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SAP AG

Expansion of GEA concept could rock the business model

We believe expansion of the GEA model will support SAP's mid-term EBIT margin target of 35% and add to its defensive investment profile, but it could initially hold back margins in 2010, with likely negative implications for SAP's valuation premium. We expect 'Mini GEAs', the roll out of Business ByDesign and the pace of recovery in discretionary IT spending to cause uncertainty in 2010. We downgrade to Hold.

Expansion of the GEA concept has implications at second glance

SAP's intention to extend subscription-based Global Enterprise Agreements (GEA) to 350 clients (what we term 'Mini GEAs') from a target group of 30 will have major implications, as we believe that the target clients represent some 35% of SAP's SSRS revenue.

SAP is defending its market share, but Mini GEAs are not an easy sell

SAP's intention is to defend its market share and to reduce the impact of volatile software revenues on SSRS, but it is also reacting to pressure from a changing competitive landscape and new business models. We fear Mini GEAs' longer contract durations and clients' need to commit themselves to becoming a SAP shop will not make it an easy sell.

Risk to sales growth and pro forma EBIT margin expansion in 2010, but...

Scenario analysis indicates a negative impact on SSRS growth (330bps lower than the base case) and EBIT margin (negative 169bps) in 2010, equalling a pro forma EBIT which is 7.9% lower than our base case. In a peer group valuation incorporating the Mini GEA scenario, SAP's fair value is €29/share compared €31.5 in the base case.

...it supports SAP's pro forma mid-term EBIT margin target of 35%

However, we believe that after the early conversion phase, Mini GEAs could boost margins due to an increasing share of recurring revenue. This allows for better operational leverage and efficiency gains, leading to a higher contribution margin per client.

Downgrade to Hold with an unchanged target price of €31.5

We expect the shares to be range-bound due to uncertainty about the implications of Mini GEAs, the roll out of BBD in 2010, and the rate that SAP's core clients restart business. Given a lack of short-term positive catalysts we set our target price at the low end of our estimated fair value range of €31.5 to €42.7 per share.

Key Data

Year-end Dec	2006	2007	2008	2009E	2010E	2011E
Sales adj. (€m)	9,393	10,245	11,567	11,183	11,716	12,685
EBITDA adj. (€m)	2,792	2,914	3,390	3,128	3,753	4,217
EBITA adj. (€m)	2,578	2,654	2,842	2,609	3,231	3,715
EBITA margin	27.4%	25.9%	24.6%	23.3%	27.6%	29.3%
FCF pre-div (€m)	1,725	1,155	(767)	1,767	1,945	2,513
FCF margin	18.4%	11.3%	(6.6%)	15.8%	16.6%	19.8%
EPS rep. (€)	1.53	1.54	1.62	1.51	1.92	2.28
EPS adj. (€)	1.66	1.74	1.92	1.67	2.04	2.39
DPS (€)	0.46	0.50	0.50	0.50	0.57	0.68
EV/Sales (x)	5.0	4.2	3.4	3.2	3.0	2.6
EV/EBITDA (x)	16.8	14.6	11.7	11.3	9.2	7.8
EV/EBITA (x)	18.2	16.0	13.9	13.6	10.7	8.9
P/E (x)	26.2	24.1	20.0	19.8	15.6	13.1
Div yield	1.1%	1.3%	1.5%	1.7%	1.9%	2.3%
Gearing (x)	(0.4)	(0.3)	0.1	0.0	(0.1)	(0.1)
Net debt/EBITDA (x)	(0.9)	(0.8)	0.3	(0.1)	(0.1)	(0.3)

Source: Company, Commerzbank Corporates & Markets

16 June 2009

Hold

(from Add)

TP €31.50

CP €29.50

(Close 16 June 2009)

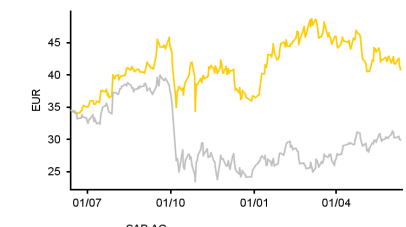
Expected performance	6.8%
Volatility	55.6%
Risk-adjusted performance	0.1
Bloomberg / Reuters:	SAP GY, SAPG.DE
Market cap (€m)	35,611
EV (€m)	35,422
Shares outstanding (m)	1,191
Free float	71.2%
Dly trading vol (last 3-mth) (€m)	163

Sales CAGR 2008-11E	3.1%
EBITDA CAGR 2008-11E	7.5%
EBITA CAGR 2008-11E	9.3%
EPS CAGR 2008-11E	12.2%

Changes in estimates

€m	2009o	2009n	2010o	2010n
Sales	11,183	-	11,716	-
EBITA	2,609	-	3,231	-
EPS (€)	1.51	-	1.92	-

Source: Commerzbank Corporates & Markets



Source: Bloomberg

Next news event:

Q2 results 29 July

Major shareholders: Hasso Plattner (10.4%)
Dietmar Hopp (9.3%)
Klaus Tschira (9.2%)

Sources: Bloomberg, Commerzbank Corporates & Markets, Company data

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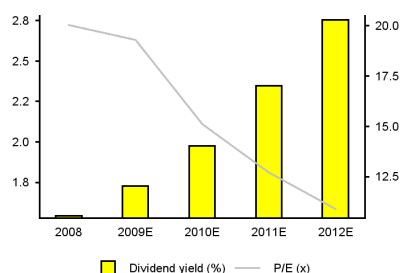
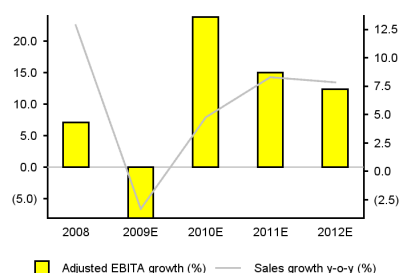
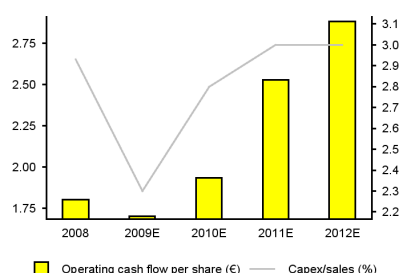
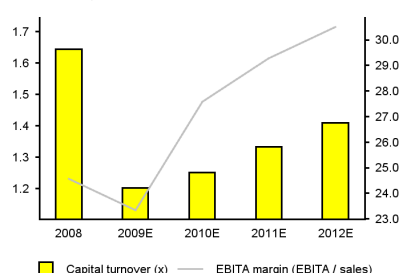
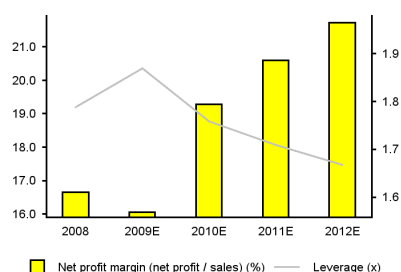


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Value

Growth

Cash flow

ROIC analysis

ROE analysis


Value	2007	2008	2009E	2010E	2011E
P/E (x)	24.1	20.0	19.8	15.6	13.1
BVPS (€)	5.40	6.07	7.06	7.72	8.73
P/B (x)	6.9	5.3	4.2	3.9	3.4
EV/(EBITDA - gross capex) (x)	17.0	13.0	12.3	10.1	8.6
Dividend per share (€)	0.50	0.50	0.50	0.57	0.68
Dividend yield	1.3%	1.5%	1.7%	1.9%	2.3%
Buyback volume per share (€)	0.83	0.42	0.42	0.85	0.87
Total yield (dividend + buyback)	3.6%	2.8%	3.1%	4.8%	5.2%
Payout ratio	32.5%	30.9%	33.3%	29.9%	29.9%
Cash conversion ratio (OCF / EBITA)	74.8%	75.5%	77.6%	70.3%	77.9%
Interest cover (x) EBITDA	(23.5)	53.8	156.4	(150.1)	(84.3)
Growth	2007	2008	2009E	2010E	2011E
Sales growth y-o-y	9.1%	12.9%	(3.3%)	4.8%	8.3%
EBITDA growth y-o-y	4.4%	16.3%	(7.7%)	20.0%	12.3%
EBITA growth y-o-y	2.9%	7.1%	(8.2%)	23.8%	15.0%
EPS growth y-o-y	0.3%	5.0%	(6.8%)	27.6%	18.7%
PEG (x)	3.1	1.6	0.9	0.9	0.8
Capital employed growth	26.6%	96.6%	(0.7%)	1.8%	1.6%
Capex/depreciation	155.4%	61.9%	49.6%	62.8%	75.9%
Capex/sales	3.9%	2.9%	2.3%	2.8%	3.0%
Cash flow	2007	2008	2009E	2010E	2011E
OCFPS (€)	1.65	1.80	1.70	1.93	2.53
P/OCF (x)	22.5	18.0	17.6	15.5	11.8
FCFPS (€)	0.96	(0.64)	1.48	1.66	2.20
P/FCF (x)	38.8	(50.3)	20.2	18.1	13.6
Capex/sales	3.9%	2.9%	2.3%	2.8%	3.0%
DPS/FCFPS	52.2%	(77.6%)	33.8%	34.7%	31.1%
Cash flow from operations (€m)	1,985	2,145	2,024	2,273	2,893
Cash flow from investing (€m)	(112)	(140)	(257)	(328)	(381)
Cash flow from financing (€m)	(1,287)	1,289	(631)	(1,614)	(1,705)
FCF/Net debt	(52.7%)	(81.0%)	(933.7%)	(374.3%)	(189.3%)
ROIC analysis	2007	2008	2009E	2010E	2011E
Tax retention rate (1-tax rate)	66.9%	69.9%	69.6%	69.6%	69.6%
EBITA margin (EBITA/sales)	25.9%	24.6%	23.3%	27.6%	29.3%
Capital turnover (sales/avg IC) (x)	2.4	1.6	1.2	1.3	1.3
ROIC	42.1%	28.3%	19.5%	24.0%	27.2%
WACC	8.6%	8.6%	8.6%	8.6%	8.6%
ROIC-WACC	33.6%	19.7%	11.0%	15.5%	18.6%
Value added on invested capital (€m)	1,414	1,385	1,020	1,448	1,771
EV/OpIC (x)	9.0	4.2	3.8	3.7	3.4
ROE analysis	2007	2008	2009E	2010E	2011E
Net profit margin (net profit/sales)	18.1%	16.7%	16.1%	19.3%	20.6%
Asset turnover (sales/total avg assets) (x)	1.0	0.9	0.8	0.8	0.8
Leverage (total avg assets vs equity) (x)	1.6	1.8	1.9	1.8	1.7
ROE	29.4%	28.0%	23.0%	25.9%	27.4%
COE	8.2%	8.2%	8.9%	8.9%	8.9%
ROE-COE	21.2%	19.8%	14.0%	16.9%	18.5%
Value added on equity (€m)	1,339	1,359	1,099	1,481	1,764

Source: Commerzbank Corporates & Markets

Investment case

Mini GEA concept could impact 35% of SSRS revenue

*Classic GEA: 30 target clients, four/five year contracts
Mini GEA: 350 target clients, three year contracts*

SAP forced to act as competition heats up

Negative impact on pro forma EBIT of 7.9% for 2010

But longer-term impact neutral to positive

Uncertainties about financial and strategic implications

Lack of positive catalyst to close the gap to the long-term DCF-based fair value

Expansion of the GEA concept reveals major implications on second look

It is our view that SAP's commitment to extend the subscription-based Global Enterprise Agreements (GEA) to 350 clients (we call them 'Mini GEAs') from a target group of 30 will have major implications for the business model, strategy and financial forecasts in our opinion, as the target clients form the premier customer network (PCN), which represents c. 35% of SAP's SSRS revenue according to our calculations.

