



October 3, 2005

Canadian Enterprise Software

Stock Rating:
Sector Performer

Sector Weighting:
Market Weight

12-18 mo. Price Target C\$12.50
GAC-TSX (10/3/05) C\$10.86

Key Indices: NASDAQ, Toronto

3-5-Yr. EPS Gr. Rate (E) NM
52-week Range C\$7.94-C\$12.25
Shares Outstanding 85.1M
Float 80.0M Shrs
Avg. Daily Trading Vol. 260,000
Market Capitalization \$794.0M
Dividend/Div Yield Nil / Nil
Fiscal Year Ends April
Book Value \$2.70 per Shr
2005 ROE (E) 24.0%
Net Cash \$187.40M
Preferred Nil
Common Equity \$229.8M
Convertible Available No

EPS	Prev	Current
2005		\$0.87A
2006		\$0.66E
2007		\$0.69E

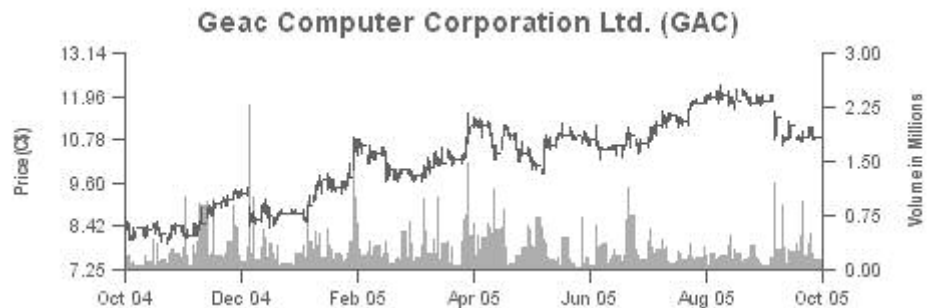
P/E	
2005	10.7x
2006	14.1x
2007	13.5x

Geac Computer Corporation Ltd.

Sells Interealty Business Unit : "Best Cash Solution"

- Geac announced that it has sold its Interealty division to First American for US\$35 mln. cash. This is consistent with Geac's strategy of monetizing its non-core Industry Specific Application (ISA) products and concentrating resources on its core Enterprise Application Systems (EAS).
- Geac purchased Interealty in 1998 in the heyday of its acquisition spree to find mature profitable businesses. Unfortunately, Interealty's market (real estate listings) was rapidly morphing from a paper-based publishing business to a Web-based service, and Interealty was slow to adapt.
- Geac management has recently returned the division to profitability, and is looking for the "best cash solution" for its ISA products, be it selling or operating for an appropriate ROI. ISA represents around 20% of Geac's revenues, but under 15% of profits.
- With the Interealty proceeds, Geac has an estimated \$222 mln. cash (\$2.50/share). It has earmarked \$35 mln. for a share repurchase, but continues to look for accretive acquisitions for its EAS division to deliver further growth. We maintain our Sector Performer rating, C\$12.50 target.

Stock Price Performance



Source: Reuters

All figures in US dollars, unless otherwise stated. (C\$1.164:US\$1)

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Company Description

Geac Computer Corporation Ltd. develops software applications for various cross-industry and vertical markets.

www.geac.com

Paul Lechem
1 (416) 956-6429
Paul.Lechem@cibc.ca

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See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.

Geac announced Monday that it has sold its Interealty residential real-estate information division.

