

Research Report

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SUNGARD®

COMPUTER SERVICES

**NYSE:
PRICE:
TARGET** **SDS
\$22.85
\$36.00**

Investor Summary

Stock Data		Sales & Earnings		2003A	2004E	2005E
Price (08/04/2004)	\$22.85	Revenue (MM)	\$2,955	\$3,283	\$3,648	
52-Week Range	\$31.65 - 22.67	EBITDA (MM)	\$938	\$1,037	\$1,172	
Dividend Yield	0.0%	EPS (diluted)	\$1.27	\$1.34	\$1.47	
Capitalization		Value Measures				
Shares Outstanding (MM)	285.68	Price/Earnings	17.63	16.33	14.59	
Market Capitalization (MM)	\$6,527.8	Price/Sales	2.21	1.99	1.79	
Debt/Equity	0.26	Price/Book	2.80			
Projections		Growth (5 Yr.)		Historical	Projected	
12-Month Price Target	\$28.68	Earnings	18.2%	8.8%		
24-Month Price Target	\$36.00	P/E/G	0.97	1.99		
Annual Total Return	25.5%					

SunGard is an attractive buying opportunity for the following reasons:

- Stock is currently 37% undervalued using conservative growth estimates
- Leading systems provider for financial services industry
- Market leader in availability services
- All business divisions are profitable in a time of low capital investment for business systems
- Long history of adapting to new technologies and deploying cost effective systems

The factors that separate SunGard from other firms with similar profiles are:

- Low valuation ratios in comparison to industry
- Potential for improvement in return ratios
- History of increasing shareholder value through disciplined acquisition process

Areas for shareholder concern:

- Consolidation in the financial services industry could shrink the size of the market for these systems
- A major problem with a large acquisition could depress earnings for a long period
- Return on equity has dropped from 15.6% to 12.8% over the past five years

Expectations

The Investment Support Systems Division will continue to grow at rates above GDP growth. As the economic recovery continues there will be an increase in corporate spending for IT, and SunGard should see improved sales in this area. There will be high growth in both Availability Services and Higher Education and Public Sector Divisions. As firms look at ways to reduce various forms of business risk, SunGard will be able to employ its near monopoly in availability services to spur sales at a high rate. Higher education and public sector organizations will be forced to focus on improved efficiencies since they have lagged other areas of the economy. This will allow SunGard to rapidly grow this line of business. As increased revenues and improving margins contribute to solid earnings growth the stock price will adjust to the target price over time.

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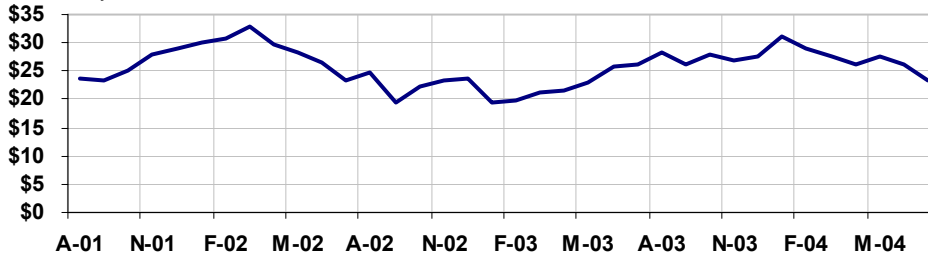
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Company Overview & History

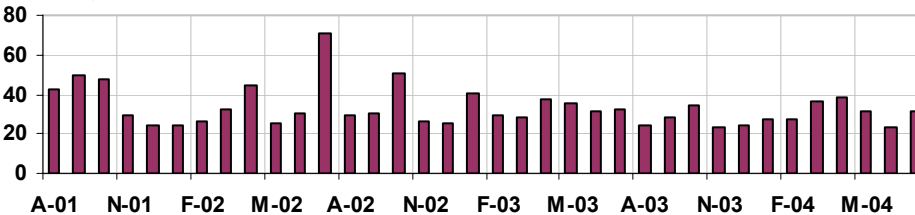
SunGard is a primarily a provider of integrated software and processing services for the financial services industry. In recent years it has expanded into providing the same services for the higher education and public sector markets. In 2001 it acquired Comdisco Corporation to nearly double its availability services business. This gave SunGard a dominant position in this line of business. SunGard has grown its business by acquiring profitable software companies that serve nearly all sectors of the financial services industry. In the past year SunGard has created a new division to focus on providing systems for higher education and the public sector.

