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GEAC Computer

All Systems Go For Undervalued Stock
BUY
Reason for Report: Q4FY04 Results Analysis; Earnings Revisions

Volatility Risk:
HIGH
Price: C\$9.12 / US\$6.69

12-Month Price Objective: C\$11.00/US\$8.24

Date Established: 05-Mar-2004

Estimates (Apr)	2003A	2004A	2005E
EPS:	NA	0.66	0.79
P/E:	NM	10.1x	8.5x
EPS Change (YoY):		NM	19.7%
Cash Flow/Share:	NA	0.75	1.31
Price/Cash Flow:	NM	8.9x	5.1x
Gross Dividend:	Nil	Nil	Nil
Gross Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	C-1-9
Mkt. Value / Shares Outstanding (mn):	US\$569.8 / 85
Book Value/Share (Apr-2004):	US\$1.60
Price/Book Ratio:	4.2x
Total Debt / Capital:	3.5%
Est. 5 Year EPS Growth:	10.0%

Stock Data

52-Week Range:	\$6.86-\$3.22
Symbol / Exchange:	YGAC / Toronto
Bloomberg / Reuters:	/
Exchange Rate:	USD1.0000/USD
Free Float:	NA

All figures are in local currency (U.S. dollar) except where otherwise noted.

Highlights:

- Positive EPS Surprise.** Geac reported revenue of \$116.1mm, slightly below our aggressive \$118.3mm estimate; but in-line with a consensus average of \$116.2mm. Most surprising was the headline EPS (diluted) of \$0.26, well ahead of our \$0.16 estimate (and a consensus average of \$0.14).
- Regaining Credibility ~ Valuation Could Be Next.** Importantly, we believe that as more investors return to this storied name, this turnaround story will garner a closer comparison to its peer group. While we have no expectations that the stock will move into the average P/E range in the mid 20s for the group, we expect that the stock will see a meaningful expansion in valuation from its current (FY05E) 8.5x P/E.
- Not Just Earnings – Look At The Cash.** We note the Company was able to generate close to \$67mm in operating cash flow in 2004 or close to \$60mm in free cash flow before acquisitions.
- Reiterate BUY.** We reiterate our BUY rating and 12-month price objective of C\$11.00 based on our DCF. While YGAC's discounted valuation continues to reflect its storied history and uncertainty with respect to its turnaround strategy, this quarter's results confirms our view that the cross-selling efforts are well underway, particularly in performance management.

Merrill Lynch Estimates: Geac (YGAC)

Period	EPS		Sales	Sales
	Current	Previous	Current (mm)	Previous (mm)
Q4FY04A (Reported)	\$0.26	\$0.16	\$116.1	\$118.3
Q1FY05E	\$0.18	\$0.15	\$115.8	\$115.6
FY2005E	\$0.79	\$0.69	\$471.1	\$474.4
CY2004E	\$0.83	\$0.65	\$469.5	\$470.9

Source: Merrill Lynch, Company Reports

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Refer to important disclosures on page 5. Analyst Certification on page 3.

Continued Momentum

Geac reported continued momentum in its Q4FY04 results. Revenue of \$116.1mm was slightly below our aggressive \$118.3mm estimate; but was in-line with a consensus average of \$116.2mm. Most surprising was the headline EPS (diluted) of \$0.26, well ahead of our \$0.16 estimate (and a consensus average of \$0.14).

While the positive headline EPS will undoubtedly draw attention, it is important to note that some of the upside came from what **could** be characterized as one-off items (restructuring reversal, lower effective tax rate). Yet, we also note that while the Company benefited from these items, EPS was (negatively) impacted by a stock option expense that began this quarter. **Overall, we believe some of these items (lower effective tax rate and stock option expense) will be recurring and as such, we assess them as continuing items. However, we highlight their individual impact in Table 1 for discussion purposes.** With respect to the effective tax rates, the Company implied that the current effective rate would be indicative of the rate going forward as improved profitability allows the Company to utilize various tax pools. With respect to the stock option expense, the Company has adopted the expensing of stock options on a prospective basis.

