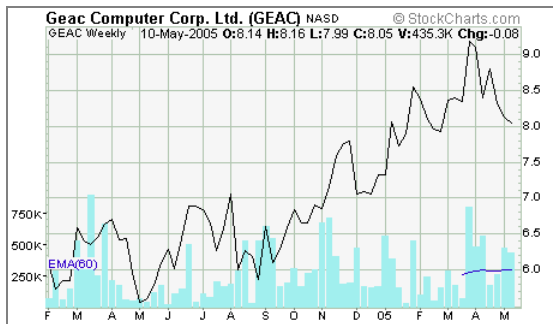




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Technology

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Source: StockCharts.com



Company Description

Geac is an international supplier of software for finance and manufacturing, as well as vertical market applications. The company has operations in North America, Europe and Asia, has approximately 18,000 customers worldwide and a workforce of 2,200. Total sales for the financial year ended April 2004 were US\$445 million.

GEAC COMPUTER

BUY

(GAC-TSX C\$9.96)
 (GEAC-NASDAQ US\$8.05)

12-mo.Target: US\$10.00

Market Capitalization
 Risk Profile

US\$707.4 MM
 High

Currently Stable, Longer-Term Growth

US\$ unless stated otherwise		Financial Estimates			
52-Wk. Range NASDAQ	\$5.38 - \$9.48	US\$	FY03A	FY04A	FY05E
Close - US\$	8.05	Rev. (\$M)	406.1	445.3	441.0
S/O basic (MM)	85.7	GM %	57.5%	60.7%	63.7%
S/O fully diluted (MM)	87.9	Op. Margin (\$M)	70.54	74.55	91.11
Market Cap (fd,MM)	707.4	Op. Margin %	17.4%	16.7%	20.7%
Avg. Daily Vol. (000)	47,900	EPS (\$/sh)	0.39	0.66	0.81
Cash Per Share:	1.39	P/E	20.5	12.2	9.9
Debt to Equity:	0.03	FCF/Share	0.38	0.26	0.56
Ann Dividend & Yield:	0 & 0%				
FY End:	April				

We have just spent the last two days at Geac Computer Corporation's annual user conference, for its enterprise customers. The event represents an opportunity for Geac's customers to learn about the current status of the applications they use, the company's plans for future product development and to hear customer case studies of different product implementations and the benefits they provide.

For the investor the conference provides a chance to take the pulse of the company and re-assess its overall health.

First, the conference attendees represent users of the company's principal enterprise applications. The industry specific applications (ISA) customers are, by and large, not represented. However, this year a number of customers of the commercial systems division (CSD) were present for the first time. CSD provides a number of vertical market applications, such as Starbuilder, AMSI and TotalHR. There seems to be no material change in the status of the ISA product lines - with the exception of MLXchange, which has recently announced some new product wins. Otherwise, it is fair to characterize ISA as comprising small niche market applications, which, with the exception of MLXchange, are "also rans" in their vertical markets. They do generate cash, as a group, and Geac management has reiterated that it does not plan to sell these businesses. So, no change.

...continued

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Corporate Profile

Geac Computer Corporation Limited		GAC - TSX & GEAC - NASDAQ	
Recommendation	BUY	Target Price US\$10.00	Shares O/S (m) 87.9
12 Month Return	24.2%	Recent Close \$9.96	Float (m) 86.2
		Recent Close US\$8.05	Mkt. Cap. (\$m) US\$707

All figures in US\$, unless stated otherwise.

COMPANY DETAILS

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IR: Alys Scott

Geac is an international supplier of software for finance and manufacturing, as well as vertical market applications. The company has operations in North America, Europe and Asia, has approximately 18,000 customers worldwide and a workforce of 2,500. Total sales for the financial year ended April 2004 were US\$445M

SUMMARY FINANCIAL DATA			
Year-end Apr. 30	2003A	2004A	2005E
Revenues	\$406.1	\$445.3	\$441.0
EPS - fully diluted	\$0.39	\$0.66	\$0.81
FCF / Shr (fully diluted)	\$0.38	\$0.26	\$0.56
Cash / Shr (fully diluted)	\$1.10	\$1.31	\$1.96

VALUATION DATA			
Year-end Apr. 30	2003A	2004A	2005E
P / E (fully diluted)	20.5	12.2	9.9
P / S	1.7	1.6	1.6
EV / EBITDA	8.8	8.0	5.6
P / BV	9.3	5.2	3.2

RATIO ANALYSIS			
Year-end Apr. 30	2003A	2004A	2005E
Return on Assets	9.6%	14.0%	14.8%
Current Ratio	0.74	0.84	1.27
Days Sales Outstanding	55.0	45.8	53.1
EBITDA / Interest Expense	146	58	58
Debt to Equity	0.08	0.04	0.02

DUPONT ANALYSIS			
	2003A	2004A	2005E
Profitability (Net Income / Sales)	7.9%	12.8%	16.2%
Activity (Sales / Total Assets)	1.22	1.09	0.91
Leverage (Total Assets / Equity)	4.37	2.99	2.18
Tax Rate	40.0%	19.3%	15.4%
Return on Equity (%)	42.0%	42.0%	32.3%