Three-Year Historical Price Chart

SDS Monthly Close



Volume 000,000's



Investment Support Systems

This division provides software to help investment professionals manage their portfolios, execute trades, process transactions, do their accounting, and comply with regulations. Banks, insurance companies, mutual funds, and corporate treasury departments are typical SunGard customers. As increasing globalization has occurred in the financial services industry, SunGard has been able to increase the percentage of revenue from foreign markets to 25% in 2003 from 19% in 2001. This trend should continue, and it will allow SunGard to grow this division even as consolidation continues in the U.S. financial services industry.

Availability Services

In 2001 this division doubled in size with the acquisition of Comdisco. Customers pay a fixed fee to have systems available in the event of business interruption. If a business disruption is declared, they pay additional fees to utilize a business recovery site. There are already enough customers signed up to cover the fixed cost of the recovery sites to make this business profitable. It is important for SunGard to renew customer agreements each year in order to maintain profitability. In an increasingly risk conscious business environment demand for availability service should increase dramatically during the next decade. SunGard has a dominant position in this market.

Higher Education and Public Sector Systems

This division accounts for only seven percent of revenues, but it should increase its contribution over the next few years as more companies are acquired. There is little risk that the size of this market will decrease since it is unlikely that there will be a reduction in the number of eligible customers in the U.S. However, these customers should feel increasing pressure to improve productivity through system implementations. This should bode well for increasing sales of these systems.

Financial Discussion

Historical Earnings

	2003	2002	2001	2000	1999	1998	1 Yr.	5 Yr.
Revenue								
Investment Support Sys.	1,606	1,386	1,299	1,218	1,052	805	15.9%	14.8%
Availability Services	1,171	1,053	521	411	358	275	11.2%	33.6%
Education and Public Sys.	179	155	109	31	34	80	15.6%	17.6%
Total Revenues	2,955	2,593	1,929	1,661	1,445	1,160	14.0%	20.6%
- Cost of goods sold	1,292	1,102	771	655	605	475	17.3%	22.1%
Gross Profit	1,663	1,491	1,158	1,006	839	684	11.5%	19.4%
Less Operating Expense								
Sales, General, & Admin.	536	505	403	364	311	248	6.2%	16.7%
Total Depr. & Amort.	311	268	176	146	122	108	16.2%	23.6%
Product Development	195	159	172	147	131	114	22.6%	11.3%
Other Operating Expense	(3)	13	7	13	99	12	-120.3%	-173.5%
Total Operating Expenses	1,040	944	759	671	664	481	10.1%	16.6%
Total Operating Income	624	547	399	335	176	203	14.0%	25.2%
+ Other Income (Expense)	3	9	15	24	17	7	-65.3%	-15.0%
EBIT	627	556	414	359	193	210	12.7%	24.4%
- Interest Expenses	12	13	4	2	2	2	-10.9%	46.3%
Pretax Income	615	543	410	357	190	208	13.2%	24.2%
- Income Taxes	245	218	164	144	107	89	12.5%	22.3%
Net Income	370	326	246	213	84	119	13.7%	25.5%
Tax Rate	39.8%	40.1%	40.1%	40.3%	56.0%	42.9%	-0.7%	-1.5%
Dividends Paid	-	-	-	-	-	-	N/M	N/M
EBITDA	938	824	590	505	315	318	13.8%	24.2%
Shares outstanding (000's)	286	282	276	264	254	208	1.2%	6.5%
Diluted Shares outstanding	292	290	285	271	260	216	0.8%	6.2%
Earnings Per Share								
Basic	\$1.30	\$1.15	\$0.89	\$0.81	\$0.33	\$0.57	12.4%	17.8%
Diluted	\$1.27	\$1.12	\$0.86	\$0.78	\$0.32	\$0.55	12.8%	18.2%

