

# GEAC

**August 23, 2005**

**“You always need a dramatic pause before the Crescendo”, however....**

*All values in US\$ unless otherwise noted.*

Symbol: GAC, GEAC  
 Exchanges: TSX, NASDAQ  
 Current Price: C\$12.14, US\$9.98  
 1-Year Target: US\$11.50  
 Target Return: 15%

## BUY

### Industry:

Software and IT Services

### Company Description:

Geac is a global enterprise software company providing customers worldwide with the core financial and operational solutions and services to improve their business performance in real time.

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**Crescendo Partners issued an information circular outlining its concerns that Geac will overpay for an acquisition, and it is advocating hiring an advisor to explore various options for Geac.** Crescendo, which recently acquired 5.01% of Geac’s common shares, is proposing an alternate board. It includes six current Geac board members along with Crescendo CEO Eric Rosenfeld and former Changepoint CEO Gerry Smith.

**We believe Mr. Rosenfeld could be a valuable addition to the board given his significant experience with public software companies.** However, we also believe that Geac should follow its Corporate Governance and Nominating policies and conduct proper due diligence on both new candidates before setting forth a potential new slate.

**We agree that there is further potential upside in Geac’s shares** (as evidenced by our lone Buy recommendation on the street) as the company continues to have several opportunities in a consolidating sector – both as an acquirer and potential target. Its large cash position and steady free cash flow put it in a strong position.

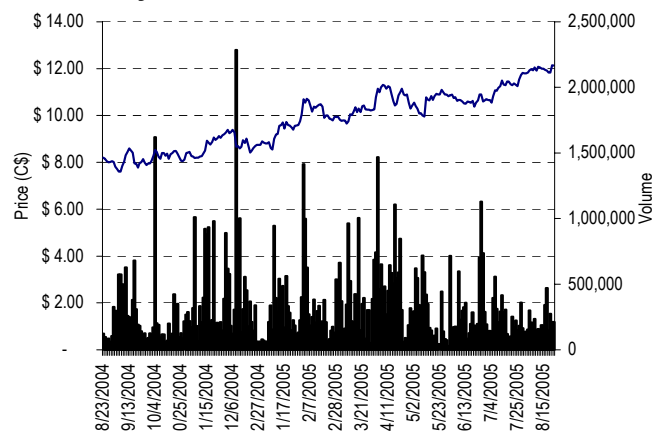
**We believe that Geac’s current management and board have done a good job building shareholder value** - the primary evidence being a 134% increase in the stock price since August 2003, when the majority of the new management team joined the company. The Crescendo proxy truncates the company’s share price performance at the end of April 2004 (leaving out the most recent fiscal year), and thereby significantly understates management’s ability to generate shareholder value.

## Financial Summary

Shares Out (mlns)	85.6	52-Week Range	C\$7.60 - C\$12.14	
Market Cap (US\$m)	\$854.6	Avg. Weekly Volume	1,603,305	
Market Float (US\$m)	\$85.9	Fiscal Year End	30-Apr	
<b>US\$</b>	<b>2003A</b>	<b>2004A</b>	<b>2005A</b>	<b>2006E</b>
Revenue (US\$m)	\$405.3	\$445.3	\$444.4	\$443.4
Revenue per share	4.76	5.20	5.17	5.14
EBITDA per share	1.01	0.97	1.12	0.92
EPS - diluted	0.39	0.67	0.87	0.68
<b>Adjusted EPS, diluted*</b>	<b>0.59</b>	<b>0.69</b>	<b>0.94</b>	<b>0.77</b>
Free cash flow per share	0.34	0.75	0.89	0.60
Price / Revenue	2.1	1.9	1.9	1.9
<b>EV / EBITDA</b>	<b>8.0</b>	<b>8.3</b>	<b>7.2</b>	<b>8.8</b>
<b>Price / Earnings</b>	<b>16.9</b>	<b>14.4</b>	<b>10.7</b>	<b>12.9</b>
FCF Yield	3%	7%	9.0%	6.1%

\* Adjusted EPS excludes amortization of intangibles and restructuring.

## Price History



Source: Bloomberg

**Sales/Trading — Montreal:** (514) 845-8111, (800) 465-5616; **Toronto:** (416) 363-5757, (866) 442-4485

See disclosure and a description of our recommendation structure at the end of this report.

## ISSUES TO BE CONSIDERED

### *Acquisition strategy*

**We agree with Crescendo's negative view concerning the company's JBA Holdings acquisition of July 1999.** However, we note this acquisition was made under a former management team as well as a largely different board. The large majority of Geac's senior-most 14 managers have joined the company post this acquisition and six of the eight directors also have joined post-JBA.