- **Transaction details:** Interealty was sold to The First American Corporation (FAF-NYSE, Not Rated) for US\$35 million cash – approximately 1.5x LTM revenues.
- **History:** Geac purchased Interealty in September 1998 for C\$25.8 million. At that time, Interealty had revenues of approximately C\$100 million, most of which was derived from selling printed real-estate listings to real estate agents. Soon thereafter, the business began to dramatically contract as the printed listing business was superceded by Internet-based MLS (multiple listing service) systems. The Interealty business was slow to adapt, and only recently has it become profitable again, albeit at a much reduced revenue level.
- **Product:** Interealty introduced a web-based solution, MLXchange, in 2001, which now has 47 deployments across the US and Canada, representing 114 real estate organizations with more than 200,000 users. MLXchange provides an MLS listing service plus additional tools for real estate agents, including hosted Web sites and CRM tools.
- **Rationale for the deal:** Geac divides its business into two components – its core Enterprise Application Systems (EAS) business, and its non-core Industry Specific Applications (ISA) division. The ISA division is comprised of a number of vertical-market specific systems added over the years (including Interealty for the real-estate market, and other products for libraries, restaurants, property management and other markets). The ISA division generated about 20% of Geac's F2005 revenues, but under 15% of earnings. With Geac now increasingly focusing on the EAS division, management has long stated that it will seek the "best cash solution" for its various ISA businesses – i.e., sell if a suitable offer came along, or manage appropriately to generate a suitable ROI. Clearly, Geac believes the First American bid for Interealty was an appropriate offer.
- **Use of cash:** Geac had approximately \$187 million in net cash at the end of fiscal Q1 (ending July 31). With the sale of Interealty, the total cash position is over \$222 million (\$2.50/share). Management recently disclosed a small share repurchase program (\$35 million) – the cost of which is effectively covered by the Interealty sale. In addition, Geac continues to look for synergistic and suitably priced acquisitions to bolster its EAS business, and drive license sales into the EAS customer base. Acquisition valuations continue to be challenging for the company: Geac is hard pressed to find suitable targets at an acceptable price, especially given its own market valuation at 1.2x EV/sales and given the Interealty value of 1.5x EV/S.

The divestiture of Interealty is consistent with management's strategy of realizing maximum value for its non-core ISA divisions, and concentrating resources into the core EAS business. However, we continue to believe that Geac's core EAS business has reached an "interim peak" from an organic perspective, and will need sizable acquisition(s) to drive further growth in revenues and earnings. We maintain our Sector Performer rating and C\$12.50 price target.

Price Target Calculation

Our price target of C\$12.50 was derived using a discounted cash flow (DCF) analysis. Our DCF model utilizes the net present value of the future free cash flows to derive an intrinsic value of the stock. We have assumed: a revenue growth rate of 5%-10% throughout the forecast period through F2010 (including acquisitions); a terminal multiple of 5x-7.5x equal to longer-term growth assumptions; terminal year EBITDA of US\$120 million; and a discount rate of 10% equal to our cost of equity assumptions.

Key Risks to Price Target

The risks to our price target include, but are not limited to: volatility in the global IT environment which may affect the timing and magnitude of spending on software enterprise applications; increasing competition from other enterprise application vendors; the company's ability to meet future capital needs in order to support operations; the company's ability to introduce new or updated technology in a timely manner; the company's ability to successfully integrate and operate any current or future acquisitions; and the loss of key management or other employees.

Exhibit 1. Income Statement

Geac Computer Corp. Ltd. - GAC/TSE
 US dollar, Cdn GAAP
 For the years ending April 30