Source: SunGard SEC Edgar Filings

Revenues have grown at a healthy 20% pace over the past five years while there has been an almost steady increase in earnings per share. With the purchase of Comdisco the Availability Services Division has shown the larger percentage gain in revenue growth over the past five years. The five year pace of earnings growth is greater than 17%. Cost of goods sold has grown at a slightly higher pace, but sales, general and administration expenses have grown at a slower pace.

Earnings Model

	2003	2004E	2005E	2006E	2007E	2008E	Forecast & Explanation	
Revenue								
Investment Support Sys.	1,606	1,766	1,943	2,137	2,351	2,586	10.0%	U.S. slows
Availability Services	1,171	1,311	1,468	1,645	1,842	2,063	12.0%	Change in focus
Education and Public Sys.	179	206	237	272	313	360	15.0%	Growth area
Total Revenues	2,955	3,283	3,648	4,054	4,506	5,009		
- Cost of goods sold	1,292	1,434	1,592	1,767	1,961	2,177	11.0%	Historical trend reversal
Gross Profit	1,663	1,849	2,056	2,287	2,545	2,832		
Less Operating Expense								
Sales, General, & Admin.	536	579	625	675	729	788	8.0%	Slows along with sales
Total Depreciation & Amort.	311	358	412	474	545	626	15.0%	Below historical growth
Product Development	195	218	244	274	307	343	12.0%	Slightly above average
Other Operating Expense	(3)	24	24	24	24	24		Historical average
Total Operating Expenses	1,040	1,179	1,305	1,447	1,604	1,781	11.4%	
Total Operating Income	624	670	751	841	940	1,051		
+ Other Income	9	9	9	9	9	9		Average from last 3 yrs.
EBIT	627	679	760	850	949	1,060		
- Interest Expenses	12	13	14	16	17	19	10.0%	Increase use of debt
Pretax Income	615	666	746	834	932	1,041		
- Income Taxes	245	266	298	334	373	416		
Net Income	370	400	447	500	559	625		
Tax Rate	40%	40%	40%	40%	40%	40%		Historical is near 40%
Dividends Paid	-	-	-	-	-	-		Historical average
EBITDA	938	1,037	1,172	1,323	1,494	1,686		
Shares outstanding (000,000's)	286	291	297	303	309	315	2.0%	Historical trend slows
Diluted Shares outstanding	292	298	304	310	316	322	2.0%	Historical trend slows
Earnings Per Share								
Basic	\$1.30	\$1.37	\$1.51	\$1.65	\$1.81	\$1.98	8.8%	5 Year Growth Rate
Diluted	\$1.27	\$1.34	\$1.47	\$1.61	\$1.77	\$1.94	8.8%	5 Year Growth Rate

Source: estimates

Earnings Forecast

The forecast growth rates for all divisions are below their rates for the past five-years. The reason for using such conservative growth rates is to determine if conservative growth assumptions will be sufficient to show that SunGard is currently undervalued. Total operating expenses are projected to grow at about the same pace as last year. This is reasonable because these expenses have historically grown at a slower pace than revenues. The forecast for five-year earnings per share growth is only half of that for the past five years.

