

Stock Story



Why SAP could be an AI winner, not disrupted

In 2020, SAP embarked on a renewed strategy for the largest business model shift in its history.

The mission was to catalyse and accelerate customer adoption of its reinvigorated cloud software portfolio, unlocking new capabilities and efficiencies for its customers while expanding market opportunities for SAP. It was effective. Since that time, SAP has delivered strong annual growth in its cloud ERP business (over 30% growth in 2025). Yet only a few years in and still at the relatively early stages of its successful multi-year growth runway, SAP now faces a new emergence in the technology landscape that many are perceiving to be a disruptive threat to its peers. Is AI about to eat the software that has been eating the world?

Enterprise software is home to some of the best business models in the world, and nowhere is this more evident than in ERP (Enterprise Resource Planning). ERP is the central nervous system of the enterprise, powering mission-critical processes across the organisation in a seamless suite of integrated software. Companies simply cannot run without it.

SAP is the market leader in ERP and related application software, formed through decades of expertise since its founding in 1972. This leadership is evident in the fact that 99 of the 100 largest companies in the world run SAP, and 84% of total global commerce volume is generated by SAP customers. Its solutions span many functional areas including finance, procurement, human resources, and warehouse and transportation management.

AI is already having an effect on the software industry, but its impact will vary significantly across the spectrum of vendors. Software is as diverse as the applications and industry verticals it serves. We will see some vendors disrupted. By the same token, we will see winners among the vendors who are able to leverage AI in a differentiated way. SAP is among the best-positioned software vendors to capture the AI opportunity, rather than be disrupted by it, in our view.

Rapid advancements in AI offer potential to solve new problems or to operate more effectively, and companies are increasingly looking towards leveraging it. The rich proprietary data flowing through ERP systems make SAP particularly well-suited to deliver these solutions. Integrating AI can help companies extend workflow automation, enhance predictive analytics, and improve decision-making. SAP's position as the system of record for its customers' core operational data puts it in the privileged position of having the richest insights and contextual awareness on which AI depends to unlock value. This is not a position that can be replicated by vibe coding.

Nor can SAP's trusted position as a proven partner powering many of the most complex organisations in the world across 26 industries with deep expertise. The critical role ERP plays for enterprise customers to run their businesses makes the cost of errors high, and customers are better served by leaning on SAP to exploit the power of AI rather than subject their operations to unnecessary risk. SAP has always solved complexity, and AI is the new layer of complexity.

ERP and related application software have been around for decades, but the innovation pipeline is more exciting than it has ever been. Cross-border complexity is rising. Supply chains are becoming more sophisticated. Emissions-reporting frameworks require new ways to track and manage climate-related disclosures.

AI is another opportunity for SAP to expand its footprint within its customers and adds impetus for these customers to adopt SAP's cloud products, providing a runway for significant growth in the years to come.

Adrian Lu

Senior Investment Analyst

Connect with us **Email:** info@magellanfinancialgroup.com **Phone:** +61 2 9235 4888 or 1800 6243 5526

IMPORTANT INFORMATION

This material has been delivered to you by Magellan Asset Management Limited ABN 31 120 593 946 AFS Licence No. 304 301 trading as Magellan Investment Partners ('Magellan') and has been prepared for general information purposes only and must not be construed as investment advice or as an investment recommendation. This material does not take into account your investment objectives, financial situation or particular needs. This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer documentation, offer or invitation to purchase, sell or subscribe for interests in any type of investment product or service. You should obtain and consider the relevant Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') and consider obtaining professional investment advice tailored to your specific circumstances before making a decision about whether to acquire, or continue to hold, the relevant financial product. A copy of the relevant PDS and TMD relating to a Magellan financial product may be obtained by calling +61 2 9235 4888 or by visiting www.magellaninvestmentpartners.com

Past performance is not necessarily indicative of future results and no person guarantees the future performance of any financial product or service, the amount or timing of any return from it, that asset allocations will be met, that it will be able to implement its investment strategy or that its investment objectives will be achieved. This material may contain 'forward-looking statements'. Actual events or results or the actual performance of a Magellan financial product or service may differ materially from those reflected or contemplated in such forward-looking statements.

This material may include data, research and other information from third party sources. No guarantee is made that such information is accurate, complete or timely and no warranty is given regarding results obtained from its use. This information is subject to change at any time and no person has any responsibility to update any of the information provided in this material. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Magellan or the third party responsible for making those statements (as relevant). Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. No representation or warranty is made with respect to the accuracy or completeness of any of the information contained in this material. Magellan will not be responsible or liable for any losses arising from your use or reliance upon any part of the information contained in this material.

Any third-party trademarks contained herein are the property of their respective owners and Magellan claims no ownership in, nor any affiliation with, such trademarks. Any third-party trademarks contained herein are the property of their respective owners, are used for information purposes and only to identify the company names or brands of their respective owners, and no affiliation, sponsorship or endorsement should be inferred from such use. This material and the information contained within it may not be reproduced, or disclosed, in whole or in part, without the prior written consent of Magellan. (080825-#W17) UID381