Classic GEA, already introduced in 2006, with little impact on the P&L so far

SAP's classic GEA concept was introduced in 2006 and targeted up to 30 of its largest clients. A GEA is a strategic, subscription-based master agreement that allows the customer access to SAP's current and future application portfolio, premium support and consultancy as well as the preferential attention of SAP's top management for a monthly or quarterly flat fee. The Mini GEA concept tailors the GEA offering to an enlarged client group of 350.

SAP is defending its market share, but Mini GEAs will not be an easy sell

SAP's clear intention is to defend its market share and to increase recurring revenues to reduce the impact of volatile software revenues on SSRS. However it is also our view that SAP is feeling increasing pressure from a changing competitive landscape (e.g. Salesforce.com) and new business models (e.g. SaaS). Given the current economic environment and prolonged sales cycle, we doubt that Mini GEAs will be an easy sell 2010 given contract durations of three years (CB estimate). Moreover the client has to commit themselves to become a SAP shop and to allow SAP to grab a larger share of the IT wallet for the benefit of lower TCOs. We believe that SAP is aiming to ride the learning curve in 2009 to be ready for a potential ramp up of the concept in 2010, thereby catching the upswing and the return of discretionary IT spending.

Risk to sales growth and pro forma EBIT margin expansion in 2010, but...

To get a sense of the impact we conduct a scenario analysis based on assumptions about the speed of conversion of clients to Mini GEA. We conclude that in the short term, i.e. early conversion phase, the impact will be negative for SSRS growth (330bps lower than base case), especially for software revenue growth (negative 410bps) and EBIT margin (negative 169bps) in 2010 equalling a pro forma EBIT which is 7.9% lower for 2010 compared to a base case. Using a peer group valuation approach and based on the Mini GEA scenario, SAP's fair value would be €29.0 compared to €31.5 per share in the 'non-conversion' base case.

...Mini GEAs support SAP's pro forma mid-term EBIT margin target of 35%

However the negative impact in the early conversion phase is offset in a later. In our opinion Mini GEAs could help boost margins due to an increasing share of recurring revenue after the early conversion phase. This would allow for better operational leverage and efficiency gains, and should lead to an increasing contribution margin and cash flow per client.

SAP's 40% valuation premium over Oracle/market could come under pressure

The introduction of Mini GEAs could negatively impact SAP's premium (currently 40% over Oracle/market, five year historic valuation premium was 50%) due to rising uncertainty among investors about the rationale, and the financial as well as strategic implications. SAP's clients and investors will look very critically at the concept, especially after the introduction of the higher support ratio, which was not received very well by the market.

Downgrading to Hold with an unchanged target price of €31.5

Overall we believe that the defensive qualities of SAP are well reflected in the share price and that uncertainties about the implications of Mini GEAs on financials and the business model, the roll out of Business ByDesign in 2010 (which we believe is margin dilutive in the ramp up phase) as well as uncertainties about the pace of recovery in discretionary IT spending in 2010 will keep the shares range bound at c. €30/share. We maintain our target price of €31.5, which reflects the lower end of our fair value range (€31.5 to €42.7) and is based on a peer group valuation. But we lower our rating to Hold as we see a lack of short-term positive catalysts that could possibly close the gap to the upper end of this range (€42.7/share, DCF based).

SWOT analysis

STRENGTHS

- Undisputed global market leader in integrated ERP applications and industry solutions for large enterprises
- Archetypal software company with a defensive investment profile due to its high share of recurring revenue and solid FCF generation
- High level of product roadmap continuity

OPPORTUNITIES

- Renewed focus on profitability by right-sizing the expense base and operational leverage
- Expansion of the addressable market, organically or via acquisitions, could lead to double-digit SSRS growth rates
- Recovery of core industries, e.g. automotive, engineering and key regions, i.e. US and EMEA, to bolster growth targets

WEAKNESSES

- As a global player it is highly exposed to currency movements. A weakening of the dollar by one cent shaves €7m off sales and €2.5m off EBIT each quarter
- Market penetration within its core industries, i.e. discrete and manufacturing, is already high (43% of total sales 2008)
- c. 70% of sales still depend on the flagship product R/3, the ERP Business Suite and industry solutions

THREATS / RISKS

- Financial targets, i.e. SSRS growth above 10% look ambitious to us
- Growth initiatives like BBD might fail to reach critical mass, economics of the application are margin dilutive and S&M costs in the ramp up phase are higher than expected
- Pending lawsuit with Oracle (TomorrowNow) and antitrust probe in Switzerland

Key topics for SAP are:

- Mini GEAs to curb sales growth and margins in the early conversion phase (page 13)
- Positive implications for the long-term investment case, i.e. Mini GEAs support SAP's mid-term pro forma EBIT margin target of 35% (page 15)

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Momentum factors

1. Do we see accelerating or falling earnings momentum in the coming quarters (bottoming out/peak)?

Trough growth rates in Q2 2009

We see increasing EBIT momentum in Q2 2009 on a GAAP and non-GAAP basis compared to Q1, which mirrors normal seasonality. However, compared to the record Q2 2008 we expect non-GAAP EBIT to decline 14.4% y-o-y and software revenue to drop sharply by 39.5% y-o-y. Nevertheless, we expect investors to find some comfort in the cost savings and because Q2 should represent the trough for negative growth rates.

2. Where are we relative to consensus? Do we expect consensus earnings to be revised upwards/downwards?

Forecasts for 2009 almost in line with consensus

Our 2009 and 2010 estimates are almost in line with consensus. We believe the next catalyst will be the Q2 results on 29 July. We expect SAP to stick to its guidance for 2009 as management usually updates guidance with the Q3 results (28 October), as visibility into the decisive Q4 is better then. We expect no major upward revision of consensus after the Q2 results.

€m	Commerzbank		Consensus		Difference (CB vs consensus)	
	2009E	2010E	2009E	2010E	2009E	2010
Total revenue, GAAP	11,183	11,716	11,161	11,585	0.2%	1.1%
Software revenue, GAAP	2,785	2,871	2,769	2,810	0.6%	2.2%
SSRS revenue, Non GAAP	8,375	8,790	8,354	8,818	0.3%	-0.3%
EBIT, non-GAAP *	2,919	3,452	2,986	3,528	-2.3%	-2.1%
EBIT margin, non-GAAP	26.1%	29.5%	26.8%	30.5%	-0.66	-0.99
EPS, GAAP, basic (€)	1.50	1.92	1.56	1.93	-3.8%	-0.4%
EPS, non-GAAP, diluted (€) *	1.67	2.04	1.73	2.06	-3.3%	-0.7%

* excludes acquisition related and impairment charges, and deferred support revenue write downs

Source: Vararesearch, Commerzbank Corporates & Markets

3. How comfortable are we about our own forecast?

2010 has upside risk

We feel comfortable with our estimates for 2009 and 2010. Upside risks to our pro forma EBIT margin forecasts for 2010 are if SAP's core industries revive more strongly than expected, cost savings track ahead of plan and/or the roll out of BBD has a less negative impact on the group margin than we expect.

4. As a result, do we expect any positive or negative earnings surprise in the coming quarters and when is it most likely to happen?

Deal pipeline building in line with expectations

We believe that the Q2 results (29 July) will put the SSRS guidance to the test (sales flat to down 1%, FX adjusted). Our industry checks reveal that SAP's pipeline for Q2 is building in line with expectations but that visibility on close rates has not improved markedly. SAP is seeing improving momentum in Asia, but only stabilisation at a low level in Europe and the US.

5. Do we think management will raise/reduce its guidance in the course of the year? When do we expect this to happen?

Cut in guidance with Q3 results is very likely

We believe that management will reduce SSRS growth guidance with the Q3 results at the latest, but we believe that this is well anticipated by the market and already reflected in consensus.

6. Do we have a different recommendation to the majority of analysts?

Currently 18 (34%) brokers have a positive rating, 13 (25%) a neutral and 22 (41%) a negative rating.

7. What about our dividend forecast? Where are we relative to consensus and is there a chance for a surprise?

SAP has a fairly constant pay out ratio of c. 30% of net income and we do not expect any changes. Its priority in 2009 is to pay down the debt raised to finance the Business Objects acquisition.

Fair value and momentum

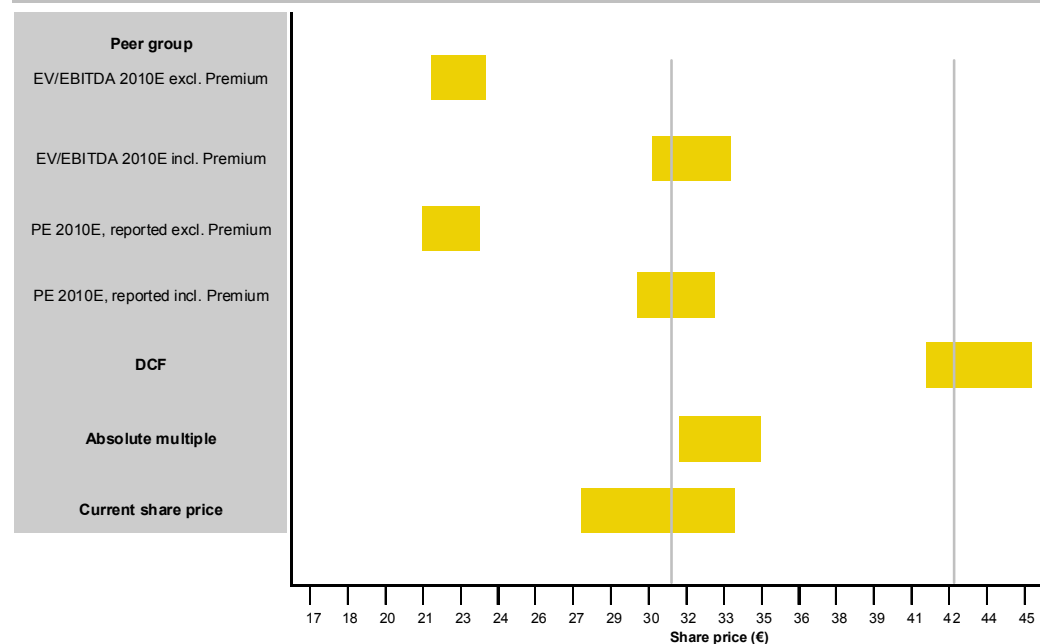
The share is currently trading towards the lower end of our estimated fair value range. We do not expect momentum factors to allow the gap to the upper end of this range to close in the next six months and reiterate our target price of €31.5.

Fundamental fair value

*Fair value range from
€31.5 to €42.7 per share*

Our fair value estimates range from €31.5 to €42.7 per share. The lower value of €31.5 is based on a peer group using the mid point of EV/EBITDA and P/E 2010E and taking into consideration the current 40% premium to Oracle. Our absolute multiple approach gives a slightly higher value. The upper value comes from our DCF model, which gives a value of €42.7.

CHART 1: Valuation matrix – Fair value range from €31.5 to €42.7 per share



Source: Commerzbank Corporates & Markets

Important momentum factors

*Momentum factors indicate
down rather than upside
risk*

In order to determine whether the shares have a chance of reaching our fundamental value over the next six months, we identified what we consider to be the two most important fundamental momentum factors and determined what influence they could have on the share price.

1. Introduction of the Mini GEA concept is increasing uncertainty The introduction of Mini GEA could negatively impact SAP's premium (currently 40% over Oracle, historically 50%) due to a rising uncertainty among investors about the rationale, and financial as well as strategic implications. SAP's clients and investors will take a very close and critical look at the concept, especially after the introduction of the higher support ratio, which was not received very well by the market.

2. We are more conservative than consensus on margin expansion in 2010 We do not expect cost savings (up to €600m lower expenses than in 2008) to fully filter through in 2010 as SAP has to realign its sales activity to the expected return of software revenue growth. We also expect the roll out of BBD to be margin dilutive in the ramp up phase, as the economics are still not working in SAP's favour. We only include expenses for BBD as we do not expect it to tip the scale from a revenue perspective in 2010 as SAP would have to sell 55,000 seats to reach €87m of annual revenue, which would represent only 1% of SSRS revenue in 2010.

