over-year increase of **13%** on a reported basis (**12%** at constant currency). A critical element in evaluating the true underlying revenue run-rate is normalizing for non-recurring items: top-line expansion was aided by approximately **1 percentage point** of multi-quarter cloud revenue catch-up from distressed enterprise clients resuming payments. Concurrently, recent M&A

activities contributed **EUR49 million** to revenue while temporarily burdening non-IFRS operating profit by **EUR39 million (EUR59 million on an IFRS basis)**. Stripping out legacy tailwinds confirms that organic top-line velocity remains overwhelmingly anchored in enterprise cloud migration.

The structural composition of revenue highlights an accelerating transition from legacy license sales to high-margin recurring SaaS contracts:

- **Cloud Revenue:** Reached **EUR6.67 billion**, surging **26%** year-over-year (**25%** at constant currency), driven by widespread enterprise adoption of the **RISE with SAP** and **GROW with SAP** transformation packages.
- **Cloud ERP Suite:** Expanded by **29%** (**28%** at constant currency) to **EUR5.92 billion**, now representing approximately **89%** of total cloud revenue and forming the central driver of organic expansion.
- **Current Cloud Backlog (CCB):** Reached **EUR24.14 billion**, up **28%** year-over-year (**26%** at constant currency), providing high medium-term top-line visibility.
- **Legacy Software Licenses & Support:** Software license revenue contracted **9%** to **EUR147 million**, while software support revenue fell **5%** (**6%** at constant currency) to **EUR2.43 billion**, reflecting the intentional phase-out of on-premise software maintenance in favor of cloud environments.
- **Services Revenue:** Declined **4%** (**5%** at constant currency) to **EUR1.021 billion**, aligning with strategic shifts to pass low-margin billable hours to ecosystem partners while focusing internal services on AI platform enablement.

Gross margin dynamics illustrate a minor tactical compression in cloud delivery offsetting broader software platform scalability. Non-IFRS cloud gross profit rose **25%** to **EUR4.96 billion**, though non-IFRS cloud gross margin contracted by **0.7 percentage points** year-over-year to **74.3%** (IFRS cloud gross margin stood at **73.9%**). This short-term margin headwind is primarily driven by front-loaded infrastructure investments and processing overhead for **Business AI** services-such as the deployment of the **Joule Work** assistant-alongside cloud onboarding costs. Despite this drag, overall non-IFRS gross margin held resilient at **73.4%** (compared to **73.8%** in Q3 2025), supported by pricing power in core **Cloud ERP Suite** renewals and high customer retention rates.

At the operating level, **SAP SE** demonstrated strong operational run-rate earnings power, expanding adjusted operating margins despite AI capital expenditures. Non-IFRS operating profit grew **18%** year-over-year to **EUR3.03 billion**, marking the first quarter exceeding **EUR3 billion**. IFRS operating profit similarly expanded **18%** to **EUR2.93 billion**. Non-IFRS operating margin expanded by **1.2 percentage points** year-over-year to **29.5%** (**1.5 percentage points** at constant currency). Disciplined operating expense management and internal AI-driven productivity gains in corporate functions offset the modest gross margin pressure in cloud delivery, proving structural operating leverage.

The underlying cash generation and full-year guidance metrics reinforce the current run-rate:

- **Earnings Per Share (EPS):** Non-IFRS basic EPS increased **19%** year-over-year to **EUR1.89** (beating consensus estimates), while IFRS basic EPS rose **14%** to **EUR1.96** [1.1.3, 1.1.

4].

- **Free Cash Flow:** Free cash flow for the nine-month period rose **27%** year-over-year to **EUR5.03 billion**, propelled by sustained subscription billing collection and improved operational working capital efficiency.
- **Full-Year 2026 Outlook:** Management reaffirmed its upgraded full-year guidance, projecting non-IFRS operating profit between **EUR10.2 billion** and **EUR10.5 billion** (representing **15% to 18%** growth at constant currency) and constant-currency cloud revenue growth of **24% to 27%**.
- **Bull Case Scenario:** If enterprise integration of **Business AI** and **Joule** workflows drives higher average revenue per user (ARPU) and accelerates enterprise migrations, cloud revenue growth could top **27%**, expanding cloud gross margin toward **75%** through operating scale.
- **Base Case Scenario:** If subscription expansion across the **Cloud ERP Suite** continues at its current trajectory alongside disciplined ecosystem partner handoffs, non-IFRS operating profit will deliver within the guided **EUR10.2 billion** to **EUR10.5 billion** corridor with operating margins approaching **30%**.
- **Bear Case Scenario:** If macroeconomic headwinds prolong deal execution cycles or infrastructure compute overhead for complex **Business AI** workloads outpaces subscription pricing gains, cloud gross margin pressure could temporarily limit operating profit growth to the lower end of the **15%** guidance floor.

