

SAP Profit Rises 15%, Missing Analysts' Estimates

July 27 (Bloomberg) -- SAP AG, the world's biggest maker of business-management software, said second-quarter profit rose 15 percent as companies boosted spending on technology. The increase fell short of analysts' estimates.

Net income climbed to 491 million euros (\$638.2 million), or 41 cents a share, from 426 million euros, or 36 cents, a year-earlier -- less than analysts' estimate of 525 million euros. Profit at the Walldorf, Germany-based company was hurt by a currency loss and severance paid to two former executives.

"The key business is improving," said Frank Niemann, a director at Pierre Audoin Consultants GmbH in Munich. "They, like many others, are very careful about the outlook. Depending on what happens in Greece and so on, they don't know if people will be able to get financing to invest in software."

SAP, whose software manages Apple Inc.'s iTunes download system and is used by companies for payroll and customer relations management, is expanding to applications accessed via the Internet and mobile devices. It will release Internet-based Business ByDesign software on July 31, after more than two years of delays. SAP also recently bought Sybase Inc., a maker of database and mobile-computing software, for \$5.8 billion.

"We've been building the pipeline" for ByDesign since May, Co-Chief Executive Officer Jim Hagemann Snabe said on a conference call today. "Thousands of customers are looking at ByDesign. The real challenge is to teach businesses that they can run their whole business on-demand."

SAP fell as much as 2.9 percent in Frankfurt trading and was down 1.9 percent at 36.60 euros as of 1:23 p.m. Before today, the stock had gained 13 percent this year.

Smaller Businesses

SAP's biggest rival, Oracle Corp., said sales from new software licenses rose 14 percent to \$3.14 billion in the fourth quarter ended May 31. Both companies are benefiting from businesses resuming spending put on hold during the economic slump.

SAP Co-CEO Bill McDermott said the Americas showed strong growth and that he is optimistic on growth in the Asia-Pacific region and Japan and a little more "cautious" on Europe.

"Some of it has to do with year-over-year comparison and timing of large deals," McDermott said. In Europe, "we'll come into good times in the second half."

SAP expects "bigger customers to buy a smaller part of the software," said Pierre Audoin's Niemann, suggesting it will go after lower-value, higher volume software sales. Medium-sized companies are still facing difficulties, he said.

SAP's latest results included 11 million euros in severance paid to former CEO Leo Apotheker and former management board member John Schwarz. It also reflected an 86 million-euro hit, largely from currency losses.

'Disappointing'

SAP said today it expects the inclusion of Sybase to result in a 9 percent to 11 percent increase in non-IFRS software and software-related service revenue at constant currencies in 2010, from 8.2 billion euros last year.

Excluding Sybase, it will increase between 6 percent and 8 percent, or at the upper end of the company's previous guidance.

SAP still predicts its non-IFRS operating margin for 2010 would be 30 percent to 31 percent at constant currencies compared with 27.4 percent recorded in 2009.

"The outlook may be a little disappointing to some," said Stephan Wittwer, an analyst with Landesbank Baden-Wuerttemberg in Stuttgart.

In the second quarter, Sybase's revenue climbed 9 percent from a year earlier to \$302 million, while operating income was \$74.3 million.

'Major Contracts'

SAP's software and related services sales rose 16 percent from a year earlier to 2.26 billion euros, while software license sales, seen as a gauge of future maintenance and upgrade fees, advanced 17 percent to 637 million euros.

Analysts polled by Vara Research had estimated software and related services sales of 2.1 billion euros and software sales of 596 million euros.

SAP, whose customers include Walt Disney Co., Coca-Cola Co. and Body Shop International Plc, said it closed "major contracts" in the quarter, including with Swiss Reinsurance Company Ltd., Delta Air Lines Inc. and the United Nations.

Co-CEO Snabe said SAP's strategy remains to grow through innovation. "Don't expect us to do a lot of Sybase-like" acquisitions, McDermott said.

Competitor Oracle has bought at least 67 companies since January 2005.

--Editors: Vidya Root, David Risser