Valuation

Fair value of €33.1 derived from an absolute multiple model

Absolute multiple model results on €33.1/share

This approach gives us a fair value of €33.1 per share based on 2010 estimates.

Derived from the Gordon Growth Model, our absolute multiple model values the company on a fair reported EV/EBITA basis of 13.6x. The absolute model is based on only a few assumptions: the sales growth rate for the years 2009 to 2012 (g1), the terminal growth rate (g2), the WACC, the tax rate, the return on net new investments (RONNI) and the stable asset growth rate. Our assumptions are as follows:

- g1 = 7.0% p.a. – the estimated top-line non-GAAP CAGR 2009E-12E in the detailed planning period.
- Terminal growth rate g2 = 2.0%
- WACC and tax rate as used in the DCF model.
- RONNI of 10%, some 2.0% above the group's WACC of 8.0%
- Stable asset growth (without new investments) of 3.0%.

The absolute multiple models tend to favour mature companies and generates lower values for growth companies (while the reverse is typically true in a DCF approach). While SAP does have an established and mature business model, it is still generating healthy organic growth rates as well as a solid cash flow.

DCF yields a fair value of €42.7/share

DCF yields fair value of €42.7

Our DCF model yields fair value of €42.7/share. On a no-growth basis, i.e. assuming no new software licence growth for the next ten years, this would be €27.0/share.

Our DCF model uses three stages. The years 2009-12 were planned explicitly, followed by a fading period in 2013 to 2017, and a terminal value. The cash flows for the years 2009E to 2017E are shown in table 1. During the fading period the assumptions are as follows:

- The top-line growth rate declines from 7.0% (CAGR 2009-12) to 6.5% (CAGR 2013-17).
- A long-term GAAP EBIT margin of 30% (2009E: 23.3%).
- The weighted average cost of capital (WACC) is estimated at 8.0% using a risk-free rate of 3.5%, which is the yield on 10-year German government bonds, and a risk premium of 4.0%. The beta is calculated using a fundamental beta of 1.2 in 2009, re-leveraged to changing capital structures in future years. The beta of 1.2 reflects the company's solid market position, but also accounts for the higher dependence on its core ERP applications and a heating up of competition and market consolidation. The terminal value assumptions use a perpetual growth rate of 2.0% and a WACC of 8.0%. The terminal value represents 66.3% of the EV.

Peer approach gives a fair value of €31.5/share

Peer group fair value of €31.5 includes the current premium of 40% to Oracle

Our fair value estimate of €31.5 is supported by our absolute multiple model (€33.1/share) On simple 2010E EV/EBITDA and P/E multiples we derive a values of c. €22.5/share. However, this completely ignores the 40% valuation premium that SAP has currently over Oracle. The five year historic valuation premium was 50% which reflects its healthy organic sales growth, lower acquisition-related risk profile and market dominating position in the ERP market.

Correcting for this leads to what we believe is a more realistic fair value estimate of c. €31.5/share, which is our target price.

TABLE 1: DCF assumptions

€m	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Sales	11,183.5	11,715.8	12,685.0	13,677.1	14,700.1	16,041.3	17,432.2	18,826.8
EBITDA	3,128.5	3,753.4	4,216.7	4,674.2	5,159.5	5,800.5	6,519.8	6,607.6
EBITA	2,609.5	3,231.3	3,715.2	4,173.6	4,650.7	5,288.3	5,972.1	6,048.9
Operating taxes (w/o tax shield)	(792.8)	(982.5)	(1,130.1)	(1,273.0)	(1,415.5)	(1,610.0)	(1,818.5)	(1,814.7)
NOPLAT	1,816.7	2,248.8	2,585.1	2,900.7	3,235.2	3,678.4	4,153.6	4,234.3
NOPLAT growth		23.8%	15.0%	12.2%	11.5%	13.7%	12.9%	1.9%
Change in working capital	(300.9)	(518.7)	(231.1)	(258.5)	(287.6)	(352.5)	(394.0)	(413.7)
Depreciation and amortisation	519.0	522.2	501.5	500.6	508.8	512.1	547.7	558.7
Capex	(257.2)	(328.0)	(380.5)	(410.3)	(441.0)	(481.2)	(523.0)	(496.8)
Other cash flow	-	-	-	-	-	-	-	-
FCF pre financial result	1,777.6	1,924.2	2,474.9	2,732.5	3,015.4	3,356.8	3,784.3	3,387.4
Discount factor	0.96	0.89	0.82	0.76	0.70	0.65	0.60	0.56
Present value FCF	942.2	1,704.8	2,028.5	2,072.0	2,115.6	2,179.0	2,273.0	1,882.7

PV FCF forecast period 17,066.2

Source: Commerzbank Corporates & Markets

Fundamental beta

Growth risk / diversification	0.20
Competitive structures / market position / barriers to entry	0.10
Size of company / maturity of business model	-0.10
Regulatory risks	0.00
Financial risk: profitability / liquidity / balance sheet structure	0.00
Forecast risk / cyclicalit	0.00
Other factors	0.00
+ Market beta	1.00

Company beta 1.20

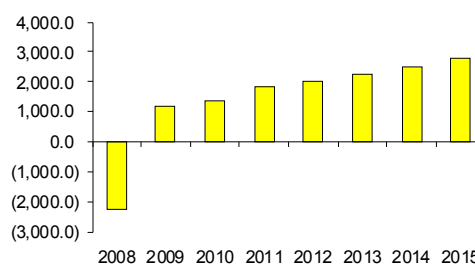
Calculation EV and SHV

PV years 1-10	17066.2
PV terminal value	33607.9
Enterprise value	50674.1
Terminal value as % of EV	66.3%
+ Peripheral assets	0.0
+ Affiliates at equity	0.0
- Net debt/(cash)	-189.2
- Minority interest	0.0
Equity value	50863.4
Shares in issue (m)	1191.0
Equity value per share (€)	42.71
Upside / downside to CP	44.7%

Sensitivity: Sales growth / EBIT margin

		Sales growth sensitivity (%)				
		0.5%	1.5%	2.0%	3.0%	4.0%
EBIT margin sensitivity (%)	28.0%	36.6	38.0	38.8	40.9	44.1
	29.0%	38.4	39.8	40.7	43.1	46.5
	30.0%	40.1	41.7	42.7	45.2	48.9
	31.0%	41.9	43.6	44.7	47.3	51.3
	32.0%	43.7	45.5	46.6	49.5	53.7

Source: Commerzbank Corporates & Markets

Free cash flow development (after dividend, €)

Terminal value assumptions

Market risk premium	4.0%
Risk-free rate	3.5%
Cost of equity	8.3%
Cost of debt	4.5%
Target capital structure (debt / total)	20.0%
Terminal WACC (%)	8.0%
Perpetual growth rate	2.0%
Growth with constant asset base	1.5%
Perpetual return on new investment	10.5%

Sensitivity g / WACC

		Perpetual growth rate (%)				
		0.5%	1.0%	1.5%	2.0%	2.5%
Terminal WACC (%)	9.0%	36.3	37.5	38.7	39.9	41.1
	8.5%	37.9	39.2	40.5	41.8	43.1
	8.0%	39.9	41.3	42.7	44.1	45.5
	7.5%	42.2	43.7	45.3	46.8	48.4
	7.0%	45.0	46.7	48.4	50.0	51.7

Table 2: Absolute multiple valuation

Calculation fair value per share (€m)	2009E	2010E	2011E
EBITA (normalised)	2,609	3,231	3,715
Fair EV/EBITA (x), undiscounted	14.1x	13.6x	13.0x
Enterprise value	36,848	43,791	48,226
(+) Peripheral assets / affiliates	0	0	0
(-) Net debt /(cash)	-189	-520	-1,327
(-) Minority interest	0	0	0
Equity value	37,038	44,311	49,553
Shares in issue	1191	1175	1144
Value per share (undiscounted)	31.1	37.7	43.3
Discount factor (cost of equity)	0.95	0.88	0.88
Value per share (discounted to 30-Jun-08)	29.7	33.1	38.0
Upside / downside	2%	24%	42%

Calculation of fair EV/EBITA:

WACC (after tax)	8.0%	8.0%	8.0%
growth factor (g)	0.5%	0.5%	0.5%
1/(WACC-g) = Fair EV/NOPLAT	20.3x	19.5x	18.7x
(x) (1-Tax rate)	0.7	0.7	0.7

Growth factor assumptions:

NOPLAT growth in stage 1	7%	7%	7%
Remaining duration of stage 1	4	3	2
Terminal NOPLAT growth	2%	2%	2%

Source: Commerzbank Corporates & Markets

Sensitivity: Duration stage 1 / NOPLAT growth stage 1

	5.0%	6.0%	7.0%	8.0%	9.0%
2	29.7	30.0	30.3	30.6	30.9
3	30.6	31.1	31.7	32.3	32.8
4	31.4	32.2	33.1	33.9	34.8
5	32.1	33.3	34.4	35.6	36.8
6	32.9	34.3	35.8	37.3	38.9

Sensitivity: WACC / NOPLAT growth stage 2

	0.0%	0.5%	2.0%	2.5%	3.0%
6.0%	34.3	37.0	49.5	56.0	64.8
7.0%	29.4	31.4	39.6	43.6	48.6
8.0%	25.7	27.2	33.1	35.7	38.9
9.0%	22.9	24.0	28.4	30.3	32.5
10.0%	20.6	21.5	24.8	26.3	27.9

Source: Commerzbank Corporates & Markets

Table 3: Peer group multiples and valuation

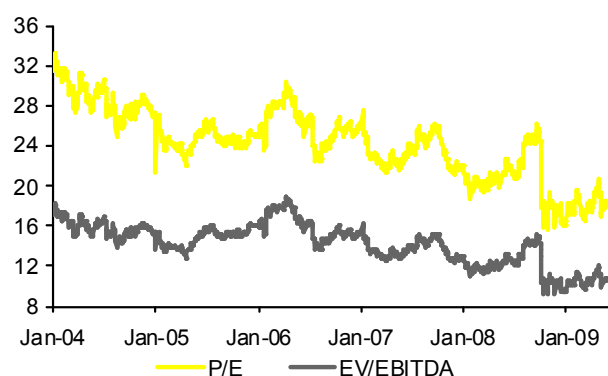
	MC	EV/EBITDA (x)			EV/EBIT (x)			P/E (x)		
	€m	2008	2009E	2010E	2008	2009E	2010E	2008	2009E	2010E
ERP and software vendor multiples										
Dassault Systemes	3,895	9.9x	8.6x	8.0x	11.2x	9.9x	9.2x	18.3x	17.5x	16.4x
Epicor	236	8.7x	9.4x	8.1x	10.6x	10.7x	8.9x	13.2x	12.3x	10.0x
Exact Holding	416	7.8x	6.7x	6.9x	9.1x	7.9x	7.9x	12.5x	10.7x	10.8x
Lawson	650	9.0x	7.2x	6.4x	12.4x	9.5x	11.5x	19.2x	14.2x	15.5x
Microsoft	140,255	8.5x	6.9x	6.6x	9.4x	7.9x	7.5x	14.0x	12.3x	11.4x
Oracle	75,634	8.3x	8.0x	7.3x	8.9x	8.5x	7.6x	13.5x	14.3x	12.0x
QAD	74	22.0x	14.8x	7.0x	-	+	8.0x	-	+	11.6x
Sage	2,829	11.0x	8.6x	8.0x	11.9x	9.3x	8.8x	15.7x	11.7x	11.0x
Ultimate	456	33.6x	28.3x	17.8x	55.3x	48.1x	26.5x	-	+	+
Median peer group		9.0x	8.6x	7.3x	10.9x	9.4x	8.8x	14.0x	12.3x	11.5x
Mean peer group		13.2x	10.9x	8.5x	16.1x	14.0x	10.6x	15.2x	13.3x	12.3x
SAP multiples		11.6x	11.7x	9.8x	13.8x	14.1x	11.4x	20.0x	20.2x	15.9x
Premium/Discount vs peer group, Median		29%	37%	34%	27%	50%	29%	42%	64%	38%
Premium/Discount vs peer group, Mean		-12%	7%	16%	-14%	1%	7%	31%	52%	29%
Fair value (EV/EBITDA and P/E 2010), median = €22.5	€25.3	€22.2	€22.6	€25.7	€20.5	€23.5	€22.6	€21.4	€22.3	
Fair value including 40% premium = €31.5	€35.4	€31.0	€31.7	€36.0	€28.6	€33.0	€31.7	€29.9	€31.2	
Implied multiple at target price (peer group) = €31.5		11.2x	12.1x	10.1x	13.3x	14.5x	11.7x	19.5x	20.9x	16.4x
Premium/Discount of target price vs peers (Median)		24.0%	41.3%	38.4%	22.2%	54.6%	33.2%	39.0%	69.2%	42.3%