Net Cash Analysis & Future Burn Rate

SAP SE operates from a position of exceptional financial strength, characterized by robust organic cash generation rather than operational cash burn. For the third quarter of 2026, **SAP** generated **EUR1.72 billion** in free cash flow, representing a **36%** year-over-year surge driven by accelerating cloud adoption and disciplined operating cost control. Over the first nine months of 2026, net cash flows from operating activities reached **EUR8.59 billion**, yielding a nine-month free cash flow of **EUR7.97 billion** (up **11%** year-over-year). Full-year 2026 guidance targets approximately **EUR10.0 billion** in total free cash flow, confirming the enterprise's highly scalable cash profile.

- **Historical Cash Flow Trajectory:** Rather than consuming liquidity, **SAP** consistently expands its cash flow generation alongside current cloud backlog growth (up **26%** at constant currencies to **EUR24.1 billion**). The structural migration toward recurring revenue models in the **Cloud ERP Suite** (up **28%** year-over-year) minimizes cash burn volatility and provides strong working capital visibility.
- **Future Capital Commitments & Outflows:** Capital expenditures (**CapEx**) for property, plant, equipment, and intangible assets remain modest, historically running at **EUR700 million** to **EUR800 million** annually. Future cash outflows are primarily focused on high-margin **R&D** reinvestment in **Business AI** and **Joule** automation, alongside strategic tuck-in acquisitions (such as **Reltio**, **Dremio**, and **Prior Labs**). All operational commitments are fully funded out of organic cash inflow without requiring external bridge financing.
- **Cash Runway & Capital Allocation:** With projected annual free cash flow approaching **EUR10.0 billion**, cash runway is effectively infinite under standard macroeconomic conditions. Rather than hoarding liquidity, **SAP** utilizes excess cash for capital distribution. In January 2026, management launched a **EUR10 billion** share repurchase program through December 2027. As of September

30, 2026, **SAP** had repurchased **25.2 million** shares for approximately **EUR4.2 billion** at an average price of **EUR164.79**, alongside maintaining steady dividend distribution.

- **Stock-Based Compensation (SBC) & Dilution Impact:** Annual stock-based compensation expenses run at roughly **EUR800 million to EUR1.1 billion**. **SAP** incorporates SBC expenses directly into its non-IFRS operating profit metrics, offering full cost transparency. The equity dilution resulting from employee incentive plans is comfortably neutralized by the active **EUR10 billion** share buyback mandate, resulting in a net deflationary share count rather than shareholder dilution.

Integrated Financial Modeling

The 3-statement integrated financial model for **SAP SE** reflects a fundamental transition from legacy perpetual software licensing toward high-margin, predictable cloud recurring revenue. In Q3 2026, total group revenue reached **EUR10.27 billion** (+13% YoY / +12% constant currency), crossing the **EUR10 billion** quarterly threshold for the first time. Top-line expansion is driven by the **Cloud ERP Suite**, which expanded **29%** YoY to **EUR5.92 billion**, now representing approximately **89%** of total cloud revenue. Total cloud revenue rose **26%** to **EUR6.67 billion**, offsetting scheduled declines in legacy software licenses (-9% YoY) and professional services (-5% YoY). With current cloud backlog (CCB) standing at **EUR24.14 billion** (+28% YoY), full-year 2026 cloud revenue visibility is locked toward the upper end of the guided **EUR25.8 billion to EUR26.2 billion** range.

Regarding cost structures, **SAP** operates purely as an enterprise application software vendor, making hardware-specific semiconductor wafer costs irrelevant; key operational costs comprise cloud infrastructure hosting (hyperscaler infrastructure co-locations like AWS, Azure, and GCP), research and development (R&D), and direct sales execution. Non-IFRS cloud gross margin dipped slightly by 70 basis points YoY to **74.3%** in Q3 2026 due to upfront infrastructure scaling for Business AI (Joule) and hybrid cloud migrations. However, operating leverage is expanding significantly: non-IFRS operating profit rose **18%** YoY to **EUR3.03 billion**, with non-IFRS operating margin reaching **29.5%** (up from **28.3%** in Q3 2025). Internal efficiency measures-including a **20%** productivity gain in core corporate functions and a **70%** increase in AI-assisted code contributions-demonstrate that incremental cloud ARR is scaling over a largely fixed operating cost base.

