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RESEARCH NOTE
June 28, 2007

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BEA Systems (BEAS)
Quick Visit to BEA

Rating	**NEUTRAL**	Mkt. Cap. ($Mil)	**$5,615**
Price Target	**$12.00**	Avg. Vol.(000s)	**10,376**
Current Price	**$13.41**	Dividend Yld.	**0.00%**
FY ends 1/31	**FY07E**		**FY08E**
Sales ($ mil)	**$1,402.3**	Sales ($ mil)	**$1,496.2**
Pro Forma EPS	**$0.50**	Pro Forma EPS	**$0.49**

Source: MKM Partners, Bloomberg, Company Reports
Note: BEA has not reported financial results due to its ongoing restatement, and therefore EPS and market capitalization are estimates.

SUMMARY AND INVESTMENT CONCLUSION

After visiting BEA Systems yesterday, we remain confident that cash flow and maintenance renewals are stable. We nonetheless believe that ongoing changes within the sales organization—both domestic and international—present near-term resistance to significant share price appreciation. Takeout speculation notwithstanding, we believe the firm is fairly valued around $12.

VALUATION

We are maintaining our projections and 12-month price target of $12 at this time. We value the company based on price/cash flow, price/sales, and P/E. Our $12 target price corresponds to 3.0 times projected fiscal year (January 31) 2009 revenue, which is consistent with our comparable group comprised of SOA/infrastructure-oriented companies. The associated P/E is 22 times pro forma 2009 EPS estimate of $0.54, versus the prevailing peer group average of 24 and median of 21 forward earnings. We project operating cash flow to grow 3% this fiscal year, so our $12 price target equates to a multiple of 16.0. The peer group price/operating cash flow mean has stabilized around 18. We assigned a slightly lower multiple to reflect 1) uncertainty created by the changes in the sales organization, and 2) the lack of detailed financial results with BEA's ongoing restatement.

KEY POINTS

- **Maintenance and Cash Flow.** BEA's maintenance renewals remain at historical norms, and consequently cash flow appears generally stable. We understand operating cash flow may receive a slight boost with lower cash payment of taxes after the loss on BEA's recent land sale, and possibly due to higher stock option expense (once its restatement is completed). We view these as exogenous factors and do not expect them to have a material impact on BEA's valuation as a stand-alone public company. It may, however, prove more valuable if a private equity deal were to emerge.

- **License Revenue.** With a growing number of products sold to different buyers, we understand BEA is still evaluating various sales strategies. In the US, the company is trying to determine the most effective approach to target different constituencies within its customer base. For example, BEA sells its SOA products to CIOs, its WebLogic products to application developers, and its Guardian software to systems administrators. On the international front, it appears efforts are underway to build a reseller channel in Europe and to rebuild distribution relationships that soured in Japan. In short, there are too many moving parts within the sales unit to reasonably expect year-over-year quarterly license revenue growth this fiscal year.

MODEL

We have maintained our revenue and EPS projections as highlighted in Figure 1. We remain concerned about variability in license revenue and see our $122.6 million estimate for the July quarter and $533.7 million projection for the current fiscal year as attainable, but not necessarily conservative.

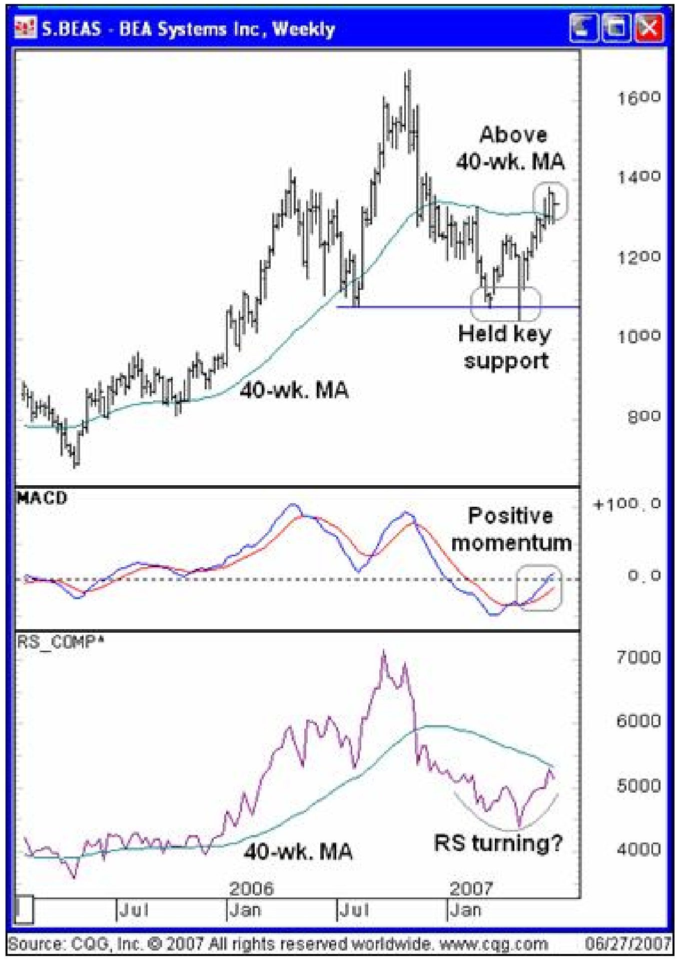
Figure 1: Projections

($ in thousands, except EPS)			**BEAS**
	Jul-07E	**FY08**	**FY09**
Revenue	$ 358,602	$1,496,207	$1,627,268
Gross Margin	NA	NA	NA
PF Op Margin	19.5%	19.8%	19.9%
PF EPS	$ 0.12	$ 0.49	$ 0.54
Source: MKM Partners			

TECHNICAL REVIEW

BEAS broke out above its 40-week (200-day) moving average this month on positive momentum. Key support at last summer's low was tested successfully in March and May, which gave way to the current rally. The MACD indicator is pointing higher in support of upside follow-through, and the nearest resistance is at $14.19 based on a gap on the chart (not visible on the accompanying picture). From a technical standpoint, we expect a pullback to emerge after a test of resistance given the steep nature of the upmove. Relative strength appears to be improving for BEAS versus the Nasdaq Composite Index (COMP), which bodes well for further outperformance.

We use technical analysis as a way to manage risk and time entries within the scope of our fundamental ratings. We are maintaining our NEUTRAL fundamental rating on BEAS shares with a 12-month target price of $12.



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