All data calendarised, MC in €, Source: company data, JCF, Datastream, Commerzbank Corporates & Markets

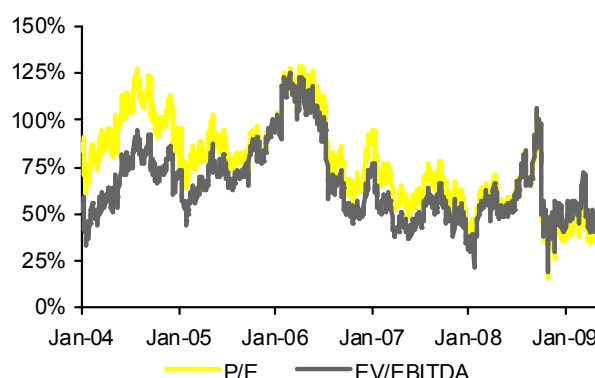
Peer group valuation indicates €31.5 on average, including a market premium of 40%

Our fair value and target price include a premium of 40% and are based on the midpoint between EV/EBITDA 2010E (€31.7) and P/E 2010E (€31.2), which implies a fair value of €31.5. The current EV/EBITDA and P/E valuation premium of 40% versus Oracle/market is slightly below the historical two-year average of 50% that the market has applied since 2004, which reflects SAP's healthy organic sales growth, lower acquisition-related risk profile and its dominance in the ERP market.

With a current 12-month-forward EV/EBITDA 2010E of 10.5x the shares trade at the lower end of their 9.1x to 19.1x range since 2004.

CHART 2: P/E and EV/EBITDA (12-month forward) – Shares trading at around a five-year low


Source: Company, Datastream, Commerzbank Corporates & Markets

CHART 3: Premium SAP vs. Oracle (12-month forward) – Current premium (40%) below the two-year average (50%)


Source: Company, Datastream, Commerzbank Corporates & Markets

Introduction of Mini GEA – major implications for SAP

Mini GEA concept could impact 35% of SSRS revenue

Expansion of the GEA concept has major implications at second glance

It is our view that SAP's commitment to extend Global Enterprise Agreements (GEA) to 350 clients (CB working title Mini GEAs) from a target group of 30 will have major implications for business model, strategy and financial forecasts. By expanding the subscription-based GEA concept, SAP is aiming to adapt its business model to a maturing ERP market. It is also reacting to a changing competitive landscape and clients demanding more transparent and predictable TCOs for SAP legacy applications.

At first sight the renewed focus on GEAs looks quite insignificant given that SAP has 86,000 customers in total, but the 350 target clients also form the premier customer network (PCN) and represent c. 35% of SAP's SSRS revenue according to our calculations. The results of our scenario analysis point towards a negative impact on SSRS, particularly software revenue growth and EBIT margin expansion in the early roll out, i.e. client conversion phase, of the Mini GEA concept. Nevertheless, the long-term financial impact is neutral to positive.

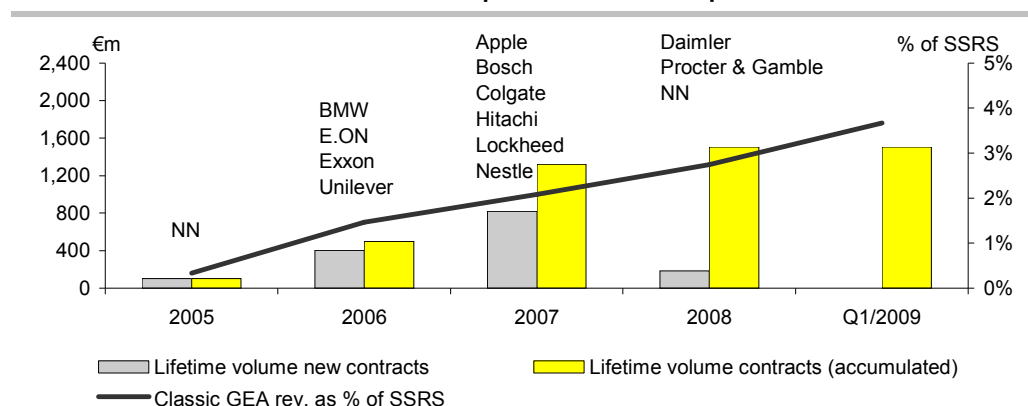
Classic GEA, introduced in 2006, with little impact on the P&L so far

Classic GEA – 'all you can eat' flat fee

SAP's classic GEA concept was introduced in 2006 and targeted up to 30 of its largest clients. A GEA is a strategic, subscription-based master agreement characterised by close long-term cooperation between SAP and the customer. The customer gets access to SAP's current and future application portfolio, premium support and consultancy as well as the preferential attention of SAP's top management. SAP and the client enter into a contract which typically has a duration of four or five years with monthly or quarterly payment. This 'all you can eat' (SAP jargon) contract replaces the traditional model which demands upfront payment for a perpetual software licence, with the amount basically depending on the number and classification of users and engines/applications. A perpetual licence is followed by recurring annual support fees for updates and support.

SAP has so far signed 14 GEAs (2005: 1, 2006: 4, 2007: 6, 2008: 3) with a total lifetime volume of €1.5bn (€115m on average per customer). According to our knowledge SAP has not signed a new GEA in 2009, as most of its key clients are currently reluctant to make long-term commitments because of the economic crisis.

CHART 4: Classic GEA with limited P&L impact so far – Development 2005 to Q1 2009



Source: Company, Commerzbank Corporates & Markets

From a financial point SAP says that GEA and Mini GEAs will not lead to lower SSRS growth, despite their 'all you can eat' nature, and will not have a negative impact on group margins. We find this statement hard to judge as current revenue from GEA makes up only 3.7% of SSRS (Q1/09), and none of the contracts have reached their full lifetime, making it difficult to quantify the economic impact on SAP's EBIT. However for modelling purposes we assume that the contracts do not dilute SAP's sales and margins over the lifetime of the contract.

Mini GEA could be a game changer, but is this the right time for a big push?

Currently very limited information is available regarding the extension of the classic GEA concept to a larger client group (CB working title: 'Mini GEA'). We assume that the average duration of the Mini GEA contracts will be three years (GEA: four to five years) and that the lifetime deal size is €10m-€30m (GEA: €100m on average).

The following SWOT analysis gives an overview of the benefits and challenges of the concept.

BENEFITS FOR SAP

- Increasing share of recurring revenue to reduce the (quarterly) focus on software revenue, replacing it with better predictability for SSRS and group profitability
- Better penetration of clients by lowering the hurdle rate to up and cross selling
- More focused R&D and S&M spending should allow increasing margins and optimisation of cash flow generation over the lifetime of the contract
- Responding to the changing competitive landscape and customer demand/need

CHALLENGES FOR SAP

- Highly individualised contracts to make sure that the 'all you can eat' / flat fee approach does not have a negative effect on sales and profitability per client
- Extended sales cycles which could result in higher upfront S&M expenses, e.g. closing costs
- Cannibalisation of traditional support and especially software revenue growth
- There are many variables for SAP: how many clients are willing to migrate; change of incentive schemes for the sales organisation?

BENEFITS FOR GEA CUSTOMERS

- Access to SAP's existing and future application portfolio allows extension of (or the replacement of non-SAP) applications
- Better visibility and predictability for the TCO of the SAP system
- Enhanced quality of services, i.e. premium support and (direct) access to SAP's (top) management
- Lowering the number of audits

CHALLENGES FOR GEA CUSTOMERS

- Flat fees curb negotiating power
- Market dynamics are shifting towards 'pay for what you use' instead of paying a flat fee to have access to a full range of applications
- Making a commitment for three years demands that clients have a clear view of their strategic IT roadmap. Clients need to commit themselves to become a SAP only shop
- Flat fees or 'all you can eat' programmes often come with the risk of an uneconomic allocation of internal resources

SAP's profit warning for Q3 2008 marked an inflection point for the company and has already resulted in the most severe cost cutting in its history. We believe it also led to the ultimate decision to decrease the impact of volatile software revenue on SSRS and group profitability. SAP's clear intention is to defend its market share, but we also believe that it is under increasing pressure from its core clients to align its traditional 'go to market' approach, i.e. the way it sells software, to a changing competitive landscape (e.g. Salesforce.com) and new business models (e.g. SaaS). Very little is known about the licensing strategy of SAP's core ERP competitors, i.e. Microsoft and Oracle. As far as we know, Oracle has a similar programme (enterprise licence agreement) in place, but the financial impact has not been disclosed. To sum up, it is our view that the change of CEO, the ambitious financial targets and the economic crisis prepared the ground for the introduction of the subscription-based Mini GEA concept.

Mini GEAs unlikely to kick start in the current economic environment

However, given the current economic environment and prolonged sales cycle we doubt that Mini GEAs will be an easy sell, given contract durations of three years and the fact that most of SAP's clients have comprehensive restructuring programmes in place and are unable to set up a clear medium-term IT strategy at present. Moreover the client has to commit themselves to become a SAP only shop and to allow SAP to grab a larger share of the IT wallet for the benefit of lower TCOs. It is our view that SAP aims to ride the learning curve in 2009 to be ready for a potential ramp up of the concept in 2010, thereby catching the economic upswing and the return of discretionary IT spending when they finally arrive.

Mixed impact of Mini GEAs on SAP's financials

Negative impact on financials in the early conversion phase to be offset over the GEA's lifetime

Mini GEAs to curb sales growth and margins in the early conversion phase

The pace and success of client conversion, i.e. how many of the 350 targeted clients will sign a Mini GEA, and SAP's sales efficiency, which is correlated with contract sizes and closing costs, will determine the impact on group sales and profitability. To sense the impact on KPIs we conduct a scenario analysis that concludes that, in the short term the impact will be negative for SSRS growth (330bps lower than base case), especially for software revenue growth (negative 410bps) and EBIT margins (negative 169bps) in 2010. However the negative impact of the early conversion phase will be offset later.

We model a base scenario which factors in no change to the classic software licensing model and a Mini GEA scenario based on gradual conversion of PCN members. The assumptions and model can be found on page 17.

Base-case scenario: classic software licence model as reflected in our current forecasts

Base-case scenario: This reflects our current financial forecasts, which are based on the classic licence model, i.e. SAP does not sign any Mini GEA's in the period 2009-12. It results in SSRS growth of 5.6% in 2010 expanding to 9.9% in 2011 and 9.2% in 2012 as software revenue growth bounces back. The pro forma EBIT margin expansion of 350bps in 2010 over 2009 and 570bps in 2012 over 2009 reflects SAP's lowered cost base. Our pro forma EBIT forecast for 2010 includes a cushion of 100bps as we do not expect cost savings to fully filter through in 2010, as SAP has to reinvigorate its sales activities, also in conjunction with the roll out of BBD, which we still see as margin dilutive in the ramp up phase.