Common Size Income Statement

	1997	1998	1999	2000	2001	2002	2003E	2004E	2005E	2006E	2007E
Revenue											
Investment Support Sys.	69%	91%	84%	67%	53%	54%	54%	53%	53%	52%	52%
Availability Services	24%	31%	28%	27%	41%	40%	40%	40%	41%	41%	41%
Education and Public Sys.	7%	3%	2%	6%	6%	6%	6%	6%	7%	7%	7%
Total Revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
- Cost of goods sold	41%	52%	45%	40%	42%	44%	44%	44%	44%	44%	43%
Gross Profit	59%	72%	70%	60%	58%	56%	56%	56%	56%	56%	57%
Less Operating Expense											
Sales, General, & Admin.	21%	27%	25%	21%	19%	18%	18%	17%	17%	16%	16%
Total Depreciation & Amort.	9%	11%	10%	9%	10%	11%	11%	11%	12%	12%	13%
Product Development	10%	11%	10%	9%	6%	7%	7%	7%	7%	7%	7%
Other Operating Expense	1%	9%	1%	0%	0%	0%	1%	1%	1%	1%	0%
Total Operating Expenses	42%	57%	46%	39%	36%	35%	36%	36%	36%	36%	36%
Total Operating Income	17%	15%	23%	21%	21%	21%	20%	21%	21%	21%	21%
+ Other Income	1%	1%	2%	1%	0%	0%	0%	0%	0%	0%	0%
EBIT	18%	17%	25%	21%	21%	21%	21%	21%	21%	21%	21%
- Interest Expenses	0%	0%	0%	0%	1%	0%	0%	0%	0%	0%	0%
Pretax Income	18%	16%	25%	21%	21%	21%	20%	20%	21%	21%	21%
- Income Taxes	8%	9%	10%	9%	8%	8%	8%	8%	8%	8%	8%
Net Income	10%	7%	15%	13%	13%	13%	12%	12%	12%	12%	12%
Tax Rate											
Dividends Paid	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
EBITDA	27%	27%	35%	31%	32%	32%	32%	32%	33%	33%	34%

Source: SunGard SEC Edgar Filings, and estimates

Product development as a percentage of revenue is an important measure for SunGard since it indicates investment to generate future revenue for the Investment Support Systems and Higher Education and Public Sector Systems Divisions. With the growth in size of Availability Services this overall percentage has declined, but 11% of revenue from Investment Support Systems and Higher Education and Public Sector Systems was spent on product development in 2003. Sales, general, and administration costs have declined steadily over the past five years, and this trend is expected to continue as management continues to integrate SunGard's many acquisitions.

Balance Sheet

	2003	2002	2001	2000	1999	1998
Current Assets						
Cash & Equivalents	431	440	396	256	287	240
Short-term or Clearing Assets	252	0	0	180	104	18
Accounts Receivables	695	567	577	416	334	277
Inventories	0	0	0	0	0	0
Deferred Income Taxes	56	48	47	17	26	21
Other Current Assets	116	81	98	43	36	28
Total Current Assets	1,551	1,135	1,118	912	787	584
Fixed Assets	593	566	545	209	183	133
Goodwill & Intangibles	2,790	1,415	1,025	447	322	228
Other Assets	69	165	211	278	273	131
Total Assets	5,002	3,282	2,898	1,845	1,565	1,075
Current Liabilities						
Short & Curr. Long-term Debt	18	18	103	6	8	9
Accounts Payable	50	60	39	21	15	15
Accrued Liabilities	393	366	255	183	160	151
Other Current Liabilities	847	427	351	185	166	136
Total Current Liabilities	1,308	871	749	395	348	312
Other Long Term Liabilities	77	0	0	0	0	0
Long-term Debt	723	188	355	8	6	3
Total Liabilities	2,108	1,059	1,104	403	354	314
Total Shareholder's Equity	2,894	2,222	1,794	1,442	1,211	761
Total Liabilities & Equity	5,002	3,282	2,898	1,845	1,565	1,075

Source: SunGard SEC Edgar Filings

Shareholder equity has been on the decline as management has increased borrowings to grow the business. This will be a cause for concern if increased earnings do not result in an increase in tangible assets during the next two years. The pace of acquisitions over the past five years has caused a dramatic increase in the amount of goodwill and intangible assets.