REVENUE AND MARGIN ANALYSIS			
Year-end Apr. 30	2003A	2004A	2005E
Software	US\$ 49,380	US\$ 65,190	US\$ 67,070
Hardware	30,625	25,063	12,962
Support & Services	326,115	355,019	360,956
Total Revenue	406,120	445,272	440,988
Gross Margin	233,695	270,176	281,072
Gross Margin %	57.5%	60.7%	63.7%
Operating Income	70,539	74,546	91,109
Operating Income %	17.4%	16.7%	20.7%
EBIT	69,454	66,957	81,961
EBIT %	17.1%	15.0%	18.6%
Tax Rate	40.0%	19.3%	15.4%
Net Income	32,029	57,166	71,416
Net Margin	7.9%	12.8%	16.2%
Y-o-Y Revenue Growth (%)	(11.2)%	9.6%	(1.0)%
3 Year CAGR	(14.8)%	(6.9)%	(1.2)%
5 Year CAGR	(2.3)%	(3.0)%	(7.6)%

SUMMARY INCOME STATEMENT			
Year-end Apr. 30	2003A	2004A	2005E
US\$ 000's			
Revenue	406,120	445,272	440,988
Cost of Revenues	172,425	175,096	159,916
Gross Margin	233,695	270,176	281,072
Sales & Marketing	58,730	74,051	76,549
R&D	46,166	58,805	57,505
General & Administrative	58,260	62,774	55,909
Operating Income	70,539	74,546	91,109
Depreciation/Amortization	1,085	7,589	9,148
Interest Expense/Revenue	(970)	(1,398)	2,155
Provision for Income Tax	21,343	13,674	12,985
Net Income	32,029	57,166	71,416

SUMMARY STATEMENT OF CASH FLOWS			
Year-end Apr. 30	2003A	2004A	2005E
OPERATING ACTIVITIES			
Net Income	32,029	57,166	71,416
Depreciation/Amortization	11,384	15,439	6,160
Changes in Non-Cash W. Cap.	(32,561)	(8,063)	(24,707)
Cash from Operations	32,968	66,668	52,869
INVESTING ACTIVITIES			
Capital Assets	(1,886)	(3,661)	(3,579)
Acquisitions	(22,597)	(39,148)	0
Cash from Investing Activities	(26,037)	(44,646)	(3,977)
FINANCING ACTIVITIES			
Debt	(1,630)	(2,875)	(203)
Common Stock	8,955	2,860	4,289
Cash from Financing Activities	6,535	(15)	4,224
Net change in cash	16,285	22,731	53,116
Opening Cash Position	73,785	89,819	112,550
Closing Cash Position	89,819	112,550	172,301

BALANCE SHEET			
Year-end Apr. 30	as at	FY03A	FY04A
ASSETS			
Current Assets			
Cash		89,819	112,550
Other S/T Assets		89,309	82,547
Total		179,128	195,192
Long-term Assets			
PPE		26,431	23,843
Goodwill		89,386	128,366
Other		37,811	59,502
Total Assets		332,756	406,903
LIABILITIES			
Debt		6,349	4,941
Other Current Liabilities		239,749	232,129
Long-term Liabilities		10,488	33,762
SHAREHOLDERS' EQUITY		76,170	136,071
Total Liabilities & Shareholders Equity		332,756	406,903

There is substantial activity in four main product areas. This is very encouraging and has positive implications for revenue growth, over the longer term. Geac Performance (the acquired Comshare product line) has had a number of notable recent customer wins, in the course of which it has beaten both Cognos and Hyperion. This is very good news, but Geac remains relatively unknown in the market, so will have to continue to establish its credibility. But, it has the product and the customer success stories to do so. Thus, we stand by our opening assertion, that over the longer term we will see growth.

Moreover, the Performance product suite is being integrated into other Geac applications and this is differentiating these products from the competition. The System21 product line now has six Performance implementations live or in progress and another six opportunities available. We should expect to see the Performance management functionality added to the Australian Pathway product and there are moves being made to bring the Pathway product to the UK local government market. The Performance functionality would be a clear product differentiator in the market for local government administration software.

The System21 unit continues to roll out upgrades to the Aurora 1 release, with about 70 installations currently in progress. Development work on Aurora 2 is underway and this will see the launch of a new product designed to support service and maintenance organizations. Realistically, we should not expect to see strong growth from System21, as there are comparatively few new customer sales to be won, but there is a steady level of upgrades and incremental licence sales to be realized.

The Expense Management product line (formerly Extensity) seems to be expanding, in its hosted incarnation, but the overall progress of the license version of the product looks to be modest – primarily because this is a highly competitive market. However, the trend towards outsourcing of non-core functions, particularly financial administration, is lifting the level of interest in managing employee expenses more carefully and giving this task to specialist suppliers. Geac has partnered with a number of other organizations to deliver this service and we anticipate steady progress with this application. We note that the specialist Anael accounting and human resources management product for the French market has doubled its installed base of hosted users over the past twelve months, confirming the trend towards outsourcing.

The management team is in the process of upgrading the sales force to sell solutions rather than products and for its sales personnel to be capable of selling multiple product lines. This will be a gradual transformation, but Geac is recruiting from the ranks of its competitors for the Performance product line. This is very good news and will lead to stronger results for this product group, although these results may be hard to discern from the overall financial performance.

The company's management is cognizant of the issue it faces, namely how to generate organic sales growth, preferably from greater software license sales. Attempts to generate higher sales are counter-balanced by the continuing and irresistible decline in support and maintenance revenues. It is thus impossible to make a material impact on Geac's sales, or drive earnings per share higher without an acquisition. On the other hand most of the likely acquisition candidates are too expensive and therefore unlikely to generate an acceptable rate of return on the investment. Thus the company is forced to play a waiting game. We would rather that Geac wait and make the right acquisition than feel forced to make the first available one.

We are maintaining our current BUY recommendation and target price of US\$10, but caution that the transformation from the current level of 'stability' to growth may be more than a year away.

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