CHART 5: Negative impact of Mini GEA's (MG) on revenue and EBIT in the short term (early conversion phase)...

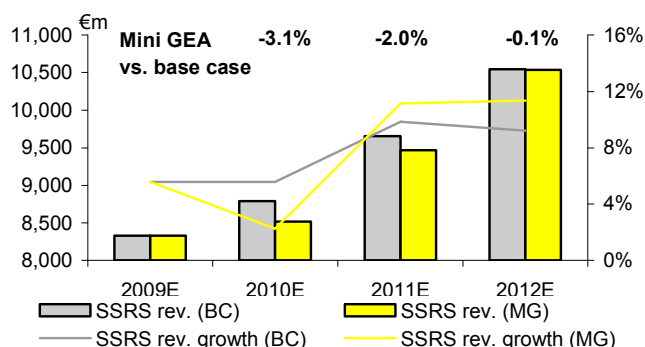
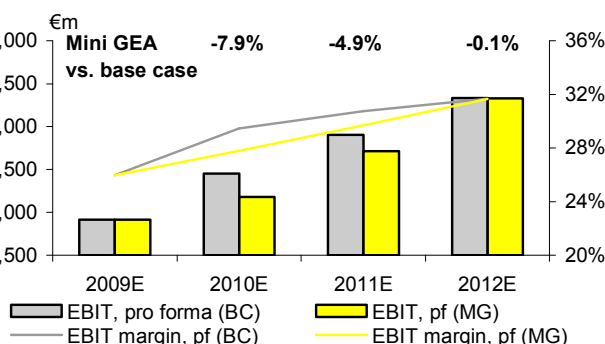


CHART 6: ...will be offset in the longer run, putting mid-term EBIT margin targets within reach



BC = Base case, MG = Mini GEA scenario

Source: Company, Commerzbank Corporates & Markets

Source: Company, Commerzbank Corporates & Markets

Mini GEA scenario: SSRS growth of 330bps and pro forma EBIT margin of 169bps lower in 2010 than in the base case

Mini GEA scenario: This scenario is based on our expectation that 65% (135) of the addressable PCN members (210 = 60% of 350), can be converted within three years. For 2010 this results in SSRS growth which is 330bps lower than the base case and software revenue growth of 410bps lower. Assuming all costs and other sales are equal this would lead to a pro forma EBIT margin of 27.8% for 2010, which is 169bps lower than the base case and translates into a pro forma EBIT of 7.9% below our expectations and 9.9% below consensus.

The next table summarises different Mini GEA conversion scenarios for 2010 and the impact on KPIs and SAP's fair value per share. A conversion of 20% addressable PCNs in 2010 would lead to a 7.9% lower pro forma EBIT than in the base case (no conversion) and corresponds to a fair value of €29.0 based on EV/EBITDA 2010E and taking into account SAP's premium of 40% over Oracle/market.

TABLE 4: Different conversion rates for 2010 and development of KPIs and growth rates compared to 2009

PCN conversion rate 2010	PCN members converted	Software revenue	Support revenue	Subscription revenue	SSRS revenue	EBIT pro forma	EBIT pro forma margin	EBIT vs. base case	Fair value/ share (€)
0% (base case)	0	3.1%	6.6%	10.0%	5.6%	3,452	29.5%	0.0%	31.5
5%	11	2.1%	5.2%	21.6%	4.7%	3,379	28.9%	-2.1%	30.8
10%	21	1.1%	3.8%	33.1%	3.9%	3,310	28.5%	-4.1%	30.2
15%	32	0.0%	2.4%	44.7%	3.1%	3,242	28.1%	-6.1%	29.6
20% (Mini GEA)	42	-1.0%	0.9%	56.2%	2.3%	3,178	27.8%	-7.9%	29.0
25%	53	-2.0%	-0.5%	67.8%	1.4%	3,105	27.2%	-10.1%	28.3
30%	63	-3.0%	-1.9%	79.3%	0.6%	3,036	26.8%	-12.1%	27.7
35%	74	-4.1%	-3.3%	90.9%	-0.2%	2,968	26.3%	-14.0%	27.1

Source: Commerzbank Corporates & Markets

Looking ahead further we model conversion ratios for 2010 and 2011 and the impact on accumulated pro forma EBIT compared to the pro forma EBIT in the base-case scenario.

TABLE 5: Varying conversion rates in 2010 and 2011 and their impact on accumulated EBIT

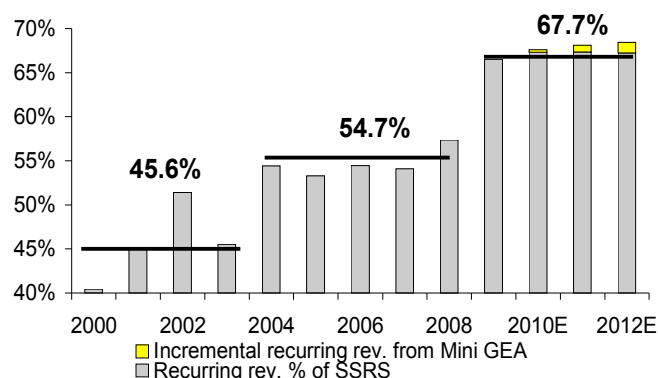
		PCN conversion rate 2011						
		15%	20%	25%	30%	35%	40%	45%
PCN conversion rate 2010	0%	-5.3%	-7.0%	-8.8%	-10.5%	-12.3%	-14.1%	-15.8%
	5%	-6.1%	-7.8%	-9.5%	-11.1%	-12.8%	-14.5%	-16.1%
	10%	-7.0%	-8.5%	-10.1%	-11.7%	-13.3%	-14.9%	-16.4%
	15%	-7.8%	-9.3%	-10.8%	-12.3%	-13.8%	-15.3%	-16.8%
	20%	-8.6%	-10.1%	-11.5%	-12.8%	-14.3%	-15.7%	-17.1%
	25%	-9.5%	-10.8%	-12.1%	-13.4%	-14.8%	-16.1%	-17.4%
	30%	-10.3%	-11.6%	-12.8%	-14.0%	-15.3%	-16.5%	-17.7%
	35%	-11.2%	-12.3%	-13.5%	-14.6%	-15.8%	-16.9%	-18.0%

Source: Commerzbank Corporates & Markets

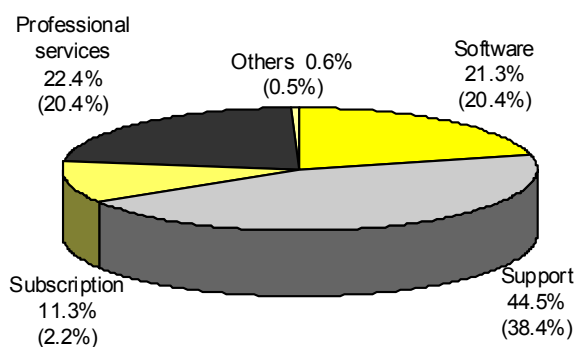
A conversion of 20% in 2010 and 30% of the addressable PCN member base in 2011 leads to accumulated pro forma EBIT in 2010 and 2011 that is 12.8% lower than in the base-case scenario.

Recurring sales to rise, but the impact of Mini GEAs will only be felt longer term

Due to the sharp drop in software revenue in 2009 (CB est.: -22.8% y-o-y), the share of recurring revenue (support plus subscription revenue as a percentage of SSRS) should jump to 66.6% from 57.4% in 2008. Our base case factors in recurring revenue growing at least in line with software revenue over the next three years, leading to stabilisation at the current high level.

CHART 7: Share of recurring revenue as percentage of SSRS revenue to stabilise at a high level


Source: Company, Commerzbank Corporates & Markets

CHART 8: Total sales split 2015E (2009E) based on the Mini GEA scenario – Recurring revenue to reach 56% (41%)


Source: Company, Commerzbank Corporates & Markets

The incremental impact of the Mini GEAs scenario on SSRS is less visible in the conversion period, but in the long run (2015) recurring revenue could account for 72% of SSRS revenue.

Implications for the investment case depend on the time horizon

It is our view that the implications of the Mini GEA are mainly negative for SAP's investment case in the early conversion phase:

- **Downside risk to the margin improvement story for 2010.** In our Mini GEA scenario for 2010, the pro forma EBIT is 27.8% (180bps margin expansion over 2009) lower than our base case (29.5%). Our base case EBIT margin is also 100bps below consensus expectations as we do not expect cost savings to fully filter through because SAP has to reinvigorate its sales activities, also in conjunction with the roll out of BBD, which we still see as margin dilutive in the ramp up phase. Using a peer group valuation approach and based on the Mini GEA scenario, SAP's fair value is 7.9% (€29.0 p/s) lower per share than in the 'non-conversion' base case scenario (€31.5).
- **Mildly negative implications for FCF generation and dividend in the short term.** The lower FCF generation during conversion might have an impact on the dividend and on the share buyback programme, with the latter already postponed to beyond 2009. Given that the pre dividend FCF (€1,945m) and reported EPS for 2010 (€2.04) are both 10% lower than our base case, SAP would have to slightly increase its pay out ratio, which is usually 30%, to meet our dividend forecast of €0.57/share for 2010. However with a dividend yield of only 1.7% (excl. share buybacks), the SAP share is not a dividend play anyway.
- **Pressure on SAP's valuation premium likely.** The conversion could negatively impact SAP's premium (currently 40% over Oracle/market, historically 50%). We assume rising uncertainty among investors about the rationale and implications, the concrete financial impact and client adoption of the concept. SAP's clients and investors will look very critically at the concept, especially after the introduction of the higher support ratio, which was not received very well by the market.

However the longer-term implications of the Mini GEA support a positive investment case for SAP.

- **Mini GEA's are supportive of SAP's EBIT margin target of 35%.** SAP's move looks reasonable to mitigate increasing pressure from core clients demanding a change to SAP's classic, i.e. old fashioned, software licensing model. We believe that after the early conversion phase, Mini GEA's could help boost margins due to an increasing share of recurring revenue, which allows for better operational leverage and efficiency gains leading to an increasing contribution margin and cash flow per client. We see only limited short-term downside for SAP from a financial perspective if clients are unwilling to accept the Mini GEA concept.
- **Impact on our DCF valuation is somewhat insignificant.** The negative impact on DCF from lower FCF in the conversion period should be offset by higher and more predictable (lower risk/beta) FCF later in the 'harvesting phase'. Reduced volatility in SAP's core business and cash flows should also reduce the volatility of its share price, closing the gap to the long-term DCF based fair value faster, and mitigating the impact of the peer group on valuation.
- **Increasing share of recurring revenue, but software remains volatile.** The share of software revenue on SSRS should decrease markedly (33.4% 2009, 27.7% 2015), but we do not expect the volatility of software revenues to change as the share of SME clients with lower deal sizes will increase. SAP's SME clients are currently pre-dominantly served by SAP's ecosystem (reseller/partners), who contribute 25% of software revenues according to our calculations. An increasing share of order entry from SME and resellers would reduce visibility and would probably introduce even more volatility to SAP's software revenue line.