Common Size Balance Sheet

	2003	2002	2001	2000	1999	1998
Current Assets						
Cash & Equivalents	9%	13%	14%	14%	18%	22%
Short-term or Clearing Assets	5%	0%	0%	10%	7%	2%
Accounts Receivables	14%	17%	20%	23%	21%	26%
Inventories	0%	0%	0%	0%	0%	0%
Deferred Income Taxes	1%	1%	2%	1%	2%	2%
Other Current Assets	2%	2%	3%	2%	2%	3%
Total Current Assets	31%	35%	39%	49%	50%	54%
Fixed Assets	12%	17%	19%	11%	12%	12%
Goodwill & Intangibles	56%	43%	35%	24%	21%	21%
Other Assets	1%	5%	7%	15%	17%	12%
Total Assets	100%	100%	100%	100%	100%	100%
Current Liabilities						
Short & Curr. Long-term Debt	0%	1%	4%	0%	0%	1%
Accounts Payable	1%	2%	1%	1%	1%	1%
Accrued Liabilities	8%	11%	9%	10%	10%	14%
Other Current Liabilities	17%	13%	12%	10%	11%	13%
Total Current Liabilities	26%	27%	26%	21%	22%	29%
Other Long Term Liabilities	2%	0%	0%	0%	0%	0%
Long-term Debt	14%	6%	12%	0%	0%	0%
Total Liabilities	42%	32%	38%	22%	23%	29%
Total Shareholder's Equity	58%	68%	62%	78%	77%	71%
Total Liabilities & Equity	100%	100%	100%	100%	100%	100%

Source: SunGard SEC Edgar Filings

Statement of Cash Flows

	2003	2002	2001	2000	1999	1998
Cash Flows - Operating						
Net Income	370	326	246	213	84	119
Depreciation	311	268	176	146	122	108
Deferred Taxes	42	45	-12	10	-5	-14
Changes in Working Capital	-48	148	66	-45	-4	-5
Other Operating Activities	-30	-4	-1	1	66	19
Net Cash from Operations	645	782	476	325	263	227
Cash Flows - Investing						
Capital Expenditures	-212	-158	-142	-131	-112	-70
Other Investing Activities	-452	-236	-682	-248	-142	-13
Net Cash From Investing	-663	-394	-824	-378	-255	-83
Cash Flows - Financing						
Dividends Paid	0	0	0	0	0	0
Long-Term Debt Net	-14	-390	427	-9	-22	-11
Common Shares Purchased	0	0	0	-15	0	0
Common Shares Issued	0	0	0	0	0	0
Proceeds from stock options	72	46	62	46	41	26
Other Financing Activities	0	0	0	0	-6	0
Net Cash from Financing	58	-344	489	22	13	15
Net Change in Cash	39	43	140	-31	22	159

Source: SunGard SEC Edgar Filings

There has been a rather steady increase in positive cash flows from operations. Last year was an exception because of negative changes in working capital. This was due in large part to a reduction in accounts payable and accrued expenses for acquired businesses. Capital expenditures have also increased steadily over time. Debt has been used very judiciously and there have been no major share repurchases. SunGard does not pay a dividend.

Target Price Calculation

The value of SunGard is analyzed below using three techniques: calculated ratios, dividend discount model, and free cash flow to firm (FCFF) model. Based on the results shown below a target price of \$36.00 has been assigned. SunGard experienced slower than normal growth last year and this had a negative effect on the stock price. A rebounding economy and an expanded business should show that the company can still generate strong earnings. However, it may take up to two years for the market to adjust from the recent close of \$22.85. This would equate to a 16.4% annual increase in share price. The inputs to the discounted cash flow model were used to calculate the price/earnings, price/sales, and price/book value ratios shown below. The details of the dividend discount and FCFF models are shown on the following page. These models have nearly equal results because SunGard pays no dividend and has relatively low debt.