Working capital dynamics are driven by negative working capital cycles typical of enterprise SaaS architectures. Pre-billed cloud subscriptions generate contract liabilities and upfront cash flow, anchored by the **EUR24.14 billion** current cloud backlog. Accounts receivable experience seasonal quarter-end peaks, but cash conversion remains robust. Disciplined CapEx allocation toward cloud data infrastructure enabled quarterly free cash flow of **EUR1.72 billion** (+36% YoY), keeping **SAP** on target to deliver **EUR10.0 billion** in full-year 2026 free cash flow. Cash generated continues to fund balance sheet optimization and ongoing share buyback execution.

The integrated 3-statement model yields the following descriptive operational scenario paths based on enterprise IT spend and AI uptake:

- **Base scenario:** If cloud revenue growth sustains a **23%-25%** constant-currency trajectory, full-year cloud and software revenue reaches the upper band of **EUR36.8 billion**, delivering

non-IFRS operating profit between **EUR11.8 billion** and **EUR12.2 billion** and cash conversion supporting **EUR10.0 billion** in total free cash flow.

- **Bull scenario:** If enterprise adoption of Business AI modules (Joule) accelerates cross-selling, lifting cloud gross margins above **76%**, non-IFRS operating profit exceeds **EUR12.5 billion**, driving full-year free cash flow beyond **EUR10.5 billion** due to heightened operating leverage.
- **Bear scenario:** If macroeconomic headwinds delay large enterprise Q4 deal closures, current cloud backlog growth decelerates below **20%**, pushing full-year cloud revenue toward the lower guidance boundary of **EUR25.8 billion** and capping operating margin expansion near **28.5%** due to fixed hyperscaler infrastructure and R&D overhead.

Toxic Capital Structure

An analysis of **SAP SE** reveals a complete absence of structural balance sheet toxicity or distressed debt dynamics. Unlike highly leveraged software issuers or speculative technology growth firms, **SAP** maintains a top-tier investment-grade credit profile rated **A1** by Moody's and **A+** by Standard & Poor's, underpinned by strong liquidity and predictable cloud subscription cash flows. As of Q3 2026, the company operates with a highly conservative financial leverage profile, reporting total financial debt of approximately **EUR9.9 billion** against cash and short-term liquid assets exceeding **EUR9.6 billion**. This yields a net debt-to-EBITDA ratio fluctuating between **0.0x** and **0.4x**, effectively isolating the enterprise from structural credit risks.

- **Short-term and variable-rate debt:** Short-term debt dependency is exceptionally low. Under its **EUR2.5 billion** Commercial Paper Programme, **SAP** had drawn only **EUR0.5 billion** as of September 30, 2026. The liquidity risk tied to short-term maturities is negligible compared to the corporate liquidity buffer. The long-term debt consists almost entirely of fixed-rate senior unsecured Eurobonds, though **SAP** selectively employs interest rate swaps to convert a limited portion into floating rates for tactical balance-sheet management.
- **Convertible debt and dilution risks:** There are no active convertible bonds, toxic debt instruments, or structured equity-linked notes outstanding. Consequently, shareholders face zero risk from out-of-the-money conversion prices, warrant overhangs, or reset mechanisms that typically lead to equity dilution in distressed tech companies.
- **Refinancing risks in a high-interest rate environment:** **SAP** features a well-distributed debt maturity profile extending out to **2033**. Core outstanding Eurobond maturities include **EUR1.0 billion** due in 2027, **EUR1.8 billion** in 2028, **EUR1.65 billion** in 2029, **EUR500 million** in 2030, and **EUR2.1 billion** in 2031. While refinancing upcoming tranches in a higher interest rate environment will result in higher coupon rates relative to legacy issuances, this incremental interest expense is easily absorbed by operating momentum, evidenced by Q3 2026 total quarterly revenue crossing **EUR10 billion** and operating profit exceeding **EUR3 billion**.
- **Risk of equity impairment or distress:** The risk of equity degradation due to financial distress is non-existent under current operating conditions. Strong cloud adoption-reflected in a **28%** increase in current cloud backlog to **EUR24.1 billion** in Q3 2026-provides resilient recurring cash flow that comfortably covers interest coverage ratios and debt service requirements.

- **Base scenario:** Sustained cloud execution keeps net leverage near zero, allowing **SAP** to refinance maturing Eurobonds at standard investment-grade spreads without restricting capital expenditure or shareholder distributions.
- **Bear scenario:** Persistent high interest rates combined with broader macroeconomic weakness elevate refinancing costs on maturing low-coupon notes, causing a minor increase in annual net interest expense without endangering solvency or financial stability.
- **Bull scenario:** Strong free cash flow expansion from high-margin enterprise cloud contracts enables full debt retirement upon maturity, moving the balance sheet into a net cash position and eliminating debt service drag.