Table 1: What May Be Viewed As One-Offs

EPS (Reported)	\$0.26
Reversal of Restructuring Charge	(\$0.02)
Impact of Lower Effective Tax Rate*	(\$0.07)
Impact of Stocking Option Expensing	\$0.02
EPS (Ex-One Offs)	\$0.19

Source: Merrill Lynch, Geac, * versus ML FY04 effective tax rate was 28.3%

It should be noted that while the Company results were released today, some aspects of the release/call would have it being on the cusp of a (positive) pre-release given the absence of some data points. We expect some of the absent information (ie. discussion of attrition rates) needed for a full analysis will follow with the Company’s MD&A. In the interim, we believe Geac continues to make significant strides into transforming itself from a caretaker of a declining maintenance revenue stream to a Company that is beginning to resemble a traditional software vendor. To this point, we continue to believe that both revenue and EPS have troughed. **More importantly, we believe that as more investors return to this storied name, this turnaround story will garner a closer comparison to its peer group of enterprise software vendors.** While we have no expectations that the stock will move into the average P/E range in the mid 20s for the group, we fully expect that the stock will see a meaningful expansion in valuation from its current (forward FY05) 8.5x P/E.

We reiterate both our BUY rating and 12-month price objective of C\$11.00 based on our DCF. While YGAC’s discounted valuation continues to reflect its storied history

and uncertainty with respect to its turnaround strategy, this quarter’s results confirms our view that the cross-selling efforts are well underway, particularly in performance management. Additionally, the Company is adding a number of new customers beyond the installed base.

What’s Important Here?

Executing on Two-Pronged Strategy. Our view has been that Geac was embarking on a strategy to (1) develop its existing products and (2) sell acquired technologies into its installed base. **While we saw evidence that the Company was seeing early execution of this last quarter, the continued momentum in execution on both is increasing our confidence in the Company’s turnaround.** In our opinion, the performance management products acquired from Comshare, led this quarter’s performance. In our view, there are expectations that the pipeline is building with larger deals as the Company broadens its product portfolio by integrating performance management into other product lines.

Cost Controls Show Through. We noted in prior reports that the Company had been focussing on cost controls as a vehicle for earnings growth. We have estimated that for every 1% change in operating costs (as a percentage of revenue), the Company would see an EPS impact of \$0.05. For the quarter, we saw an overall improvement in operating margin to about 19.6% versus our estimate of 17.2%. While much of this came through in the form of product mix (net impact in gross margins), the Company also saw savings in development costs. **Overall, the Company indicated that cost controls would continue to be a main focus going into its FY05.** In our view, we believe the current cost structure will allow for significant earnings leverage should the Company start to convert its robust pipeline into signed deals.

Bonus In Legacy Businesses. While much of our attention has surrounded Geac’s two key initiatives (updated and new applications), we note that it has also seen gains in its legacy businesses which were once deemed to be dying segments. Most notable have been with respect to the Company’s libraries business which saw a ~45% sequential increase in license revenue. Moreover, we believe the aforementioned cost controls has also allowed the Company to make profitable what were formerly unprofitable businesses in its ISA segment.

Don’t Overlook Cash Flow. While we have been impressed with the progress on earnings, Geac has managed to show remarkable cash flow generation during its transition. While we underscore the Company’s seasonality with respect to revenue, earnings, and cash flow, **we note Geac was able to generate close to \$67mm in operating cash flow in 2004 or close to \$60mm in free cash flow before acquisitions.** With less than \$5mm in debt (debt/total capital 3.5%) and a \$50mm LOC, we believe the Company continues to maintain the flexibility required to finance its continued acquisition plans. **We**

(Continued)

believe Geac will acquire another overlay into its existing applications within the next 6-12 months.

Quarterly Financial Highlights

Geac reported \$116mm in revenue, up 13.2% year-over-year and down (0.1%) sequentially. Software license contributed \$18.4mm in revenue, down (1.5%) sequentially and up 15.4% year-over-year. Support and services contributed \$93.5mm, up 4.4% sequentially and up 15.2% year-over-year. **We estimate that Comshare and Extensity contributed \$6mm to license sales, up from ~\$5.2mm last quarter.** Geac's largest deal was ~\$900k. The Company signed 22 deals over \$150k. Net income for the quarter was \$22.6mm, the highest in 3-years, up from a (\$2.3mm) net loss year-over-year. DSOs according to our calculations was 39 days, down sequentially from 50 days last quarter and 49 days a year ago. Cash and equivalents were \$112.6mm (\$1.32/share) up from \$79mm last quarter.