Mini GEA, roll out of BBD and the shape of the economic recovery are key risks

We downgrade to Hold with an unchanged target price of €31.5/share

The shares held up quite well after the weak software revenues in Q1 as investors honoured SAP's ability to protect its EBIT margin by taking out expenses and capitalising on its defensive business model. Q2 should represent the trough for declining software revenue growth rates. We get the impression that the deal pipeline is building slightly better than SAP had expected, but this does not rule out software revenues for Q2 again dropping below the magic number of €500m (the lowest level since Q1 2005, and the lowest level for Q2 since 2004) if close rates do not hold up as expected. As 2009 is now a 'lost' year, investors' focus is already on 2010, where we see the following risks:

- Our scenario analysis reveals that the introduction of Mini GEA will weigh on sales growth and EBIT margin expansion in the early stage of the conversion phase. We have not factored the implications into our model yet, but if the concept gains traction in 2010, which we believe it will, it should support our cautious view on EBIT margin expansion of 100bps lower than consensus.
- The reason for our more conservative view is that we do not expect cost savings (up to €600m lower than in 2008) to fully filter through as SAP has to align its sales activities to the return of software revenue growth in 2010. We also expect the roll out of BBD to be margin dilutive in the ramp up phase in 2010, as economics are still unlikely to be working in SAP's favour. We only include expenses for BBD from a revenue perspective as we do not expect BBD to tip the scale in 2010 from a revenue perspective as the company would have to sell 55,000 seats/annual contracts with an average price of €132 per seat per month to reach €87m of annual revenue, which would represent only 1% of SSRS revenue in 2010.

Downgrade to Hold, target price €31.5/share

Overall we believe that the defensive qualities of SAP are well reflected in the share price and that a challenging H2, i.e. SAP is very likely to lower its SSRS growth guidance, is already reflected in consensus, but that uncertainties about the pace of recovery in discretionary IT spending in 2010 will keep the shares range bound at c. €30. We maintain our target price of €31.5, which reflects the lower end of our fair value range and is based on a peer group valuation cross checked with an absolute multiple model. But we lower our rating to Hold as we see a lack of short-term positive catalysts that could close the valuation gap to the long-term DCF based value of €42.7/share which represents the upper end of our fair value range.

Mini GEA scenario analysis

Our assumptions are derived from the classic GEA concept

Very limited information available

Almost no official information on the new GEA concept (CB working title: 'Mini GEA') is available from SAP. We expect the company to outline the cornerstones of the concept soon, probably at an analyst day in H2 2009.

However, to model and isolate the financial impact of the subscription-based Mini GEA concept we make the following assumptions for simplicity:

- Our model covers only four years (2009-2012E), with the assumption that client conversion starts in 2010, with conversion always taking place at the start of the financial year. We assume that Mini GEA contracts have a lifetime of three years on average with an average annual deal size of €10m.
- We assume that the financial impact (sales volume and EBIT contribution) over the lifetime of a Mini GEA contract is on a par with the classic software licence model. To be conservative, we have not followed SAP's assumption that the contracts could have a higher margin than the classic software licence model.
- We forecast that the 350 PCN members account for 35% of SSRS and 30% of total costs. We assume that 60% (210 (addressable PCNs)) of total PCN members (350) consider switching to a Mini GEA.
- We do not factor in that the Mini GEA sales cycle might be longer than for the classic model. We assume that higher upfront S&M expenses are offset by lower post-sales expenses over the lifetime of the contract. All other costs and sales (consulting, training, other revenue) remain unchanged in the base-case and Mini GEA scenario.
- We do not model renewals of Mini GEA contracts, which would not be due until 2013 for the contracts closed in 2010. Generally we believe that when the contract expires the client would have the choice of prolonging the Mini GEA or switching back to SAP's classic software licence model.

Contract lifetime volume for 2010 of €411m is spread equally over three years

Impact of Mini GEA using 2010 as the example

For 2010 we calculate new software licence revenue (€954m) generated with PCN members multiplied by a conversion ratio (12% of PCN members or 20% of addressable PCN members, i.e. willing to convert), resulting in €114m. We add three years of support for the newly purchased software licences (€76m) and then the 'old' support (€222m) that the converted PCN members would pay for their existing applications. The total volume (€411m total lifetime volume) is spread equally over three years (€137m) and is shown as subscription revenue from PCN members. The lifetime volume is deducted from software and support revenue to ensure a neutral impact.

The table below applies this methodology to the years 2010 to 2012 and focuses only on those P&L revenue items associated with PCN members.

TABLE 6: Mini GEA scenario - Development of revenue of PCN members from 2009 to 2012

Key input factors	2009E	2010E	2011E	2012E			
Mini GEA conversion rate	0%	12%	15%	18%			
PCN member base (not converted), start	210	210	168	122			
PCN members (converted)	0	42	46	47			
PCN member base (not converted), end	210	168	122	75			
PCN members (converted, total)	0	42	88	135			
% of PCN members converted		20%	42%	64%			

	2009E	2010E	2011E	2012E	2013E	2014E	Total
Software revenue (base case)	863	954	977	1,071			3,864
2010		-114					-114
2011			-137				-137
2012				-128			-128
Software revenue (Mini GEA scenario)	863	839	840	942			3,485
Mini GEA scenario vs base case	0%	-12%	-14%	-12%	nm	nm	-10%
Support revenue (base case)	1,749	1,846	2,271	2,506			8,371
2010		-297					-297
2011			-356				-356
2012				-333			-333
Support revenue (Mini GEA scenario)	1,749	1,549	1,914	2,173			7,385
Mini GEA scenario vs base case	0%	-16%	-16%	-13%	nm	nm	-12%
Subscription revenue (base case)	0	0	0	0	0	0	0
2010		137	137	137			411
2011			165	165	165		494
2012				154	154	154	461
Subscription rev. (Mini GEA scenario)	0	137	302	455	318	154	1,366
Mini GEA scenario vs base case	0%	nm	nm	nm	nm	nm	nm
SSRS (base case)	2,612	2,800	3,248	3,577	0	0	12,236
2010	0	-274	137	137	0	0	0
2011	0	0	-329	165	165	0	0
2012	0	0	0	-307	154	154	0
SSRS (Mini GEA scenario)	2,612	2,525	3,056	3,571	318	154	12,236
Mini GEA scenario vs base case	0%	-10%	-6%	0%	nm	nm	0%

Source: Commerzbank Corporates & Markets

The following is based on the previous table and adds P&L items like revenue from non-PCN members, expenses and pro forma items to derive group sales and pro forma EBIT.

TABLE 7: Base-case and Mini GEA scenarios side by side – 2009E to 2012E

€m / %	Base case (classic software licence model)							Mini GEA scenario (subscription model)					
	2009E	2010E	y-o-y	2011E	y-o-y	2012E	y-o-y	2010E	y-o-y	2011E	y-o-y	2012E	y-o-y
Software revenue													
PCN members	863	954	10.5%	977	2.4%	1,071	9.6%	839	-2.8%	840	0.1%	942	12.2%
All other clients	1,921	1,918	-0.2%	2,175	13.4%	2,383	9.6%	1,918	-0.2%	2,175	13.4%	2,383	9.6%
Total software revenue	2,785	2,871	3.1%	3,152	9.8%	3,453	9.6%	2,757	-1.0%	3,014	9.3%	3,325	10.3%
Support revenue													
PCN members	1,749	1,846	5.6%	2,271	23.0%	2,506	10.4%	1,549	-11.4%	1,914	23.6%	2,173	13.5%
All other clients	3,497	3,746	7.1%	3,859	3.0%	4,179	8.3%	3,746	7.1%	3,859	3.0%	4,179	8.3%
Total support revenue	5,246	5,592	6.6%	6,129	9.6%	6,685	9.1%	5,295	0.9%	5,773	9.0%	6,352	10.0%
Subscription revenue													
PCN members (Mini GEA)	0	0	nm	0	nm	0	nm	137	nm	302	120.0%	455	50.9%
GEA clients (classic GEA)	252	277	10.0%	318	15.0%	344	8.0%	277	10.0%	318	15.0%	344	8.0%
All other (non PCN and GEA) clients	45	49	10.0%	57	15.0%	61	8.0%	49	10.0%	57	15.0%	61	8.0%
Total subscription revenue	297	326	10.0%	375	15.0%	405	8.0%	464	56.2%	677	46.1%	861	27.1%
SSRS revenue													
PCN members	2,612	2,800	7.2%	3,248	16.0%	3,577	10.1%	2,525	-3.3%	3,056	21.0%	3,571	16.9%
All other clients (incl. classic GEA)	5,715	5,990	4.8%	6,409	7.0%	6,967	8.7%	5,990	4.8%	6,409	7.0%	6,967	8.7%
Total SSRS	8,327	8,790	5.6%	9,656	9.9%	10,544	9.2%	8,515	2.3%	9,464	11.1%	10,538	11.3%
Product related expenses													
PCN members	1,090	1,132	3.8%	1,215	7.4%	1,309	7.7%	1,132	3.8%	1,215	7.4%	1,309	7.7%
All other clients	2,543	2,641	3.8%	2,836	7.4%	3,054	7.7%	2,641	3.8%	2,836	7.4%	3,054	7.7%
Total product related expenses	3,633	3,772	3.8%	4,051	7.4%	4,362	7.7%	3,772	3.8%	4,051	7.4%	4,362	7.7%
Segment profit and product margins													
PCN members	1,522	1,668	9.6%	2,032	21.9%	2,268	11.6%	1,394	-8.4%	1,840	32.1%	2,262	22.9%
All other clients	3,172	3,350	5.6%	3,573	6.7%	3,914	9.5%	3,350	5.6%	3,573	6.7%	3,914	9.5%
Total segment profit product	4,694	5,018	6.9%	5,605	11.7%	6,182	10.3%	4,743	1.0%	5,413	14.1%	6,176	14.1%
Segment profit margins product													
PCN members	58.3%	59.6%	1.3%	62.6%	3.0%	63.4%	0.8%	55.2%	-3.1%	60.2%	5.0%	63.4%	3.1%
All other clients	55.5%	55.9%	0.4%	55.8%	-0.2%	56.2%	0.4%	55.9%	0.4%	55.8%	-0.2%	56.2%	0.4%
Total segment profit margins	56.4%	57.1%	0.7%	58.0%	1.0%	58.6%	0.6%	55.7%	-0.7%	57.2%	1.5%	58.6%	1.4%
All other revenue and expenses													
All other sales (consulting, training)	2,856	2,926	2.4%	3,029	3.5%	3,133	3.5%	2,926	2.4%	3,029	3.5%	3,133	3.5%
All other costs (consulting, training)	4,941	4,712	-4.6%	4,919	4.4%	5,141	4.5%	4,712	-4.6%	4,919	4.4%	5,141	4.5%
EBIT reported													
EBIT, reported	2,609	3,231	23.8%	3,715	15.0%	4,174	12.3%	2,957	13.3%	3,523	19.1%	4,168	18.3%
EBIT margin, reported	23.3%	27.6%	4.2%	29.3%	1.7%	30.5%	1.2%	25.8%	2.5%	28.2%	2.4%	30.5%	2.3%
Pro forma items													
Deferred revenue	48	0	nm	0	nm	0	nm	0	nm	0	nm	0	nm
PPA	-260	-221	-15.0%	-188	-15.0%	-160	-15.0%	-221	-15.0%	-188	-15.0%	-160	-15.0%
EBIT pro forma													
EBIT, pro forma	2,917	3,452	18.3%	3,903	13.1%	4,333	11.0%	3,178	8.9%	3,711	16.8%	4,328	16.6%
EBIT margin, pro forma	26.0%	29.5%	3.5%	30.8%	1.3%	31.7%	0.9%	27.8%	1.8%	29.7%	1.9%	31.7%	2.0%