Discounted Cash Flow (DCF) & Terminal Value (incl. WACC Sensitivity)

The intrinsic valuation model for **SAP SE (SAP)** relies on a Discounted Free Cash Flow to Firm (**FCFF**) framework anchored by management's updated FY 2026 outlook and solid Q3 2026 operational momentum. For FY 2026, **SAP** reaffirms a Free Cash Flow guidance of approximately **EUR10.0 billion**, supported by a strong Q3 2026 performance where quarterly Free Cash Flow surged **36%** year-over-year to **EUR1.72 billion**. The explicit forecast period spans a ten-year horizon

(FY 2027 to FY 2036) to capture the full financial mechanics of the transition from legacy software licenses to high-margin recurring cloud revenues, driven by **S/4HANA Cloud** adoption and **Business AI** integration.

The underlying valuation framework incorporates the following core structural parameters:

- **Weighted Average Cost of Capital (WACC):** Modeled at **7.8%**, derived from an equity beta of **0.95**, a risk-free rate of **2.4%**, and an equity risk premium of **5.5%**, reflecting **SAP's** conservative leverage and strong investment-grade credit standing.
- **Terminal Growth Rate:** Fixed at **3.0%**, aligning with long-term global gross domestic product (**GDP**) expansion and durable, structural demand for business-critical enterprise application software.
- **Explicit Revenue Growth:** Projected at a compound annual growth rate (**CAGR**) of **10.5%** over the ten-year explicit period, backed by a **Current Cloud Backlog** of **EUR24.14 billion** (up **26%** year-over-year at constant currencies in Q3 2026).
- **Operating Margin Trajectory:** Non-IFRS operating margin is modeled to expand toward **32%** in the mid-forecast horizon, up from **29.5%** in Q3 2026, as high-margin SaaS subscriptions scale and operational efficiency measures take effect.

To evaluate the dynamic range of intrinsic value under differing market conditions, the valuation framework assesses three descriptive scenarios:

- **Base Scenario:** Assumes steady cloud transition momentum in line with management guidance, with full-year 2026 cloud revenue reaching the upper end of the **EUR25.8 billion to EUR26.2 billion** range and non-IFRS operating profit expanding toward target levels between **EUR11.8 billion** and **EUR12.2 billion**.

- **Bull Scenario:** Assumes accelerated enterprise adoption of **Business AI** platforms and the **Joule** copilot, driving higher average revenue per user (**ARPU**), lower churn rates, and margin expansion exceeding **34%** during the second half of the forecast horizon.
- **Bear Scenario:** Assumes lingering macroeconomic uncertainty suppresses Q4 order intake and delays enterprise IT spending budgets, resulting in prolonged migration cycles for on-premise legacy systems and slower cash flow compounding.

Relative Peer Group Analysis (Sector-Specific Multiples)

A rigorous valuation of **SAP SE** requires a direct comparison against a curated peer group of tier-one global enterprise software and SaaS providers. Key competitors in this benchmark set include **Oracle**, **Salesforce**, **Workday**, **ServiceNow**, and **Microsoft**. These software vendors share similar enterprise distribution scales, high customer retention rates, and mission-critical software positioning. To strip out variations in capital structure and accounting standards (**IFRS** for SAP versus **US GAAP** for US peers), sector-specific metrics—specifically **EV/NTM Revenue**, **EV/ARR**, **EV/NTM EBITDA**, and **Free Cash Flow Yield**—are applied to evaluate relative market positioning.

Evaluating relative sector valuation metrics highlights key operational differences across the peer set:

- **EV/NTM Revenue & EV/ARR:** On a forward enterprise value-to-revenue basis, **SAP** trades at approximately **4.2x - 4.5x EV/NTM Revenue**, representing a valuation discount compared to high-growth pure-play cloud platforms such as **ServiceNow (9.5x EV/NTM Revenue)** and hyper-scalers like **Microsoft (8.2x EV/NTM Revenue)**. However, SAP trades closer to enterprise platform incumbents like **Salesforce (5.1x)** and **Oracle (7.5x)**. As **SAP** expands its **S/4HANA Cloud** enterprise base and accelerates its **Annual Recurring Revenue (ARR)** profile, its expanding recurring revenue predictability supports relative valuation re-rating.
- **EV/NTM EBITDA:** With a forward **EV/EBITDA** ratio sitting between **17.0x and 21.0x**, **SAP** commands a premium over mature peer incumbents like **Salesforce (12.5x EV/EBITDA)** and **IBM (14.0x EV/EBITDA)**, while remaining well below specialized high-margin software vendors. This valuation reflects market pricing of SAP's ongoing operational margin expansion driven by cloud scale efficiencies and the platform integration of **Business AI**.
- **Free Cash Flow Yield:** **SAP** generates a normalized **FCF Yield** of roughly **3.5% - 4.0%**, positioning it favorably against hyper-growth SaaS peers that exhibit lower current cash conversion due to elevated capital expenditure and reinvestment rates. This demonstrates strong relative cash generation efficiency across the peer group.

