

## SAP co-CEO: Cloud computing business profitable (Update)

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In this Jan. 23, 2013 file picture CEOs Jim Hagemann Snabe and Bill McDermott, right, pose for photographers prior to a press conference in Walldorf, southwestern Germany. The co-CEO of business software maker SAP AG says its push into cloud computing is starting to make money and could be heading for profits that rival or exceed those of its traditional software business. Bill McDermott told The Associated Press Friday April 19, 2013 that "we accelerated into the cloud in a big way about a year ago and already we're making money on it." (AP Photo/dpa, Uwe Anspach, File)

The co-CEO of business software maker SAP says its push into cloud computing is starting to make money—and predicted it would reach profits that rival or exceed those of its traditional business.

The cloud business contributed about 28 million euros (\$36.72 million) to first-quarter earnings. SAP AG, whose software helps companies manage personnel, sales and customer relations, said Friday its overall net profit rose 17 percent to 520 million euros in the quarter. Revenues grew 7 percent to 3.6 billion euros.

"We accelerated into the cloud in a big way about a year ago and already we're making money on it," Bill McDermott told The Associated Press.

In cloud computing, customers pay SAP a subscription fee to use software on SAP's servers rather than installed at the customers' businesses. The approach is a shift from the company's longstanding model of selling software and then profiting both from that and the follow-up services revenue from support and training.

SAP and rival Oracle Corp. are both trying to fend off threats from companies conceived during the past decade to deliver all their software products through the cloud. One of the most successful cloud-computing pioneers, Salesforce.com Inc. now generates more than \$3 billion in annual revenue.

SAP bolstered its cloud computing business by buying Ariba Inc. last year. In size, it is still dwarfed by the traditional business, but SAP says it is on track to account for 900 million euros in sales over the year. It expects that to more than double to 2 billion euros a year by 2015.



In this Jan. 29, 2003 file picture the logo of the software company SAP is seen on the company's German headquarters in Walldorf near Heidelberg, Germany . The co-CEO of business software maker SAP AG says its push into cloud computing is starting to make money and could be heading for profits that rival or exceed those of its traditional software business. Bill McDermott told The Associated Press Friday April 19, 2013 that "we accelerated into the cloud in a big way about a year ago and already we're making money on it." (AP Photo/dpa, Oliver Stratmann,File)

McDermott said that once the cloud business reaches that kind of scale, its profits should exceed those of the core business. That is because renewals of existing customers involve lower sales costs than finding and signing up new ones.

"Over time, it's actually more profitable," he said. "When you have low costs of sales, high renewal rates and very large chunks of money, you'll find that the margins in the cloud business actually exceed that of the

core. It's just a question of how quickly you get to scale so you can realize that benefit."

SAP's other co-CEO, Jim Hagemann Snabe, is based at the company's headquarters in Walldorf, Germany, while McDermott is based in Philadelphia.

McDermott said the company was growing sales even in the eurozone, where a crisis over too much public debt has pushed many countries into recession as governments cut spending: "It's choppy in southern Europe, but we're growing in double digits."

Companies in financial services needed better data to comply with new regulations, while retailers had to invest in new information technology because consumers are increasingly shopping on the Internet or using mobile devices such as smart phones.

SAP's first-quarter figures fell short of market analyst estimates, which McDermott argued was a one-time occurrence due to difficulties in the company's Asia-Pacific region. SAP shares fell after the earnings announcement and were down 3 percent at the close of trading in Germany, at 57.85 euros.

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