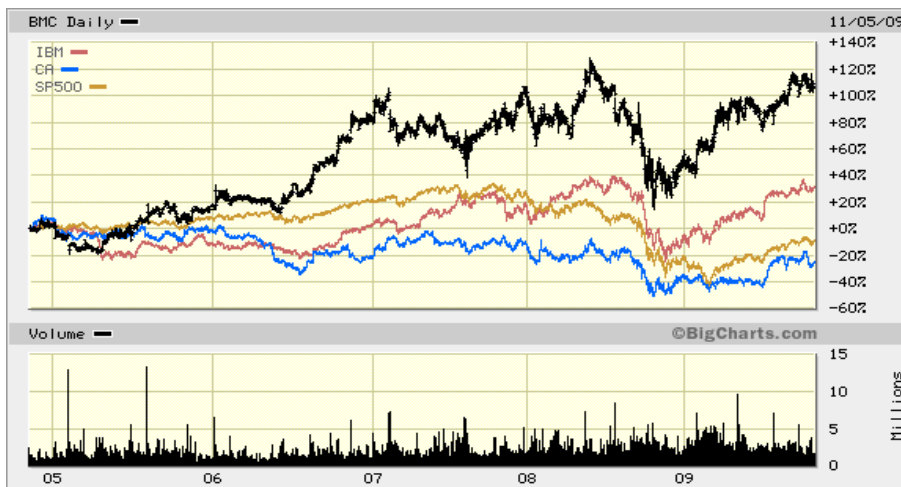


BMC Software Inc. (BMC) 11/5/09

BCM operates as an application software company that generates revenue by selling software to corporate IT departments. The software is designed to automate database and systems management processes to make them more efficient and reduce staff. In 2007 revenues were generated by three different business segments; 5.8% for consulting services, 36.1% for licensing, and 58.1% for maintenance. BCM was founded in 1980 and is headquartered in Houston, Texas.

Current Price	\$37.39
52 Week High	\$39.00
52 Week Low	\$22.03
One Yr Target	\$41.00
Market Cap (in billions)	\$6.75
P/E (Trailing)	20.42
P/E(1 Yr Forward)	14.10
P/E/G	1.03
ROA	9.32%
ROE	31.48%
EPS	\$1.83
Beta	0.74
Annualized Dividend	\$0.00
Dividend Yield	0.00%
Analyst Consensus	2.30
Debt to Equity	2.06



Annual EPS

2005	\$0.49	
2006	\$1.07	120.19%
2007	\$1.65	53.33%
2008	\$1.29	-21.65%
2009E	\$1.83	42.04%

Annual Revenue (in millions)

2005	\$1,498.40	
2006	\$1,580.40	5.47%
2007	\$1,731.60	9.57%
2008	\$1,871.90	8.10%

Annual Net Income (in millions)

2005	\$102.00	
2006	\$215.90	111.67%
2007	\$313.60	45.25%
2008	\$238.10	-24.08%

Free Cash Flows (in millions)

2005	\$330.70	
2006	\$187.70	-43.24%
2007	\$372.30	98.35%
2008	-\$299.30	-180.39%

Required Rate of Return

8.91%

Dividend Growth Model

Present Value of 2014 Price	n/a
Holding Period Return (5 years)	n/a

Expected Annualized Return Model

Present Value of 2014 Price	\$56.96
Holding Period Return (5 years)	8.51%

Residual Income Model

Intrinsic Stock Price	\$19.93
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Analysis

Positives

Great financials, has a decent P/E for a great PEG in a good sector
Expected to have a great increase in EPS for the current year

Negatives

Undervalued by the RI model and EAR model does not meet the Required Rate of Return

Financial Statements

Great Balance Sheet, good increase in Retained Earnings and very little Debt historically
Income Statement is great with growth in Revenue and a nice Gross Profit Margin
Good Cash Flows as BMC is constantly repurchasing shares

Industry Analysis

Application Software industry is large and competitive, but requires little PPE expenses
Company is mid-cap and as some of the better financial numbers in the industry

Summary

BMC's financial ratios and financial statements are all great, and it is in a sector that is seeing nice appreciation. The revenues resulting from mainframe computing are expected to remain flat, but revenues from distributed systems are expected to increase. BMC faces increasing competition from open source applications and large hardware producers (IBM, HP) who offer bundled hardware/software packages. BMC should continue to see revenues grow but net income will stall as the company repays the only debt they've had in the past 5 years. Still BMC earns a **buy** rating.