Valuation and Recommendation

We reiterate both our BUY rating and 12-month price objective of C\$11.00 based on our DCF valuation. In our opinion, there continues to be a favourable risk-to-reward ratio for investors. Risks include the ability to successfully integrate acquisitions, execution on product development and the market demand for technology.

Analyst Certification

I, Richard Tse, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

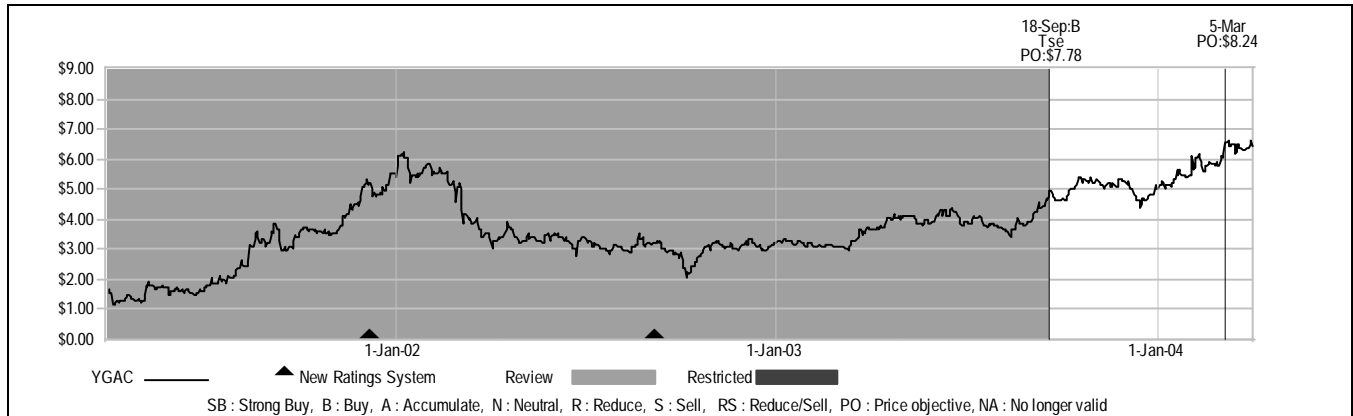
Table 2: Geac – Earnings Model

	2003(A) Full Year	Jul-03 1Q (A)	Oct-03 2Q (A)	Jan-04 3Q (A)	Apr-04 4Q (A)	2004(A) Full Year	Jul-04 1Q (E)	Oct-04 2Q (E)	Jan-05 3Q (E)	Apr-05 4Q (E)	2005(E) Full Year
Software	49,380.0	12,849.0	15,282.0	18,672.0	18,387.0	65,190.0	18,117.1	18,796.9	21,659.5	20,961.2	79,534.7
% of Revenues	12.1%	12.7%	13.7%	16.1%	15.8%	14.6%	15.6%	16.1%	17.9%	17.8%	16.9%
Support and Services	328,472.0	82,452.0	89,459.0	89,591.0	93,517.0	355,019.0	91,521.7	91,248.2	91,382.8	92,581.8	366,734.6
% of Revenues	80.4%	81.2%	80.3%	77.1%	80.5%	79.7%	79.0%	78.2%	75.6%	78.7%	77.8%
Hardware	30,625.0	6,224.0	6,726.0	7,912.0	4,201.0	25,063.0	6,161.8	6,658.7	7,832.9	4,159.0	24,812.4
% of Revenues	7.5%	6.1%	6.0%	6.8%	3.6%	5.6%	5.3%	5.7%	6.5%	3.5%	5.3%
Total Revenue	408,477.0	101,525.0	111,467.0	116,175.0	116,105.0	445,272.0	115,800.6	116,703.8	120,875.2	117,702.0	471,081.6
Total Cost of Revenues	169,042.0	40,836.0	45,142.0	45,863.0	43,255.0	175,096.0	44,935.5	45,327.3	46,724.0	44,009.0	180,995.8
% Of Revenues	41.4%	40.2%	40.5%	39.5%	37.3%	39.3%	38.8%	38.8%	38.7%	37.4%	38.4%
Gross Profit	239,435.0	60,689.0	66,325.0	70,312.0	72,850.0	270,176.0	70,865.1	71,376.5	74,151.2	73,693.0	290,085.7
Gross Margin	58.6%	59.8%	59.5%	60.5%	62.7%	60.7%	61.2%	61.2%	61.3%	62.6%	61.6%
Product Development	51,905.0	13,298.0	15,368.0	15,561.0	14,578.0	58,805.0	14,475.1	14,588.0	14,505.0	14,712.8	58,280.8
% of Revenues	12.7%	13.1%	13.8%	13.4%	12.6%	13.2%	12.5%	12.5%	12.0%	12.5%	12.4%
Sales & Marketing	58,730.0	16,139.0	19,850.0	18,683.0	19,379.0	74,051.0	18,528.1	18,672.6	19,340.0	17,655.3	74,196.0
% of Revenues	14.4%	15.9%	17.8%	16.1%	16.7%	16.6%	16.0%	16.0%	16.0%	15.0%	15.8%
General & Administrative	58,420.0	16,390.0	15,494.0	15,479.0	15,411.0	62,774.0	15,633.1	15,755.0	15,713.8	15,301.3	62,403.1
% of Revenues	14.3%	16.1%	13.9%	13.3%	13.3%	14.1%	13.5%	13.5%	13.0%	13.0%	13.2%
Amortization of Goodwill	11,509.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of Intangibles	1,085.0	776.0	2,255.0	2,333.0	2,225.0	7,589.0	2,225.0	2,225.0	2,225.0	2,225.0	8,900.0