Source: company data, Commerzbank Corporates & Markets

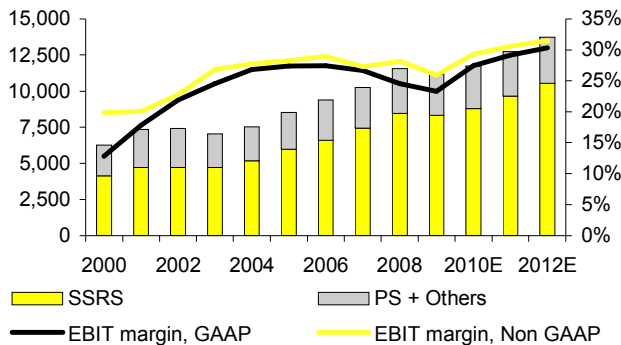
Table 8: Income statement 2006 to 2011E

€m / %	2006	2007	2008	2009E	2010E	2011E
Revenue						
Software revenue	3,003	3,408	3,606	2,785	2,871	3,152
<i>growth y-o-y</i>	7.9%	13.5%	5.8%	(22.8%)	3.1%	9.8%
Support revenue	3,464	3,838	4,593	5,246	5,592	6,129
<i>growth y-o-y</i>	9.1%	10.8%	19.7%	14.2%	6.6%	9.6%
Subscription and other software-related service rev.	129	182	258	297	326	375
<i>growth y-o-y</i>	0.0%	41.1%	41.8%	15.0%	10.0%	15.0%
Software and software-related service revenue (SSRS)	6,596	7,428	8,457	8,327	8,790	9,656
<i>growth y-o-y</i>	10.7%	12.6%	13.9%	(1.5%)	5.6%	9.9%
Consulting revenue	2,249	2,223	2,500	2,393	2,443	2,526
<i>growth y-o-y</i>	5.1%	(1.2%)	12.5%	(4.3%)	2.1%	3.4%
Training revenue	383	410	434	304	319	334
<i>growth y-o-y</i>	11.8%	7.0%	5.9%	(30.0%)	4.9%	4.8%
Other service revenue	96	113	106	90	92	95
<i>growth y-o-y</i>	0.0%	17.7%	(6.2%)	(15.0%)	2.5%	2.5%
Professional services and other service revenue	2,728	2,746	3,040	2,786	2,854	2,954
<i>growth y-o-y</i>	9.9%	0.7%	10.7%	(8.3%)	2.4%	3.5%
Other revenue	69	71	70	70	72	74
<i>growth y-o-y</i>	(5.5%)	2.9%	(1.4%)	0.0%	3.0%	3.0%
Total revenue, GAAP	9,393	10,245	11,567	11,183	11,716	12,685
<i>growth y-o-y</i>	10.3%	9.1%	12.9%	(3.3%)	4.8%	8.3%
Expenses						
Cost of goods sold (COGS)	(3,164)	(3,401)	(3,943)	(3,784)	(3,904)	(4,118)
<i>growth y-o-y</i>	8.4%	7.5%	15.9%	(4.0%)	3.2%	5.5%
<i>% of sales</i>	(33.7%)	(33.2%)	(34.1%)	(33.8%)	(33.3%)	(32.5%)
Research and Development (R&D)	(1,335)	(1,458)	(1,631)	(1,599)	(1,628)	(1,738)
<i>growth y-o-y</i>	22.6%	9.2%	11.9%	(1.9%)	1.8%	6.7%
<i>% of sales</i>	(14.2%)	(14.2%)	(14.1%)	(14.3%)	(13.9%)	(13.7%)
Sales and Marketing (S&M)	(1,908)	(2,162)	(2,541)	(2,360)	(2,378)	(2,550)
<i>growth y-o-y</i>	9.3%	13.3%	17.5%	(7.1%)	0.8%	7.2%
<i>% of sales</i>	(20.3%)	(21.1%)	(22.0%)	(21.1%)	(20.3%)	(20.1%)
General and Administration (G&A)	(464)	(506)	(622)	(593)	(586)	(571)
<i>growth y-o-y</i>	6.6%	9.1%	22.9%	(4.7%)	(1.2%)	(2.6%)
<i>% of sales</i>	(4.9%)	(4.9%)	(5.4%)	(5.3%)	(5.0%)	(4.5%)
Other operating income / (expenses), net	56	17	12	(238)	12	7
<i>% of sales</i>	0.6%	0.2%	0.1%	(2.1%)	0.1%	0.1%
Total operating expenses	(3,651)	(4,109)	(4,782)	(4,790)	(4,580)	(4,852)
<i>growth y-o-y</i>	11.9%	(12.5%)	(16.4%)	(0.2%)	4.4%	(5.9%)
<i>% of sales</i>	(38.9%)	(40.1%)	(41.3%)	(42.8%)	(39.1%)	(38.2%)
Profitability						
EBIT GAAP (reported)	2,578	2,735	2,842	2,609	3,231	3,715
<i>growth y-o-y</i>	10.6%	6.1%	3.9%	(8.2%)	23.8%	15.0%
<i>EBIT margin GAAP</i>	27.4%	25.9%	24.6%	23.3%	27.6%	29.3%
Adjustments	142	61	141	212	221	188
EBIT Non-GAAP (pro forma)	2,720	2,796	3,305	2,917	3,452	3,903
<i>growth y-o-y</i>	12.9%	2.8%	18.2%	(11.7%)	18.3%	13.1%
<i>EBIT margin Non GAAP (pro forma)</i>	29.0%	27.3%	28.2%	26.0%	29.5%	30.8%
Financial results, net	110	125	(88)	(40)	5	30
<i>Tax rate</i>	(29.9%)	(32.2%)	(30.1%)	(30.5%)	(30.5%)	(30.5%)
Net income after minorities	1,881	1,937	1,925	1,785	2,248	2,602
<i>growth y-o-y</i>	25.7%	3.0%	(0.6%)	(7.3%)	26.0%	15.7%
EPS from net income, basic (€)	1.53	1.54	1.62	1.51	1.92	2.28
<i>growth y-o-y</i>	27.0%	0.3%	5.0%	(6.8%)	27.6%	18.7%
EPS from continuing operations, basic (€)	1.66	1.74	1.92	1.67	2.04	2.39
<i>growth y-o-y</i>	32.6%	4.7%	10.0%	(12.7%)	22.3%	16.8%

Source: company data, Commerzbank Corporates & Markets

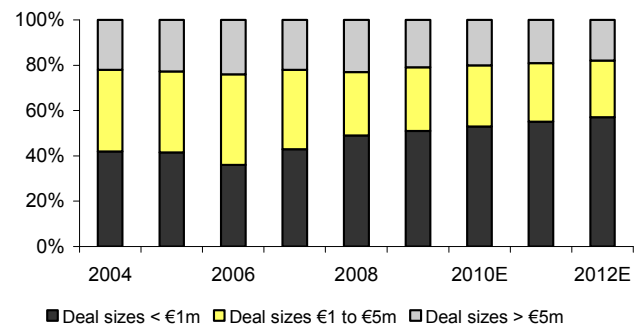
Appendix – Performance indicators

CHART 9: Revenues split by type and EBIT margin – 30% pro forma EBIT margin threshold within reach



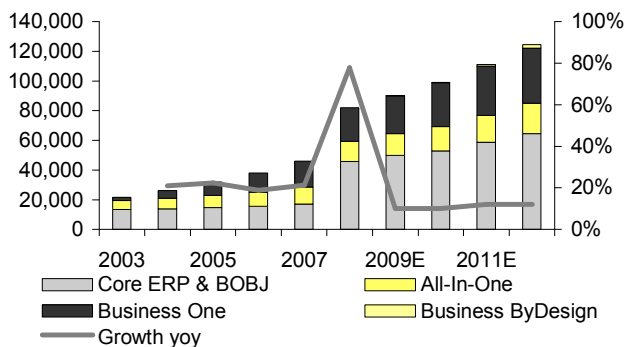
Source: company data, Commerzbank Corporates & Markets

CHART 10: Average deal size development – Deal sizes get smaller and smaller every year



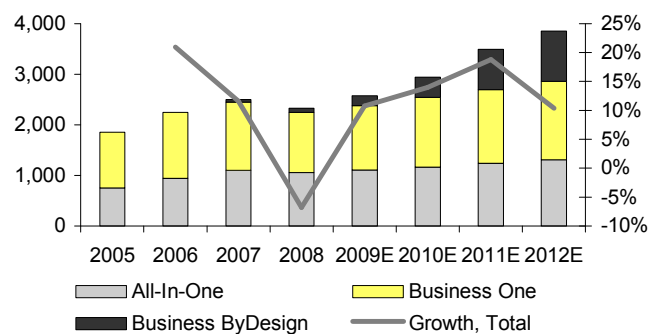
Source: company data, Commerzbank Corporates & Markets

CHART 11: Clients by product line – 100,000 customer mark to be reached in 2011



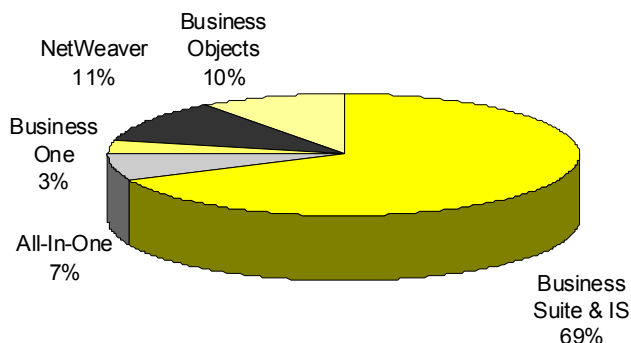
Source: company data, Commerzbank Corporates & Markets

CHART 12: Channel partners by product line – Clean up of partner channel in 2008



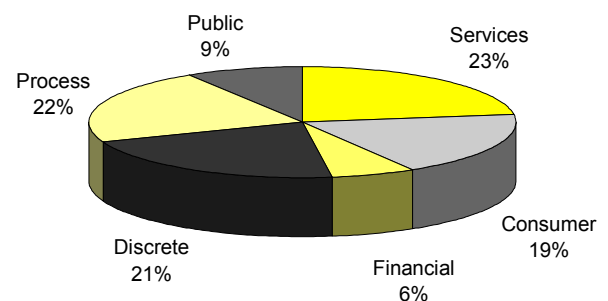
Source: company data, Commerzbank Corporates & Markets

CHART 13: Software revenue split by product line 2008 – Core ERP still accounts for 69% of software revenue



Source: company data, Commerzbank Corporates & Markets

CHART 14: Total revenue split by industry 2008 – Highly exposed to classic German industries



Source: company data, Commerzbank Corporates & Markets

Technical Analysis

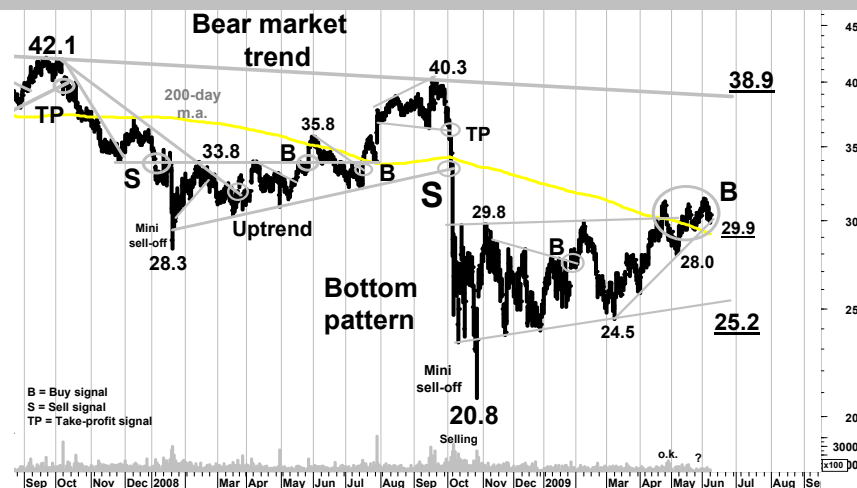
(Interim) bear market has progressed quite far

CHART 15: SAP (€)

Buy
(3 to 6 months)

Price Target:
€35.0 - €36.0

CP: EUR 30.43
(Close 09.06.2009)



Source: Commerzbank Corporates & Markets

Technical indicators

20-day m.a.	EUR 30.28	↗
100-day m.a.	EUR 28.20	↗
200-day m.a.	EUR 29.19	↘
14-day RSI /	54.69 / 54.06	
prev.		
MACD / Signal	0.36 / 0.41	
line		

Supports/Resistances

Next support	€ 28.0
Major support	€ 24.5
Next resistance	€ 31.5
Major resistance	€ 35.8

Bloomberg: SAP GY

Reuters: SAPG.DE

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Long-term technical view

From a technical perspective, SAP concluded the bear market trend from 2000 to 2002 with a sell-off at €9.9 in October 2002 and formed a one-year bottom pattern below €25.0. From June 2003 onwards, the share followed the bull market trend in the financial markets – with less upward momentum – and left the moderate bear market trend (since 1999) in October 2003. After reached the high of 2006 at €47.7, the stock then entered an (interim) bear market trend.