Calculated Ratios

Model Assumptions	High-growth Period	Stable - growth Period	Actual	2003 Diluted
Length (Years)	5		Earnings per share	\$1.27
Riskless rate	4.0%	4.0%	Book value per share	\$9.91
Market risk premium	5.5%	5.5%	Sales per share	\$10.12
Company debt spread	1.00%	1.00%		
Beta	0.91	0.91		
Expected growth rate	12.00%	8.00%	Calculated	Ratio
Tax rate	35.00%	35.00%	P/E	22.37
ROE	16%	12%	P/BV	3.58
Net Margin	12.3%	12.3%	P/S	2.75
Cost of capital	9.88%	9.88%	Dividend Discount	\$37.36
Payout ratio	25.00%	33.33%	FCFF Model	\$36.89

Dividend Discount

SunGard does not pay dividends and has not engaged in any significant stock buybacks for many years. Therefore the dividend discount is not the best option for valuating the firm. The acquisition of Comdisco and an improving global economy will provide the firm with an opportunity for a new growth spurt over the next four years. A conservative two stage model has been used to value the firm.

Overall model assumptions

- Diluted earnings per share from Earnings Model
- Expected growth rate = $(1 - \text{Payout Ratio}) * \text{Return on Equity}$
- Cost of capital will remain constant
- Firm maintain ROE

		Year	EPS	DPS	PV
High Growth Period					
Payout Ratio	0.0%	2004	\$1.34	\$0.00	\$0.00
ROE	16.0%	2005	\$1.47	\$0.00	\$0.00
Growth	16.0%	2006	\$1.61	\$0.00	\$0.00
Cost of capital	9.88%	2007	\$1.77	\$0.00	\$0.00
		2008	\$1.94	\$0.00	\$0.00
Stable Growth Period					
Payout Ratio	25.0%	2009	\$2.11	\$0.53	
ROE	12.0%				
Growth	9.0%		Terminal price	\$59.85	\$37.36
Cost of capital	9.88%				
			Value per Share		\$37.36

Free Cash Flow to Firm

A better way to calculate SunGard's value is to discount cash flows to stakeholders in the firm. In this case this gives a value that is slightly lower than the dividend discount model.

Overall model assumptions

- EBIT(1-t) from earnings model
- Expected growth rate = Reinvestment rate * Return on Capital
- Cost of capital will remain constant
- ROC nearly equals ROE because of low debt

		Year	EBIT(1-t)	FCFF	PV
High Growth Period					
Reinvestment Rate	100.0%	2004	441	-	-
Tax Rate	35.0%	2005	494	-	-
Growth	16.0%	2006	552	-	-
Cost of capital	9.9%	2007	617	-	-
		2008	890	-	-
Stable Growth Period					
Reinvestment Rate	75.0%	2009	672	168	
Tax Rate	35.0%				
Growth	9.0%		Terminal price	19,066	10,832
Cost of capital	9.9%				
			Value of Operating Assets		10,832
			+ Cash & Marketable Securities		\$683
			- Debt		(\$740)
Diluted Shares	292		Total Current Value		10,775
			Value per Share		\$36.89

Ratio Analysis

Valuation Ratios

SunGard is included in the Computer Services Industry. Except for the price to tangible book ratio all of the valuation ratios compare favorably with the industry even through there was deterioration from 2002 to 2003. Acquisitions caused the price to tangible book ratio to be exceptionally high 2003 because of a dramatic increase in goodwill and intangibles combined with an increase in short-term liabilities and long-term debt.

	1998	1999	2000	2001	2002	2003		Computer Services	
Valuation Ratios									
P/E Ratio	36.06	36.91	30.04	33.52	20.96	21.86	▲	23.81	▼
Price to Sales	3.70	2.14	3.85	4.28	2.63	2.74	▲	5.80	▼
Price to Book	5.64	2.55	4.43	4.60	3.07	2.80	▼	5.90	▼
Price to Tangible Book	8.05	3.48	6.43	10.72	8.45	77.18	▲	14.48	▲
Price to Cash Flow	18.91	15.03	17.82	19.55	11.49	11.87	▲	29.46	▼
Price to Free Cash Flow	-78.35	-72.25	34.10	-37.90	13.58	12.97	▼	43.68	▼

Source: Company data is from SunGard SEC Edgar Filings , and industry data is from Reuters

Arrow direction indicates how current year relates to prior year or industry sector. Green arrows indicate a positive condition.