Restructuring costs/Other	3,603.0	(115.0)	(2,692.0)	(948.0)	(1,526.0)	(5,281.0)	0.0	0.0	0.0	0.0	0.0
Total Operating Expenses	185,252.0	46,488.0	50,275.0	51,108.0	50,067.0	197,938.0	50,861.2	51,240.6	51,783.8	49,894.3	203,780.0
Operating Income (Loss)	54,183.0	14,201.0	16,050.0	19,204.0	22,783.0	72,238.0	20,003.9	20,135.9	22,367.3	23,798.7	86,305.8
Operating Margin	13.3%	14.0%	14.4%	16.5%	19.6%	16.2%	17.3%	17.3%	18.5%	20.2%	18.3%
Other Income (Expense)	(969.0)	(99.0)	(497.0)	(1,112.0)	310.0	(1,398.0)	310.0	310.0	310.0	310.0	1,240.0
Pretax Income	53,214.0	14,102.0	15,553.0	18,092.0	23,093.0	70,840.0	20,313.9	20,445.9	22,677.3	24,108.7	87,545.8
Pretax Margin	13.0%	13.9%	14.0%	15.6%	19.9%	15.9%	17.5%	17.5%	18.8%	20.5%	18.6%
Income Taxes	(21,343.0)	(4,695.0)	(4,807.0)	(3,655.0)	(517.0)	(13,674.0)	(4,062.8)	(4,089.2)	(4,535.5)	(4,821.7)	(17,509.2)
Tax rate	40.1%	33.3%	30.9%	20.2%	2.2%	19.3%	20.0%	20.0%	20.0%	20.0%	20.0%
Net Income	\$31,871.0	\$9,407.0	\$10,746.0	14,437.0	22,576.0	57,165.8	\$16,251.1	16,357	18,142	\$19,286.9	70,036.4
Net Margin	7.8%	9.3%	9.6%	12.4%	19.4%	12.8%	14.0%	14.0%	15.0%	16.4%	14.9%
EPS (FD) - Reported	\$0.39	\$0.11	\$0.13	\$0.17	\$0.26	\$0.66	\$0.18	\$0.19	\$0.21	\$0.22	\$0.79
Average Shares	81,695.0	85,133.0	85,544.0	86,389.0	87,866.0	86,233.0	87,971.0	88,076.0	88,181.0	88,286.0	88,128.5
Year/Year Growth											
Software	-7.5%	45.8%	25.6%	49.9%	15.4%	32.0%	41.0%	23.0%	16.0%	14.0%	22.0%
Support and Services	-11.4%	-1.0%	8.3%	10.1%	15.2%	8.1%	11.0%	2.0%	2.0%	-1.0%	3.3%
Hardware	-7.5%	-33.1%	-6.0%	-9.4%	-22.7%	-18.2%	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Total Revenue	-10.7%	0.2%	9.3%	13.2%	13.2%	9.0%	14.1%	4.7%	4.0%	1.4%	5.8%
Gross Profit	-3.8%	10.4%	12.6%	18.7%	9.9%	12.8%	16.8%	7.6%	5.5%	1.2%	7.4%
Net Income	-5.6%	-16.5%	-13.5%	12.7%	N/M	79.4%	72.8%	52.2%	25.7%	-14.6%	22.5%
EPS - Reported (FD)	-12.5%	-21.1%	-18.8%	6.5%	N/M	69.9%	67.2%	47.8%	23.1%	-15.0%	19.9%
Average Shares	7.8%	5.8%	6.6%	5.8%	4.1%	5.6%	3.3%	3.0%	2.1%	0.5%	2.2%
Sequential Growth											
Software	N/M	-19.4%	18.9%	22.2%	-1.5%	N/M	-1.5%	3.8%	15.2%	-3.2%	N/M
Support and Services	N/M	1.5%	8.5%	0.1%	4.4%	N/M	-2.1%	-0.3%	0.1%	1.3%	N/M
Hardware	N/M	14.5%	8.1%	17.6%	-46.9%	N/M	46.7%	8.1%	17.6%	-46.9%	N/M
Total Revenue	N/M	-1.0%	9.8%	4.2%	-0.1%	N/M	-0.3%	0.8%	3.6%	-2.6%	N/M
Gross Profit	N/M	-8.4%	9.3%	6.0%	3.6%	N/M	-2.7%	0.7%	3.9%	-0.6%	N/M
Net Income	N/M	N/M	14.2%	34.3%	56.4%	N/M	-28.0%	0.6%	10.9%	6.3%	N/M
EPS - Reported (FD)	N/M	N/M	13.7%	33.0%	53.7%	N/M	-28.1%	0.5%	10.8%	6.2%	N/M
Average Shares	N/M	0.9%	0.5%	1.0%	1.7%	N/M	0.1%	0.1%	0.1%	0.1%	N/M