Valuation scenarios depend on underlying operational performance metrics:

- **Base Scenario:** If **SAP** sustains its current cloud revenue expansion trajectory and delivers on its medium-term operating profit targets, its valuation multiple is expected to remain anchored around **4.5x EV/NTM Revenue** and **18.0x EV/EBITDA**.
- **Bull Scenario:** If rapid adoption of **Business AI** add-ons and accelerated legacy migrations to **RISE with SAP** spark higher net renewal rates, **SAP's EV/EBITDA** multiple could re-rate upward toward **22.0x - 24.0x**, aligning more closely with premium cloud peers.

- **Bear Scenario:** If macroeconomic spending headwinds lead to extended ERP implementation cycles or delayed enterprise contract sign-offs, deceleration in **ARR** growth could lead to a compression of **SAP's EV/NTM Revenue** multiple toward **3.5x**.

Cybersecurity, System Resilience & Incident Risk Profile

As enterprise workloads migrate to hybrid and multi-cloud environments, the threat landscape surrounding **SAP SE** infrastructure has expanded significantly. The company's security architecture is built upon a defense-in-depth framework integrated across **SAP S/4HANA Cloud**, **SAP Business Technology Platform (BTP)**, and hyperscaler-hosted enterprise stacks. Under the cloud **Shared Responsibility Model**, SAP directly manages infrastructure protection, core application code hardening, physical data center security, and platform-level threat monitoring, while user identity governance, granular access controls, and custom ABAP code extensions remain the operational responsibility of the customer.

To validate its security control environment for enterprise clients and regulatory bodies, SAP maintains a comprehensive portfolio of global security certifications:

- **ISO/IEC 27001:** Demonstrates an independently audited, enterprise-wide Information Security Management System (ISMS) across global data centers and cloud operations.
- **SOC 1 and SOC 2 Type II:** Independent audit reports covering trust service criteria, including security, availability, confidentiality, processing integrity, and privacy across **SAP Cloud Infrastructure** and **SAP BTP**.
- **ISO/IEC 42001:** Certification for artificial intelligence management systems, ensuring structured compliance, risk management, and governance over embedded **Business AI** workflows.
- **Government and sovereign standards:** Operational alignment with stringent sovereign frameworks, including Germany's **C5** audit standard and US **FedRAMP** authorizations for public sector environments.

System resilience and operational continuity are defined through contractual Service Level Agreements (SLAs) tailored to deployment models. For **SAP S/4HANA Cloud Public Edition**, SAP commits to a standard production system availability SLA of **99.9%**. For **RISE with SAP S/4HANA Cloud Private Edition**, the baseline SLA is set at **99.7%**, with negotiable add-on tiers reaching **99.9%**. If SAP fails to meet these availability commitments in a given month, affected clients receive service credits calculated at **2%** of monthly subscription fees for every **1%** SLA deficit, capped at a maximum of **100%** of monthly subscription fees. Scheduled maintenance windows and emergency patch updates are contractually classified as excluded downtime, insulating SAP from automated credit liabilities during routine maintenance.

Because SAP applications host mission-critical financial, supply chain, and operational data, the software ecosystem remains a high-priority target for global threat actors. Key operational risk drivers and vulnerability dynamics include:

- **Zero-day and critical vulnerabilities:** SAP maintains a dedicated monthly patch release cycle (Security Patch Day) to remediate software flaws. Recent security cycles in 2026 addressed critical

vulnerabilities across **SAP NetWeaver** and **S/4HANA**, including high-severity flaws rated up to **CVSS 10.0** (such as **CVE-2026-44756** and code injection flaw **CVE-2026-89107**).

- **On-premise vs. cloud risk disparity:** The primary vector for operational disruption across the SAP footprint stems from legacy on-premise installations where customer patch deployment lags behind threat discovery. Managed cloud offerings under **RISE with SAP** reduce this exposure window through vendor-managed patch orchestration.
- **Third-party integration surface:** API exposure across **SAP BTP** and custom enterprise extensions represents an ongoing attack surface that requires real-time vulnerability monitoring and automated security posture management.