	F2003 Apr	F2004 Apr	F2005 Apr	Q1-F2006 Jul	Q2-F2006 Oct	Q3-F2006 Jan	Q4-F2006 Apr	F2006 Apr	F2007 Apr
	F2003	F2004	F2005	Q1-F2006	Q2-F2006	Q3-F2006	Q4-F2006	F2006	F2007
Income Statement									
Revenue									
License	49,380	65,190	71,040	13,009	17,000	20,000	20,000	70,009	81,500
Service and Support	326,124	355,019	360,947	86,931	88,250	90,000	88,750	353,931	348,500
Hardware	30,625	25,063	12,405	3,782	2,500	2,500	2,500	11,282	10,000
Total Revenues	406,129	445,272	444,392	103,722	107,750	112,500	111,250	435,222	440,000
Cost of Revenues									
License	6,535	7,663	7,991	1,979	2,040	2,400	2,400	8,819	9,780
Service	140,126	146,316	142,634	34,383	35,124	35,640	35,323	140,469	138,700
Hardware	25,886	21,117	9,732	3,476	2,000	2,000	2,000	9,476	8,000
Total Cost of Revenues	172,547	175,096	160,357	39,838	39,164	40,040	39,723	158,764	156,480
Gross Profit	233,582	270,176	284,035	63,884	68,587	72,460	71,528	276,458	283,520
Operating Expenses									
Sales and marketing	58,730	74,051	78,086	19,641	19,750	20,500	20,000	79,891	80,750
General and administrative	58,260	62,774	59,533	14,879	15,000	15,250	15,500	60,629	62,500
Research and development	46,052	58,805	56,817	15,101	15,000	15,000	15,000	60,101	60,000
Total Operating Expenses	163,042	195,630	194,436	49,621	49,750	50,750	50,500	200,621	203,250
Operating income	70,540	74,546	89,599	14,263	18,837	21,710	21,028	75,837	80,270
EBITDA	84,957	81,789	95,529	15,527	20,101	22,974	22,292	80,893	85,670
Depreciation of capital assets	(14,417)	(7,243)	(5,930)	(1,264)	(1,264)	(1,264)	(1,264)	(5,056)	(5,400)
Amortization of intangibles	(1,085)	(7,589)	(9,161)	(2,294)	(2,294)	(2,294)	(2,294)	(9,176)	(9,600)
Amortization of goodwill	0	0							
Net Interest income	1,327	(24)	1,735	1,173	918	987	1,370	4,448	5,898
Restructuring	(3,603)	5,281	3,724					0	0
Other	(13,806)	(1,374)	2,252	4,638	250	250	250	5,388	1,000
Earnings before tax	53,373	70,840	88,149	17,780	17,710	20,653	20,354	76,497	77,568
Income tax	21,343	13,674	11,125	6,490	3,542	4,131	4,071	18,233	17,297
Net income for continuing operations	32,030	57,166	77,024	11,290	14,168	16,523	16,283	58,264	60,272
Basic Shares Outstanding	80,150	84,645	85,574	85,110	84,110	83,110	82,610	83,735	82,860
Fully diluted Shares Outstanding	81,691	86,233	88,150	89,132	88,132	87,132	86,632	87,757	86,882
Basic EPS	0.40	0.68	0.90	0.13	0.17	0.20	0.20	0.70	0.73
Fully diluted EPS	0.39	0.66	0.87	0.13	0.16	0.19	0.19	0.66	0.69
Financial Ratios									
Revenues									
License	12.2%	14.6%	16.0%	12.5%	15.8%	17.8%	18.0%	16.1%	18.5%
Service	80.3%	79.7%	81.2%	83.8%	81.9%	80.0%	79.8%	81.3%	79.2%
Hardware	7.5%	5.6%	2.8%	3.6%	2.3%	2.2%	2.2%	2.6%	2.3%
Cost of Sales									
License	13.2%	11.8%	11.2%	15.2%	12.0%	12.0%	12.0%	12.6%	12.0%
Service	43.0%	41.2%	39.5%	39.6%	39.8%	39.6%	39.8%	39.7%	39.8%
Hardware	84.5%	84.3%	78.5%	91.9%	80.0%	80.0%	80.0%	84.0%	80.0%
Expenses									
Sales and marketing	14.5%	16.6%	17.6%	18.9%	18.3%	18.2%	18.0%	18.4%	18.4%
General and administrative	14.3%	14.1%	13.4%	14.3%	13.9%	13.6%	13.9%	13.9%	14.2%
Research and development	11.3%	13.2%	12.8%	14.6%	13.9%	13.3%	13.5%	13.8%	13.6%
Profitability									
Gross Margin	57.5%	60.7%	63.9%	61.6%	63.7%	64.4%	64.3%	63.5%	64.4%
Operating Margin	17.4%	16.7%	20.2%	13.8%	17.5%	19.3%	18.9%	17.4%	18.2%
EBITDA	20.9%	18.4%	21.5%	15.0%	18.7%	20.4%	20.0%	18.6%	19.5%
Earnings before tax	13.1%	15.9%	19.8%	17.1%	16.4%	18.4%	18.3%	17.6%	17.6%
Net margin	7.9%	12.8%	17.3%	10.9%	13.1%	14.7%	14.6%	13.4%	13.7%
Effective tax rate	40.0%	19.3%	12.6%	36.5%	20.0%	20.0%	20.0%	23.8%	22.3%
Growth									
Revenue - year-over-year	-11.2%	9.6%	-0.2%	-2.9%	1.2%	-1.2%	-5.1%	-2.1%	1.1%
Revenue - sequential				-11.5%	3.9%	4.4%	-1.1%		

