

# GEAC

**November 7, 2005**

## Golden Gate Capital to acquire Geac – US\$11.10 purchase price fair; Better offer unlikely

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

Symbol: GAC, GEAC  
 Exchanges: TSX, NASDAQ  
 Current Price: C\$10.48, US\$8.77  
 1-Year Target: C\$13.06, US\$11.10  
 Target Return: 27%

### BUY / TENDER

**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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Golden Gate Capital announced this morning that it had reached an agreement with Geac Computer to acquire the company in an all-cash transaction valued at US\$11.10 per share. The parties anticipate closing in the first quarter of calendar 2006.

### HIGHLIGHTS

- **Our sum of the parts analysis implies valuations (one year out) in the range of US\$10.65 to US\$12.97 per share.** Thus, we feel Golden Gate Capital's cash bid of US\$11.10 is well supported.
- **Better offer unlikely.** Twenty-five potentially interested parties were called by Geac's advisor, while five parties went through the due diligence process. We believe a better offer is unlikely as several potential bidders are digesting large acquisitions (Lawson, Oracle, SSA Global) while others (such as SAP) are choosing to aggressively pursue the mid-market via internal investment. Thus, financial rather than strategic buyers are more likely and we believe Golden Gate's offer is unlikely to be topped.
- **Board approval is unanimous.** As well, Crescendo Partners (one of Geac's largest shareholders) has signed a voter trust agreement.
- **Break-fee of US\$25 million.** The break fee applies to both parties.
- We have increased our price target to US\$11.10 (from our one year fundamental target of US\$11.00 previously) to reflect Golden Gate's purchase price.

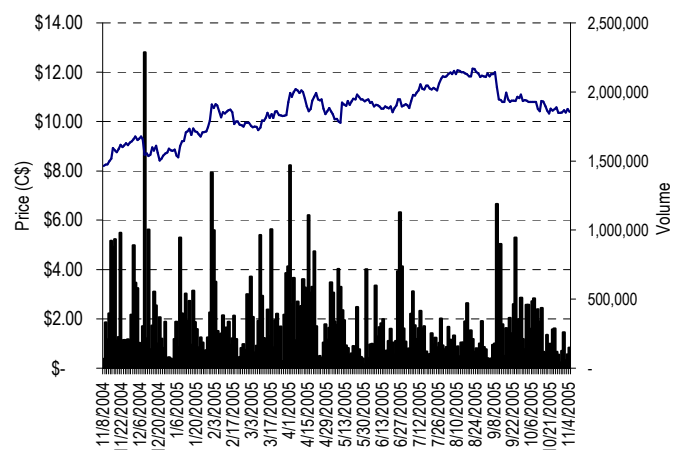
### Financial Summary

US\$	2003A	2004A	2005A	2006E
Revenue (US\$mm)	\$405.3	\$445.3	\$444.4	\$413.3
Revenue per share	4.76	5.20	5.17	4.79
EBITDA per share	1.01	0.97	1.12	0.88
EPS - diluted	0.39	0.67	0.87	0.61
<b>Adjusted EPS, diluted*</b>	<b>0.59</b>	<b>0.69</b>	<b>0.94</b>	<b>0.72</b>
Free cash flow per share	0.34	0.75	0.89	0.68
Price / Revenue	2.3	2.1	2.1	2.3
<b>EV / EBITDA</b>	<b>8.5</b>	<b>8.9</b>	<b>7.7</b>	<b>9.8</b>
<b>Price / Earnings</b>	<b>18.3</b>	<b>15.6</b>	<b>11.5</b>	<b>15.1</b>
FCF Yield	3%	7%	8.3%	6.3%

\* Adjusted EPS excludes amortization of intangibles and restructuring.

Source: Company reports and Versant Partners Inc.

### Price History



Source: Reuters

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

## VALUATION & RECOMMENDATION

We have increased our price target to US\$11.10 (from our one year fundamental target of US\$11.00 previously) to reflect Golden Gate's purchase price. Our previous one-year target was based on our discounted cash flow model and was supported by our sum of the parts valuation.

### Exhibit 1: Valuation metrics

#### Valuation metrics (based on 2006 estimates)

US\$	Price	P/Rev	EV/Rev	EV/EBITDA	P/E
Target	\$11.10	2.1	1.7	8.0	16
Current	\$8.77	1.7	1.3	5.9	12
Target (C\$)	<b>\$13.06</b>				

Source: Versant Partners

## SUM OF THE PARTS ANALYSIS SUPPORTS OFFER PRICE

As per our note of October 20, 2005, we introduced a sum of the parts valuation for Geac. Our analysis compelled us to our upgrade and Buy recommendation with a fundamental one-year price target of US\$11 at that time.

We note this valuation methodology is far from perfect as each of Geac's two main divisions are still a diverse group of product lines – each with varying growth rates and profitability levels. However, we have attempted to place reasonable multiples on the Industry Specific Applications' (ISA) and Enterprise Applications Systems' (EAS) respective portfolios of software solutions. We are using pro-forma run-rate estimates for ISA excluding the contribution of Interealty. Our cash estimate therefore includes the US\$35 million the company received from this sale.

As shown in exhibit 2, our analysis results in valuation in the range of US\$10.65 to US\$12.97 per share. The valuation range is based on our estimates for the company ending April 2006.

**Exhibit 2: Geac sum of parts valuation (US\$000)**

	Low	Mid	High
<b>Cash by Q4/F06</b>	<b>\$ 260.0</b>	<b>\$ 270.0</b>	<b>\$ 280.0</b>
EAS revenue	315.0	323.0	330.0
multiple	1.8x	2.0x	2.2x
<b>EAS valuation</b>	<b>567.0</b>	<b>646.0</b>	<b>726.0</b>
ISA revenue	57	59	61
multiple	1.4x	1.5x	1.6x
<b>ISA valuation</b>	<b>79.8</b>	<b>88.5</b>	<b>97.6</b>
Total	906.8	1004.5	1103.6
<b>Value per share US\$</b>	<b>\$ 10.65</b>	<b>\$ 11.80</b>	<b>\$ 12.97</b>
<b>Implied P/E (adjusted)</b>			
Trailing 12 months	11.6x	12.9x	14.2x
F2006	14.9x	16.5x	18.1x
<b>Median forward multiples</b>			
	<b>EPS</b>	<b>Revenue</b>	
Comparables	20.5x	2.6x	
M&A activity	40.1x	3.1x	

Source: Versant Partners

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### *Disclosures as of November 7, 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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**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.

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