From a regulatory and risk-governance perspective, **SAP SE** aligns its disclosure framework with SEC cybersecurity guidelines under Form 20-F (Item 106). The company maintains executive oversight through its Chief Information Security Officer (CISO) and board-level risk committees to evaluate, remediate, and disclose material cybersecurity events. Direct financial exposure to security incidents is largely bounded by contractual liability caps and clear delineation under the Shared Responsibility Model. However, indirect financial risks reside in prospective enterprise client downtime claims, regulatory non-compliance fines under data privacy laws such as **GDPR**, and reputational risk should platform-level disruptions impact global enterprise supply chains. By driving enterprise customers toward managed cloud environments with automated patch delivery, SAP systematically mitigates structural incident risks across its installed base.

Data Privacy (GDPR, CCPA), Algorithmic Regulation & AI Governance

As global privacy standards under **GDPR**, **CCPA**, and sovereign data residency frameworks enforce strict limits on third-party data tracking, enterprise cloud vendor **SAP SE** occupies a distinct strategic position compared to ad-supported technology peers. While heightened privacy enforcement increases general enterprise customer acquisition costs across digital marketing channels, it simultaneously accelerates corporate migration toward first-party enterprise data management systems. Through **SAP Customer Data Platform** and **SAP Emarsys**, business clients bypass third-party cookie dependencies by leveraging zero- and first-party consent architectures. However, cross-border data transfer requirements-intensified by post-**Schrems II** legal scrutiny and European data sovereignty mandates-require **SAP** to make continuous operational investments in localized sovereign cloud infrastructure within European data centers, placing structural cost demands on infrastructure operational margins.

The regulatory landscape for artificial intelligence, anchored by the **EU AI Act** alongside **ISO 42001** certification and the **NIST AI Risk Management Framework**, introduces stringent oversight requirements for enterprise software architectures. Within **SAP's** cloud suite, intelligent capabilities running on **SAP AI Core** and its conversational copilot **Joule** span core business categories subject to high-risk classification under Annex III of the **EU AI Act**. Specifically, automated decisioning tools embedded in **SAP SuccessFactors** (Category 4: employment and HR) and credit or financial risk modeling in **SAP S/4HANA Finance** (Category 5: financial services) trigger mandatory human-in-the-loop (**HITL**) oversight, continuous transaction logging, and Article 11 technical documen-

tation compliance. To mitigate customer compliance exposure and liability risks, **SAP** incorporates governance frameworks and oversight mechanisms-such as user verification prompts integrated via its **WalkMe** platform-to validate AI outputs prior to transaction execution.

- **Algorithmic Bias and Liability Exposure:** Regulatory non-compliance under Article 99 of the **EU AI Act** carries potential administrative penalties of up to **35 million euros** or **7 %** of global annual turnover for prohibited AI practices, and up to **15 million euros** or **3 %** for high-risk non-compliance, supplementing maximum **GDPR** fines of **20 million euros** or **4 %** of global turnover. To limit exposure to data leakage and algorithmic bias claims, **SAP** maintains strict logical tenant isolation, ensuring customer enterprise data is not utilized to train third-party large language models.
- **API Policy Enforcement and Governance Gateways:** Under **SAP's** API Policy (v4/2026), direct third-party autonomous agent orchestration across core enterprise APIs is restricted. Autonomous or generative AI agents executing transaction sequences in **SAP S/4HANA**, **SuccessFactors**, or **Ariba** must route through endorsed **SAP Business Technology Platform (BTP)** pathways. This structure enforces Identity and Access Management (**IAM**) via **SAP Cloud Identity Services** while monetizing agentic activity through a consumption-based **AI Units** pricing model (**0.02 AI Units** per agent action).
- **Operational Cost and Margin Impact:** Maintaining **ISO 42001** certified AI Management Systems and offering compliance tools like the **SAP LeanIX AI Governance Assistant** require continuous structural research and development overhead. While **SAP** does not break out standalone regulatory compliance expenses in its quarterly financial reporting, industry proxy metrics indicate that enterprise AI governance, audit logging, and data residency compliance consume between **1.5 %** and **3.0 %** of annual enterprise cloud software engineering budgets.
- **Favorable Regulatory Realization Scenario:** If enterprise customers rapidly adopt **SAP's** integrated governance ecosystem (**BTP**, **Joule**, and sovereign cloud instances) to simplify their own **EU AI Act** compliance mandates, then **SAP** can expand high-margin consumption-based **AI Units** revenue and strengthen platform lock-in, offsetting operational compliance overhead through higher cloud Average Revenue Per User (**ARPU**).
- **Restrictive Compliance Realization Scenario:** If regulatory enforcement authorities implement stricter algorithmic auditing standards for embedded workflows or classify broader operational enterprise modules into high-risk categories requiring individualized third-party audits, then **SAP** will experience increased software development overhead, prolonged release cycles, and gross margin compression across its cloud software segment.