Source: Company reports and CIBC World Markets Inc.

Our EPS estimates are shown below:

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2005 Current	\$0.15A	\$0.17A	\$0.34A	\$0.21A	\$0.87A
2006 Current	\$0.13A	\$0.16E	\$0.19E	\$0.19E	\$0.66E
2007 Current	\$0.14E	\$0.17E	\$0.19E	\$0.19E	\$0.69E

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- 2f CIBC World Markets Corp. expects to receive or intends to seek compensation for investment banking services from Geac Computer Corporation Ltd. in the next 3 months.
- 2g CIBC World Markets Inc. expects to receive or intends to seek compensation for investment banking services from Geac Computer Corporation Ltd. in the next 3 months.

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Stock Prices as of 10/03/2005:

First American Corp (FAF-NYSE, \$45.69, Not Rated)

CIBC World Markets Price Chart



HISTORICAL PERFORMANCE OF CIBC WORLD MARKETS' RECOMMENDATIONS FOR GEAC COMPUTER CORPORATION LTD. (GAC)

Date	Change Type	Closing Price	Rating	Price Target	Coverage
03/10/2003	▲●	3.99	SP	6.00	Paul Lechem
08/15/2003	▲●	4.90	SO	6.50	Paul Lechem
10/16/2003	▲	7.14	SO	10.00	Paul Lechem
03/05/2004	▲	8.72	SO	11.00	Paul Lechem
06/22/2004	▲	9.45	SO	12.50	Paul Lechem
08/15/2005	●	12.00	SP	12.50	Paul Lechem

CIBC World Markets' Stock Rating System

Abbreviation	Rating	Description
Stock Ratings		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
Sector Weightings**		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

**Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

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Ratings Distribution*: CIBC World Markets' Coverage Universe

(as of 03 Oct 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	284	33.3%	Sector Outperformer (Buy)	159	56.0%
Sector Performer (Hold/Neutral)	427	50.1%	Sector Performer (Hold/Neutral)	241	56.4%
Sector Underperformer (Sell)	124	14.6%	Sector Underperformer (Sell)	64	51.6%
Restricted	8	0.9%	Restricted	7	87.5%

Ratings Distribution: Canadian Enterprise Software Coverage Universe

(as of 03 Oct 2005)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	3	23.1%	Sector Outperformer (Buy)	3	100.0%
Sector Performer (Hold/Neutral)	9	69.2%	Sector Performer (Hold/Neutral)	9	100.0%
Sector Underperformer (Sell)	1	7.7%	Sector Underperformer (Sell)	1	100.0%
Restricted	0	0.0%	Restricted	0	0.0%

Canadian Enterprise Software Sector includes the following tickers: BRT, CIC, COGN, DMC, EME, GAC, GIB.SV.A, HUMC, MDA, MDF, OTEX, SSG, WB.

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