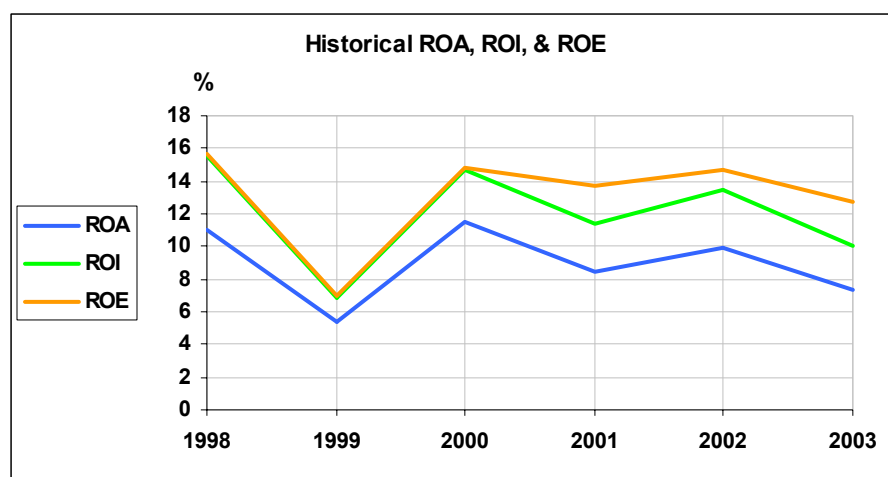
Management Performance

Return ratios have deteriorated over the years, but are generally in line with or slightly better than industry averages. Revenue and net income per employee have been steadily increasing. A major challenge for SunGard management in the next few years is to improve return on equity back to at least 14%.

	1998	1999	2000	2001	2002	2003		Computer Services	
Management Effectiveness									
Return on Assets	11.06	5.36	11.54	8.49	9.92	7.40	▼	5.71	▲
Return on Investment	15.57	6.89	14.68	11.45	13.51	10.03	▼	9.63	▲
Return on Equity	15.63	6.92	14.76	13.72	14.65	12.79	▼	13.15	▼
Efficiency Ratios									
Revenue/Employee (\$000)	0.22	0.21	0.21	0.22	0.29	0.30	▲	0.30	▼
Net Income/Employee (\$000)	0.02	0.01	0.03	0.03	0.04	0.04	▲	0.04	▲
Receivable Turnover	4.84	4.73	4.43	3.88	4.53	4.68	▲	7.03	▼
Inventory Turnover	N/M	N/M	N/M	N/M	N/M	N/M	N/M	9.32	N/M
Asset Turnover	1.25	1.09	0.97	0.81	0.84	0.71	▼	0.68	▲

Source: Company data is from SunGard SEC Edgar Filings , and industry data is from Reuters

Arrow Direction indicates how current year relates to prior year or industry sector. Green arrows indicate a positive condition.



Dupont Analysis of ROE

ROE dropped to 12.8% in 2003 and has usually been higher. The tax burden in has remained nearly steady for the past for years. Interest burden has also remained steady because off low interest expenses. Operating margin has also remained steady for the past fours years. The big change has been a reduction is asset turnover accompanied by an increase in leverage. This is due to the dramatic increase in assets through acquisition while equity did not increase nearly as much.

	Ratio	1998	1999	2000	2001	2002	2003
Tax Burden	Net income/Pretax Income	0.571	0.440	0.597	0.599	0.599	0.602
Interest Burden	x (Pretax Income/ EBIT)	0.992	0.988	0.994	0.991	0.977	0.981
Operating Margin	x (EBIT/Sales)	0.181	0.133	0.216	0.215	0.215	0.212
Asset Turnover	x (Sales/Assets)	1.079	0.923	0.900	0.665	0.790	0.591
Leverage	x (Assets/Equity)	1.413	1.292	1.279	1.616	1.477	1.728
= ROE		15.6%	6.9%	14.8%	13.7%	14.7%	12.8%

Financial Condition

SunGard has increased debt and reduced equity through stock buybacks. Even though quick and current ratios have declined they are still above industry averages. Total debt to equity and interest coverage ratios are cause for concern and need to improve in future periods