Current News Situation & Market Catalysts

SAP SE recently delivered a pivotal operational signal with its **Q3 2026** earnings report, crossing the **EUR10 billion** quarterly revenue threshold for the first time in corporate history. Total revenue reached **EUR10.27 billion** (up **13%** year-over-year), while non-IFRS operating profit surged **18%** to **EUR3.03 billion**. This financial outperformance was primarily propelled by sustained momentum in enterprise cloud transformations, as the current cloud backlog (**CCB**) expanded **28%** nominal (**26%** constant currency) to **EUR24.14 billion**. Consequently, management narrowed its full-year **2026**

cloud revenue guidance toward the upper bound of the target range of **EUR25.8 billion** to **EUR26.2 billion**, while reiterating a target of approximately **EUR10 billion** in free cash flow.

The key structural drivers and market catalysts shaping SAP's valuation multiples include:

- **Cloud ERP Suite Velocity:** Core cloud ERP growth reached **29%** year-over-year to **EUR5.92 billion**. The accelerated adoption of the **RISE with SAP** and **GROW with SAP** migration programs remains the fundamental catalyst for converting legacy on-premise maintenance streams into high-margin recurring SaaS revenue.
- **Business AI & Autonomous Enterprise:** Artificial intelligence integration has transitioned from an upsell feature to a baseline requirement. Management reported that **90%** of its top 50 customer deals in Q3 included AI and **Business Data Cloud** components. The rollout of natural-language AI agents via **Joule Work** acts as a catalyst to boost average revenue per user (**ARPU**) and lock in enterprise workflows.
- **Legacy Migration Horizon (2027 Support Deadline):** The approaching **2027** maintenance end-of-life for legacy **SAP ECC** systems provides a persistent deadline-driven migration catalyst, obligating large global enterprises to transition to **S/4HANA Cloud** regardless of short-term macroeconomic volatility.
- **Targeted M&A and Partner Ecosystem:** Tactical acquisitions-including **WalkMe**, **TechWolf**, **Reltio**, and **Dremio**-alongside partner-led consolidation (such as **Cognizant** acquiring **DyFlex Solutions** to expand regional execution capabilities) strengthen SAP's deployment velocity and platform functionality.
- **Macroeconomic Sensitivity & IT Budget Cycles:** While central bank interest rate adjustments offer potential relief for enterprise capital expenditure budgets, near-term headwinds remain focused on Q4 contract concentration (which historically accounts for roughly **50%** of annual bookings) and potential delay of discretionary consulting spending.
- **Bull Case Scenario:** If enterprise customers accelerate S/4HANA migrations ahead of the 2027 deadline and AI-enabled cross-selling drives higher platform monetization, cloud backlog growth could maintain a **25%+** trajectory, expanding operating margins toward **30%**.
- **Base Case Scenario:** If macroeconomic uncertainty leads to cautious enterprise IT spending, but legacy migration schedules remain intact, cloud revenue will align with the upper end of guidance (**EUR26.0B-EUR26.2B**), delivering mid-teens operating profit growth.
- **Bear Case Scenario:** If macroeconomic deceleration triggers elongated sales cycles, contract down-scoping, or increased migration execution friction, cloud backlog growth could decelerate below **20%**, pressuring cloud gross margins (**74.3%** in Q3) due to fixed AI infrastructure investments.

Upcoming Known Events

Following **SAP's** Q3 2026 financial report on **October 21, 2026**-where quarterly total revenue crossed **EUR10 billion** for the first time and current cloud backlog grew **26%** at constant currencies to **EUR24.1 billion**-the company transitions into an event-dense calendar across late 2026 and H1

2027. Investor and analyst focus now shifts from immediate quarterly results toward developer adoption rates, enterprise AI monetization, and full-year margin target execution.

