

(BN) SAP as Most Valuable German Company Validates Deals Spree:
Tech

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By Cornelius Rahn and Aaron Ricadela

March 14 (Bloomberg) -- When SAP AG changed leadership in 2010, the software maker had just been through its first major job cuts in 38 years, clients were upset with price increases, and analysts considered the company a takeover target.

There's little chance of a takeover now. SAP's stock has gained 92 percent since Bill McDermott and Jim Hagemann Snabe took over as co-chief executive officers. SAP has vaulted past Siemens AG and Volkswagen AG to become Germany's most valuable company despite revenue that's 10 percent of Volkswagen's and one-fifth that of Siemens.

McDermott, 51, and Snabe, 47, have made key acquisitions in cloud-computing and mobile applications, invested in a database that can analyze mountains of numbers in seconds, and hastened the development of new products. That has helped SAP increase sales to clients ranging from automakers to central banks to the National Football League.

SAP "oils the engine of the economy and lends it better momentum," said Stephan Thomas, a portfolio manager at Frankfurt Trust, which oversees about \$21 billion in assets and has recently increased its holding in SAP.

With a market capitalization of \$102 billion, SAP is the world's ninth-most-valuable technology company and the only European in the top 10. SAP's price-to-earnings ratio, a gauge of how much investors are willing pay for the stock relative to profit, is the highest of the top 10. At 27 times earnings, SAP's P/E exceeds Google Inc.'s 24.5 and 16.7 for archrival Oracle Corp., according to data compiled by Bloomberg.

Technology Spending

Today, SAP rose 0.6 percent to 64.32 euros at 9:07 a.m. in Frankfurt.

At the CeBIT technology trade fair in Hanover, Germany, last week, SAP scheduled twice as many customer meetings as it did last year, Snabe told Bloomberg Television. "That's a good sign that we have tremendous momentum," he said.

Portfolio manager Thomas cautions that SAP remains vulnerable to the lousy economy. If growth slows in key markets, companies might delay tech spending, which would cut SAP's profits. And the company must avoid unsettling investors with setbacks such as one a year ago, when revenue fell in the Americas after a reshuffling of responsibilities kept salespeople from closing deals, Thomas said.

Lacking the home market enjoyed by U.S. rivals, SAP has long sought to make sales abroad, building software development centers around the world. Today it has sites with thousands of coders at its headquarters in Walldorf, a half-hour drive from Frankfurt, and in Bangalore, Shanghai, and Palo Alto, California. And it has smaller centers in seven other countries.

Exposed Concrete

Writing software in so many locations has helped SAP in unforeseen ways. In Bangalore, the company once received almost 100,000 job applications, overwhelming its human resources staff. After developing a program to process the flood of data, the company is now selling that software to customers.

To increase its agility, SAP has created what it calls its AppHaus project. This involves building stripped-down offices outfitted with Ikea desks and exposed concrete floors. The goal is to let developers work in a loose, startup-style environment to develop consumer-focused programs, part of a push to get SAP programs in the hands of 1 billion people by 2015.

At the AppHaus in Los Altos, California -- more than half a dozen worldwide -- \$8 shower backings from Home Depot serve as whiteboards. Coders pull chairs and tables into impromptu clusters, where they work on bite-sized programs such as an iPhone app that alerts consumers to vehicle recalls.

Acquisition Spree

SAP rode a wave of business process re-engineering in the 1990s, working with accounting firms and persuading businesses to use SAP programs as they redesigned workflows. But under former CEOs Henning Kagermann and Leo Apotheker, morale began to flag. Web-based software to attract smaller enterprises failed to take off, and during the financial crisis in 2009, SAP for the first time let go employees.

With the acquisition of Business Objects SA in 2007, SAP ventured beyond its traditional business, adding analysis tools.

Then, under McDermott and Snabe, it purchased Sybase Inc. to tie mobile devices into the system, get a better grip on databases, and boost ties to Wall Street.

To serve clients who don't want to maintain their own equipment, SAP a year ago acquired cloud-software provider SuccessFactors Inc. And last October SAP bought Ariba Inc., which operates a marketplace akin to an eBay for corporations where companies make \$400 billion in deals every year. Today, SAP uses leads garnered from that market to find buyers for its corporate software.

NBA Statistics

SAP's top weapon is homegrown. Hana, a database that the company says is the fastest-growing product it's ever sold, cuts the time needed to analyze data and carry out transactions by orders of magnitude. Hana applications -- mostly developed with customers and startups -- range from weather simulations to predicting track conditions for Formula One racing teams to planning cancer treatments.

In October, SAP used Hana to help the National Football League overhaul its fantasy football offering, including an online dashboard to determine the player of the year. And pushed by co-CEO McDermott, a passionate basketball fan, SAP is providing the National Basketball Association with software to parse decades of statistics.

Hana is also beginning to be used by central banks to supervise lenders. SAP says analysts at its 55 central bank customers can analyze data from commercial banks to find potential risks and weaknesses in seconds, versus poring over financial reports to spot trends.

Punch Cards

Hana, which started as a tool to speed data analysis, now also underpins SAP's flagship business-management suite, which still accounts for the bulk of its revenue. With some applications running more than 10 times faster, SAP expects Hana to help it displace Oracle, International Business Machines Corp. and Microsoft Corp. in databases, a market where it has long been a bit player.

SAP got its start in 1972, when five IBM employees -- including current Chairman Hasso Plattner -- began programming payroll and accounting software to replace traditional punch cards for Imperial Chemical Industries Plc. Plattner still wields great influence and is involved in all big decisions as well as many smaller ones.

This year, SAP's net income is projected to reach 3.7 billion euros (\$4.8 billion), more than double its level in 2009, while revenue will probably reach 18 billion euros, doubling from 2006, data compiled by Bloomberg show.

"It's become like an octopus," said Heinz Steffen, an analyst with Fairesearch GmbH in Kronberg, Germany. "If you're trying to make your processes more productive, you'll have a tough time avoiding SAP."

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