	1998	1999	2000	2001	2002	2003		Computer Services
Financial Condition								
Quick Ratio	1.88	2.26	2.31	1.49	1.30	1.19	▼	1.81 ▼
Current Ratio	1.88	2.26	2.31	1.49	1.30	1.19	▼	2.07 ▼
LT Debt Equity	0.00	0.00	0.01	0.20	0.08	0.25	▲	0.35 ▼
Total Debt to Equity	0.02	0.01	0.01	0.26	0.09	0.26	▲	0.44 ▼
Interest Coverage	120.60	83.06	160.20	113.74	42.56	53.79	▲	14.58 ▲

Source: Company data is from SunGard SEC Edgar Filings , and industry data is from Reuters

Arrow Direction indicates how current year relates to prior year or industry sector. Green arrows indicate a positive condition.

Profits and Dividends

All profitability ratios are better than industry averages even though they declined last year. Dividend ratios do not apply to SunGard since they have not historically paid a dividend.

	1998	1999	2000	2001	2002	2003		Computer Services
Profitability Ratios								
Gross Profit Margin	59.01	58.11	60.58	60.04	57.51	56.28	▼	47.65 ▲
EBITD Margin	27.40	21.79	30.41	30.59	31.79	31.75	▼	20.22 ▲
Operating Margin	18.10	13.35	21.62	21.47	21.45	21.21	▼	15.10 ▲
Pre-Tax Margin	17.95	13.18	21.48	21.28	20.95	20.81	▼	14.31 ▲
Net Profit Margin	10.26	5.80	12.82	12.76	12.56	12.53	▼	10.79 ▲
Dividend Ratios								
Dividend Yield	0.00	0.00	0.00	0.00	0.00	0.00	▼	0.91 ▼
Payout Ratio	0.00	0.00	0.00	0.00	0.00	0.00	▼	0.01 ▼

Source: Company data is from SunGard SEC Edgar Filings , and industry data is from Reuters

Arrow Direction indicates how current year relates to prior year or industry sector. Green arrows indicate a positive condition.

Risk Factors

	Score	Comment
Products		
Diversity	2	Diversity in product line, but all IT related (remember Y2K)
Patents & Copyrights	2	Software copyrights need to be defended
Pricing	2	Few competitors in most markets
Obsolescence	2	Mature software systems have been shown to have a long life
Suppliers	0	Not applicable
Commodity prices	0	Not applicable
Markets		
Growth	4	Software growth may be limited by financial services consolidation
Competitors	3	Few competitors for specialized software and none for recovery
Barriers to Entry	2	The reliability of mature systems is hard to duplicate
Large customers	0	Well diversified customer base across all divisions
Management		
Transparency	0	Excellent breakdown of product line data
Chairman/CEO	0	Separate positions and CEO succession was well planned
Options	0	2.10% dilution is not excessive
Directors	0	Majority independent
Compensation	2	James Mann & Cristobal Conde both under \$2,000,000
Organization		
Mergers & Acquisitions	6	SunGard is a serial acquirer
Reorganizations	0	No major reorganizations in recent history
Pension	0	None
Employee relations	0	Good
Other		
Litigation	0	No major litigation reported
Regulatory	0	No regulatory issues
Currency and finance	0	No hedging or off balance sheet activities
Political	0	Little activity in unstable countries
Total Risk Score	25	Pass

This stock is well under the risk score threshold of 40. The primary risk is that SunGard could falter in its acquisition strategy. Management needs to hold to its disciplined approach to acquisitions and not lose sight of returning value to shareholders in other ways if good acquisition candidates are no longer available. The company will also need to look for growth overseas as markets in the U.S. mature and possibly shrink.

Conclusion

SunGard is under valued using conservation growth assumptions for the next several years and beyond. Given its potential for continued growth in its diverse business lines it is an attractive investment opportunity.

Sources Used in Analysis

SunGard Annual Reports (<http://www.Sungard.com/>)
 SEC Edgar web site (<http://www.edgar-online.com>)