- **SAP TechEd Berlin & Virtual (October 27-29, 2026):** Serving as **SAP's** primary developer and technical conference, this event will feature product roadmap announcements regarding the **Joule** AI copilot, agentic workflows, and the **SAP Business Data Cloud (BDC)** platform. Key focal points for institutional investors include technical demonstrations of Business AI integration into core **S/4HANA** enterprise resource planning environments.
- **Mastering SAP Collaborate / TechEd on Tour APAC (November 18-20, 2026):** Taking place in Sydney, Australia, this regional showcase provides a benchmark for Asia-Pacific enterprise cloud adoption, highlighting regional **RISE with SAP** migrations, sovereign cloud infrastructure, and enterprise cybersecurity integration.
- **FY 2026 Quiet Period Commencement (December 10, 2026):** **SAP** enters its mandated corporate quiet period in mid-December, restricting executive and investor relations commentary ahead of full-year financial disclosures.
- **Q4 and FY 2026 Financial Results (January 28, 2027):** Scheduled for release at **06:00 CET** (with the call at **07:00 CET**), this event marks the most significant near-term financial catalyst. Market attention will center on full-year cloud revenue achievement against adjusted management targets, non-IFRS operating margin expansion, and initial fiscal year 2027 financial guidance.
- **Publication of Integrated Annual Report 2026 (March 4, 2027):** **SAP** will issue its comprehensive audited report detailing divisional financial breakdowns, governance structures, non-financial ESG metrics, and updated medium-term operational guidance through 2028.
- **Q1 2027 Financial Results (April 22, 2027):** Publication scheduled for **22:05 CET**. This print will provide early data regarding fiscal 2027 enterprise software booking momentum, cloud backlog conversion rates, and the impact of early-year IT budget deployments.
- **SAP Sapphire Orlando & Barcelona (May 24-26, 2027 & June 1-3, 2027):** The annual flagship customer conference serves as the primary platform for chief executives and strategy leaders to present long-term technology roadmaps, major partner ecosystem expansions, and enterprise customer cloud migration case studies.

Conclusion & Investment Synthesis

SAP SE functions as the digital backbone for global commerce, orchestrating core enterprise operations ranging from financial management to global supply chain logistics. By successfully migrating its deeply entrenched enterprise customer base from legacy on-premise software to cloud-native architectures via programs like **RISE with SAP**, the company is securing long-term recurring subscription streams while embedding proprietary artificial intelligence capabilities directly into mission-critical corporate workflows.

From an institutional perspective, recent financial results underscore strong execution, with total quarterly revenue reaching **EUR10.27 billion** (up **12%** at constant currencies), marking the first quarter above **EUR10 billion** in corporate history. Growth remains overwhelmingly driven by the **Cloud ERP Suite** (up **28%** to **EUR5.92 billion**), propelling overall cloud revenue up **25%** to **EUR6.67**

billion and expanding the current cloud backlog to **EUR24.14 billion** (up **26%** at constant currencies). Non-IFRS operating profit expanded **18%** to **EUR3.03 billion**, yielding a non-IFRS operating margin above **29%**, even as cloud gross margin experienced a minor tactical adjustment to **74.3%** due to compute investments required for generative AI platform features like **Joule Work** and **Business Data Cloud**.

KEY FACTS & CATALYSTS

- **Fundamental Moat & Enterprise Lock-in:** SAP benefits from immense switching costs across Fortune 500 enterprises, where operational migration risks enforce long-term customer stickiness and enable steady conversion of legacy maintenance contracts into higher-margin **Cloud ERP Suite** recurring revenue.
- **Key Upcoming Catalyst:** Accelerating adoption of **Joule** AI agents and cross-selling of **Business Data Cloud** ahead of the end of mainstream support for legacy **Business Suite 7** systems, which forces legacy users to either transition to **S/4HANA Cloud** or absorb higher legacy support surcharges.
- **Primary Operational Risk:** Macroeconomic pressure in enterprise spending impacting Q4 booking volumes-which historically generate approximately **50%** of annual bookings-alongside potential cloud margin compression driven by capital-intensive AI infrastructure deployment.

FUNDAMENTAL SCENARIO ANALYSIS

- **Bull Case:** Accelerated client migrations to **S/4HANA Cloud** paired with rapid enterprise AI monetization drive current cloud backlog growth above **28%**, pushing non-IFRS operating margins toward **32%** and accelerating annual total revenue growth past **15%** through market share gains in enterprise software.
- **Base Case:** Steady migration momentum delivers **23%** to **25%** full-year cloud revenue growth and cloud backlog growth of **24%** to **26%**, maintaining full-year non-IFRS operating profit between **EUR11.8 billion** and **EUR12.2 billion** as legacy software support declines are fully offset by cloud subscription expansion.
- **Bear Case:** Macroeconomic friction delays enterprise IT modernization budgets in Q4, causing cloud backlog growth to decelerate below **20%**, while rising generative AI compute expenses compress cloud gross margins toward **72%**, dampening net operational cash flow expansion.