So far a typical (interim) bear market trend

SAP's (interim) bear market trend since April 2006 – trend line currently at c. €39.5 – pushed the stock into marked medium-term relative weakness versus the leading blue-chip indices in 2006/2007, and has so far shown typical characteristics (accelerated downtrends and trend-confirming consolidations). The last accelerated downtrend ended in a sell-off at €28.3, and since then the stock has established a (trading) bottom pattern in the form of a technical (upward) triangle below €33.8.

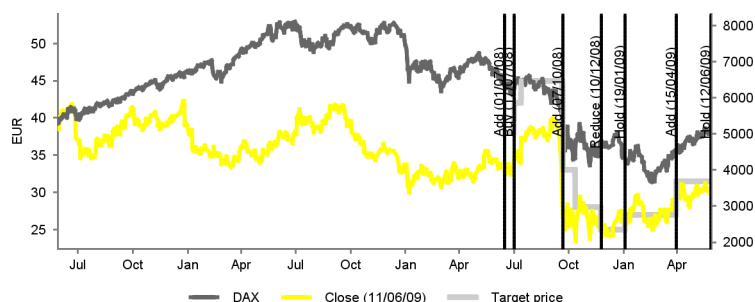
SAP has now established relative strength in the sector

As SAP's (interim) bear market trend has already been underway for two years, the stock is showing a better technical risk-reward ratio than other sector stocks or blue chips, so the relative strength versus the DJ Stoxx Technology that we have seen in recent weeks comes as no surprise. After an investment buy signal (move out of the (trading) bottom pattern), there is evidence pointing to medium-term technical potential up to €39.0-€39.5 ('test of the (interim) bear market trend'). This makes SAP a Buy from a medium-term technical perspective. The positive technical outlook would be lost if SAP falls below €30.0 (which means a switch to Hold). Summary:

- Since April 2006, SAP has been in an (interim) bear market trend, within which the stock established a (trading) bottom pattern below €33.8.
- Following the investment buy signal and given its relative strength (e.g. in the sector), SAP is currently a technical Buy, and its medium-term technical potential should be to test the bear market trend (€39.0-€39.5). The positive medium-term technical outlook would be lost if SAP falls below €30.0.

Notes:

Notes:

SAP AG price chart


Source: Commerzbank Corporates & Markets

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TABLE 9: Balance sheet

Balance Sheet (€m)	2007	2008	2009E	2010E	2011E	CAGR 2008-11E
Property, plant & equipment	1,874	1,971	2,053	2,195	2,386	6.6%
Intangible fixed assets	402	1,127	783	447	135	(50.7%)
Goodwill	1,423	5,009	5,009	5,009	5,009	
Total operating fixed assets	3,699	8,107	7,845	7,651	7,530	(2.4%)
Inventories	519	0.0	0.0	0.0	0.0	n.a.
as a % of sales	5.1%	0.0%	0.0%	0.0%	0.0%	
Accounts receivable	2,891	3,130	3,131	3,398	3,805	6.7%
as a % of sales	28.2%	27.1%	28.0%	29.0%	30.0%	
Accounts payable	725	543	525	550	595	3.1%
as a % of sales	7.1%	4.7%	4.7%	4.7%	4.7%	
Other working capital assets	0.0	0.0	0.0	0.0	0.0	
Other working capital liabilities	1,659	1,352	1,179	1,054	1,142	
Net working capital	1,026	1,235	1,427	1,793	2,068	18.8%
as a % of sales	10.0%	10.7%	12.8%	15.3%	16.3%	
Operating invested capital	4,725	9,342	9,273	9,444	9,599	0.9%
ROIC (%)	42.1%	28.3%	19.5%	24.0%	27.2%	
IC/sales (x)	0.5	0.8	0.8	0.8	0.8	
Investments	76.0	95.0	95.0	95.0	95.0	0.0%
Capital employed	4,801	9,437	9,368	9,539	9,694	0.9%
ROCE	41.3%	27.7%	19.2%	23.7%	26.8%	
Cash and cash equivalents	2,192	1,662	2,798	3,129	3,936	33.3%
Interest-bearing liabilities	0.0	2,609	2,609	2,609	2,609	0.0%
Interest-bearing provisions	0.0	0.0	0.0	0.0	0.0	n.a.
Net debt (pre-adjustments)	(2,192)	947	(189)	(520)	(1,327)	n.a.
Shareholders' equity	6,508	7,235	8,411	9,066	9,984	11.3%
Minority interests	0.0	0.0	0.0	0.0	0.0	
Total equity	6,508	7,235	8,411	9,066	9,984	11.3%
Equity Ratio	62.7%	51.0%	55.9%	57.8%	59.1%	
ROE	29.4%	28.0%	23.0%	25.9%	27.4%	
Other assets	1,000	1,203	1,178	1,406	1,522	
Other liabilities	1,485	2,457	2,323	2,399	2,559	
Total assets	10,377	14,197	15,047	15,678	16,889	6.0%

Source: company data, Commerzbank Corporates & Markets

TABLE 10: Latest sector research

Date	Ticker	Title	Company/Sector	Rec	TP
27/05/2009	SAP GY	We remain conservative on margin improvement for 2010	SAP AG	Add	€31.50
18/05/2009	STM US	Waiting for the new ST to deliver visible returns	STMicroelectronics	Hold	\$5.50
15/05/2009	IXX GY	Traffic lights stay green	init AG	Add	€7
12/05/2009		2010 - The return of growth	Technology (TMT)		
08/05/2009	AIXA GY	All up from here	Aixtron	Buy	€8.50
07/05/2009	AIXA GY	Solid Q1 figures and confident outlook	Aixtron	Hold	€5.50
30/04/2009	WDI GY	Preliminary Q1- A touch lighter but still a sound start	Wirecard	Buy	€7.50
30/04/2009	IFX GY	Q2 marked the bottom	Infineon	Hold	€1.90
30/04/2009	IFX GY	Q2 without (negative) surprises	Infineon	Hold	€1.90
29/04/2009	SAP GY	Software revenues weak, but cost cutting strong	SAP AG	Add	€31.50

Source: Commerzbank Corporates & Markets

TABLE 11: Income statement /Cash flow statement

Income Statement (€m)	2007	2008	2009E	2010E	2011E	CAGR 2008-11E
Sales	10,245	11,567	11,183	11,716	12,685	3.1%
<i>growth y-o-y</i>	9.1%	12.9%	(3.3%)	4.8%	8.3%	
Operating expenses	7,331	8,177	8,055	7,962	8,468	1.2%
Adjustments	0.0	0.0	0.0	0.0	0.0	
EBITDA	2,914	3,390	3,128	3,753	4,217	7.5%
<i>as a % of sales</i>	28.4%	29.3%	28.0%	32.0%	33.2%	
Depreciation and intangible amortisation	260	548	519	522	501	(2.9%)
Adjustments	0.0	0.0	0.0	0.0	0.0	
EBITA	2,654	2,842	2,609	3,231	3,715	9.3%
<i>as a % of sales</i>	25.9%	24.6%	23.3%	27.6%	29.3%	
Impairments	0.0	0.0	0.0	0.0	0.0	
EBIT	2,654	2,842	2,609	3,231	3,715	
Net interest result	124	(63.0)	(20.0)	25.0	50.0	n.a.
Result from participations	0.0	0.0	0.0	0.0	0.0	
Other financial result	1.0	(25.0)	(10.0)	(10.0)	(10.0)	
Adjustments	0.0	0.0	0.0	0.0	0.0	
PBT	2,779	2,754	2,579	3,246	3,755	10.9%
Tax expense	(921)	(828)	(784)	(987)	(1,142)	11.3%
Adjustment	0.0	0.0	0.0	0.0	0.0	
<i>Tax rate</i>	33.1%	30.1%	30.4%	30.4%	30.4%	
Net profit from continuing operations	1,858	1,926	1,796	2,259	2,613	10.7%
<i>as a % of sales</i>	18.1%	16.7%	16.1%	19.3%	20.6%	
Net profit from discontinued operations	0.0	0.0	0.0	0.0	0.0	
Minorities	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)	
Net income attributable to shareholders	1,856	1,925	1,795	2,258	2,612	10.7%
EBITDA as reported	2,914	3,390	3,128	3,753	4,217	7.5%
<i>as a % of sales</i>	28.4%	29.3%	28.0%	32.0%	33.2%	
EBIT as reported	2,735	2,842	2,609	3,231	3,715	9.3%
<i>as a % of sales</i>	26.7%	24.6%	23.3%	27.6%	29.3%	
Net income as reported	1,937	1,888	1,795	2,258	2,612	11.4%
<i>as a % of sales</i>	18.9%	16.3%	16.0%	19.3%	20.6%	
Cash Flow Statement (€m)	2007	2008	2009E	2010E	2011E	CAGR 2008-11E
EBIT as reported	2,735	2,842	2,609	3,231	3,715	9.3%
Cash taxes	(921)	(828)	(784)	(987)	(1,142)	
Depreciation & amortization	260	548	519	522	501	(2.9%)
(Profit) / loss from disposal of assets	8.0	0.0	0.0	0.0	0.0	
(Increase) / decrease in inventories	0.0	0.0	0.0	0.0	0.0	
(Increase) / decrease in accounts receivable	(512)	(64.0)	(1.4)	(266)	(408)	
Increase / (decrease) in accounts payable	0.0	0.0	(18.0)	25.0	45.5	
Increase / (decrease) in other WC items	134	(370)	(281)	(278)	131	
Increase / (decrease) in pension provisions	0.0	0.0	0.0	0.0	0.0	
Cash operating interest	124	(63.0)	(20.0)	25.0	50.0	
Other operating cash flow	157	80.0	0.0	0.0	0.0	
Operating cash flow	1,985	2,145	2,024	2,273	2,893	10.5%
<i>as a % of sales</i>	19.4%	18.5%	18.1%	19.4%	22.8%	
Gross capex	(404)	(339)	(257)	(328)	(381)	3.9%
Asset disposals	35.0	0.0	0.0	0.0	0.0	
Net financial investments	257	199	0.0	0.0	0.0	
Net acquisitions	(718)	(2,772)	0.0	0.0	0.0	
<i>Gross capex as a % of sales</i>	3.9%	2.9%	2.3%	2.8%	3.0%	
<i>Gross capex as a % of depreciation</i>	155.4%	61.9%	49.6%	62.8%	75.9%	
Free cash flow	1,155	(767)	1,767	1,945	2,513	n.a.
<i>as a % of sales</i>	11.3%	(6.6%)	15.8%	16.6%	19.8%	
Dividends	(556)	(594)	(596)	(598)	(674)	
Dividends to minority shareholders	0.0	0.0	0.0	0.0	0.0	
Free cash flow (post dividend)	599	(1,361)	1,171	1,347	1,838	
Increase / (decrease) in debt	(1.0)	2,288	0.0	0.0	0.0	
Increase / (decrease) in equity	(730)	(405)	(35.0)	(16.4)	(30.5)	
Other financing cash flows	0.0	0.0	0.0	(1,000)	(1,000)	
FX effects	(51.0)	(9.0)	0.0	0.0	0.0	
Other items	0.0	0.0	0.0	0.0	0.0	
Change in cash	(183)	513	1,136	330	808	

Source: company data, Commerzbank Corporates & Markets