**We would consider the more recent acquisitions** (i.e. Extensity and Comshare) and the performance of the company since the majority of new managers and directors have joined the company. The smaller of the two (Extensity) has struggled, but has not been a significant financial failure nor did the company pay a high multiple for it. On the other hand, Comshare has been a solid performer and has certainly added value for Geac's shareholders.

**Mr. Rosenfeld also points out Geac's new willingness to pay higher multiples.** We believe there are still opportunities to acquire companies that are accretive in the short term and have a reasonable cash payback period (i.e. 5 years or less). Just because the *average* revenue, EBITDA and/or EPS multiples are "high" in the software universe, it does not preclude Geac from making an accretive acquisition, which also meets our cash payback criteria.

### *Putting Geac "in play"*

**Mr. Rosenfeld may be making the point that the more prudent risk/reward strategy is to put the company "in play".** Given the recent consolidation in the Enterprise Resource Planning (ERP) and Corporate Performance Management (CPM) sectors, a case can be made that Geac is trading at multiples well below recent merger multiples. Thus, a sale of the company may be a better option in this environment.

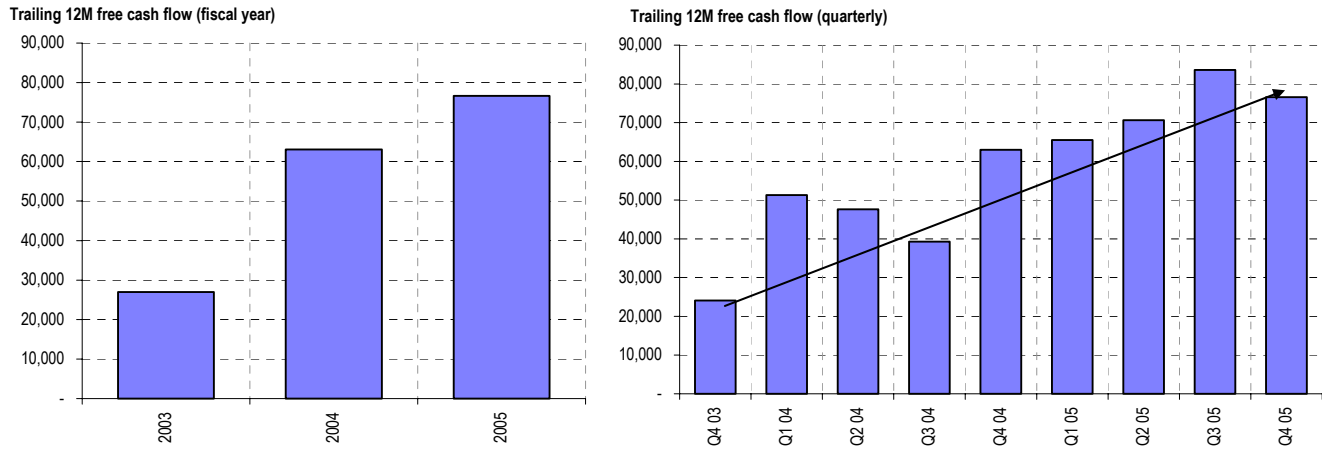
### *Measures of building shareholder value*

**We believe Geac's current board and management team has unlocked significant shareholder value - the primary evidence being a 134% increase in stock price over the last two years.** We would use metrics such as free cash flow generation, balance sheet strength, license revenue growth and maintenance renewals as proxies for the company's performance.

#### **1. Free cash flow generation**

Geac generated free cash flow of US\$27 million in F2003 – growing to US\$77 million in F2005. Exhibit 1 details this progression.

**Exhibit 1: Cash flow metrics versus expectations (\$000)**



Source: Versant Partners and Geac

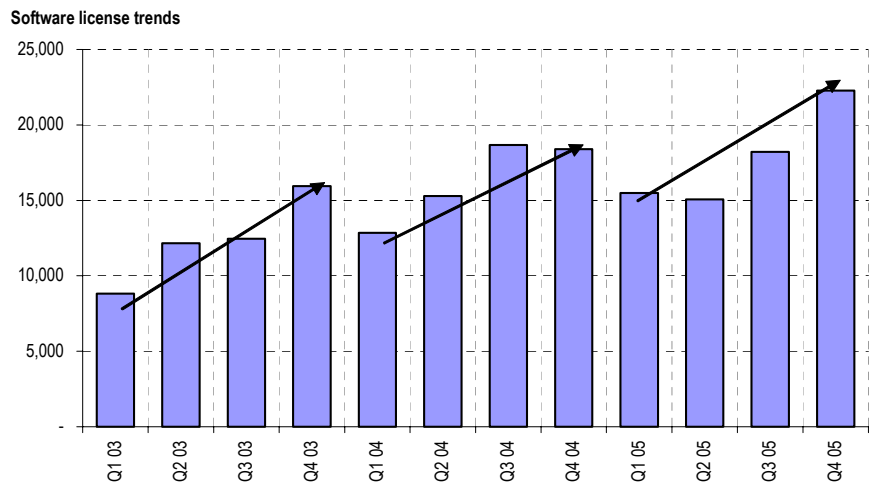
**2. Balance sheet strength**

In Q4, Geac’s cash position rose to \$188.2 million (\$2.19 per share), up 67% from \$112.6 million a year ago and \$89.8 million in Q4/F2003.