Source: Merrill Lynch, Company Reports

Important Disclosures

YGAC Price Chart



Prior to 8 Dec. 2001, the Investment Opinion System included: Buy, Accumulate, Neutral, Reduce and Sell. From 8 Dec. 2001 to 6 Sep. 2002, the Investment Opinion System included: Strong Buy, Buy, Neutral, and Reduce/Sell. On 8 Dec. 2001 Buy ratings became Strong Buy, Accumulate became Buy, and Reduce and Sell became Reduce/Sell. On 6 Sep. 2002, Strong Buy and Buy ratings became Buy, and Reduce/Sell became Sell. Any exceptions to these rating revisions are reflected in the chart. All price objectives for Neutral and Sell rated securities established before 6 Sep. 2002 were eliminated as of that date. The current Investment Opinion System is contained at the end of the report. Dark Grey shading indicates security is restricted with the opinion suspended. Light Grey shading indicates security is under review with the opinion withdrawn.

Investment Rating Distribution: Technology Group (as of 31 March 2004)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	109	47.60%	Buy	27	24.77%
Neutral	107	46.72%	Neutral	19	17.76%
Sell	13	5.68%	Sell	2	15.38%

Investment Rating Distribution: Global Group (as of 31 March 2004)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1085	44.03%	Buy	362	33.36%
Neutral	1215	49.31%	Neutral	306	25.19%
Sell	164	6.66%	Sell	28	17.07%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months.

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