**3. License revenue growth**

In Q4, license revenue was up 21% year-over-year and 22% sequentially. This organic license revenue growth was the highest for the company in the last 5 years.

**Exhibit 2: Trends in license revenue**

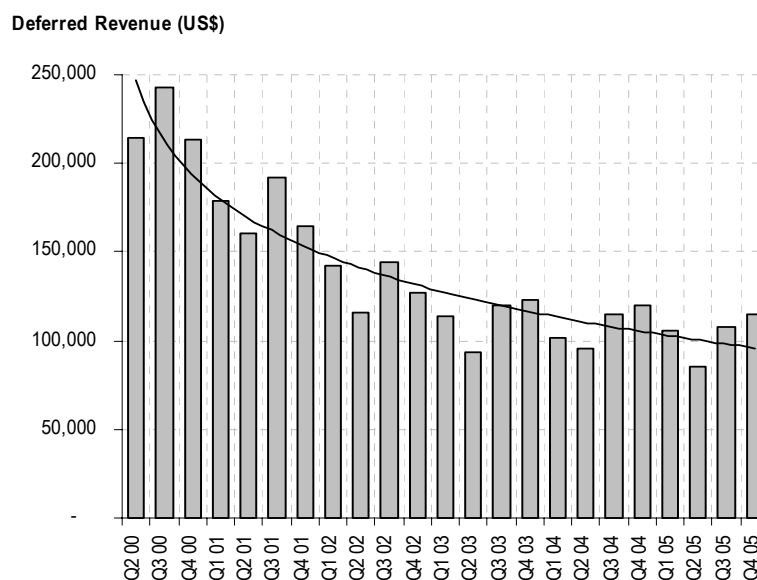


Source: Versant Partners and Geac

#### 4. Maintenance renewals

One of our main focuses continues to be the company's deferred revenue balance. Q4 proved to be a strong quarter, with deferred revenue of \$114.7 million and a maintenance renewal rate of over 90% for the period. Exhibit 3 shows the deferred revenue trend – the current management team has executed well with significant increases in the maintenance renewal rate. Deferred revenue balances serve as a proxy for maintenance renewals:

**Exhibit 3: Deferred Revenue (US\$000's)**



Source: Versant Partners and Geac

## VALUATION

**We are maintaining our Buy recommendation and our price target of US\$11.50.** In the near term, the uncertainty surrounding a potential shift in strategy may cause increased volatility in the share price. We caution that Geac's Q1 will be sequentially weaker – as per the normal seasonal patterns in the business. The company will report its Q1 before its AGM on September 13<sup>th</sup>.

Our profitability forecast is tempered by increases in the forecasted effective tax rates as well as higher G&A costs from addressing Sarbanes-Oxley requirements. Our target is based on our discounted cash flow model and also represents a multiple of 14x F2006 EPS - a deep discount to peer multiples, even within Geac's EPS growth range. With a return to organic license revenue growth, we believe the market will *at least* value Geac at half the average P/E multiple of its peer group. Key valuation metrics are outlined in Exhibit 4:

**Exhibit 4: Valuation metrics**

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Valuation metrics (based on 2005 estimates)

US\$	Price	P/Rev	EV/Rev	EV/EBITDA	P/E
Target	\$11.50	2.2	1.9	8.6	14.9
Current	\$9.98	1.9	1.6	7.2	12.9
Target (C\$)	<b>\$13.80</b>				

Source: Versant Partners

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### *Disclosures as of August 23, 2005*

Versant *has not* provided investment banking services or received investment banking related compensation from Geac within the past 24 months.

The analyst responsible for this research report *does not have*, either directly or indirectly, a long or short position in the shares or options of Geac.

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**Buy:** The stock is attractively priced relative to the company’s fundamentals and we expect it to appreciate significantly from the current price over the next 12 months.

**Speculative Buy:** The stock is attractively priced relative to the company’s fundamentals but carries an above-average level of risk.

**Hold:** The stock is fairly valued and we expect it to trade within a narrow range of the current price in the next 12 months.

**Sell:** The stock is overpriced relative to the company’s fundamentals, and we expect it to decline from the current price over the next 12 months.