

SYLOGIST LTD.

| | |
|------------------------|------------------|
| Price (April 1, 2011) | \$2.20 |
| 52-Week Range | \$2.99-\$1.85 |
| Shares O/S | 20.19 million |
| Market Cap | \$44.42 million |
| 50-day Average Volume | 13,800 |
| 200-day Average Volume | 23,100 |
| Fiscal Year-End | September 30 |
| Symbol | TSX-V: SYZ |
| Website | www.sylogist.com |

Financial Data

| Selected Income/Cash Flow | | | |
|---------------------------|-----------|-----------|-----------|
| (CS 000; 12 months ended) | Sep-09 | Sep-10 | Dec-10 |
| Revenues | \$9,228 | \$9,693 | \$9,421 |
| Gross Profit | \$5,165 | \$6,058 | \$6,053 |
| Net Income | \$1,476 | \$3,075 | \$2,531 |
| Cash Flow (CF) from Ops | \$1,939 | \$3,447 | \$3,386 |
| Selected Balance Sheet | | | |
| | At Sep-09 | At Sep-10 | At Dec-10 |
| Cash (& Equivalents) | \$5,076 | \$14,140 | \$13,968 |
| Total Debt | \$192 | \$144 | \$133 |
| Shareholders' Equity | \$9,945 | \$18,401 | \$18,534 |
| Total Assets | \$12,719 | \$21,974 | \$24,729 |
| Working Capital | \$4,524 | \$12,657 | \$13,070 |
| Working Capital Ratio | 2.72x | 4.65x | 3.14x |
| Key Ratios | | | |
| | At Sep-09 | At Sep-10 | At Dec-10 |
| Gross Margin | 56.0% | 62.5% | 64.3% |
| Net Margin | 16.0% | 31.7% | 26.9% |
| Return on Equity (ROE) | 14.8% | 16.7% | 13.7% |
| Return on Assets (ROA) | 11.6% | 14.0% | 10.2% |
| Total Debt/Total Capital | 1.9% | 0.8% | 0.7% |
| Cash Flow/Total Debt | 10.10x | 23.94x | 25.46x |
| Earnings Per Share | \$0.09 | \$0.18 | \$0.16 |
| Cash Flow Per Share | \$0.11 | \$0.20 | \$0.22 |
| Cash Per Share | \$0.30 | \$0.70 | \$0.89 |
| Equity Per Share | \$0.59 | \$0.91 | \$1.18 |
| Multiples | | | |
| | At Sep-09 | At Sep-10 | At Dec-10 |
| Price/EPS | 8.76x | 14.01x | 14.49x |
| Price/Cash Flow | 6.57x | 14.44x | 10.83x |

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Note: Report prepared with public information only.

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PROFILE

Sylogist Ltd. ("Sylogist" or the "Company") develops, markets, and supports software solutions for both public and private sector clients, primarily in North America. The Company has two lines of business: (1) the Enterprise Systems division, named Bellamy Software; and (2) the Connectivity division.

The Enterprise Systems division, or Bellamy Software, focuses on the public sector, and municipal government and school board customers. This division accounted for approximately 86%, or \$8.3 million, of Sylogist's \$9.7 million fiscal 2010 revenue.

The Connectivity division focuses on connectivity software that integrates between large enterprise resource planning systems and a variety of packaged and custom applications. Its main customers are private sector manufacturing and inventory management companies. This division accounted for approximately 14%, or \$1.4 million, of Sylogist's \$9.7 million fiscal 2010 revenue.

The geographic break down of revenues for fiscal 2010 is as follows: (1) Canada: \$8.2 million (approximately 85%); and (2) U.S.A.: \$1.5 million (approximately 15%).

INVESTMENT CONSIDERATIONS

Strengths

- Sylogist diversifies its customer base and products by offering two main lines of business: one focusing on public sector schools boards and local governments, and the other focusing on private sector manufacturing companies.
- The Company offers both installed and hosted solutions to its clients, allowing greater flexibility in resource-allocation decisions, and benefiting those clients with limited resources.
- The Connectivity division's product Sylobridge has been certified by a world-leading software company (SAP).
- Sylogist has nearly \$14.0 million in cash and cash equivalents on hand to fund its growth strategy.
- The Company initiated a dividend in the most recent fiscal year.

Challenges

- Sylogist currently has limited market reach in both Canada and the USA.
- The Company's Connectivity division operates in a highly competitive market and requires constant investment to keep its product offering competitive.

BACKGROUND

Sylogist is a turnkey software solutions provider that has grown both organically and via acquisition. It has two main lines of business: (1) its Enterprise Systems division, named Bellamy Software; and (2) its Connectivity division.

The Enterprise Systems division, also known as Bellamy Software, develops software and implementation solutions primarily for the public sector. Its main customers are municipal governments and school districts. Bellamy's suite of products include financial, human resource, and operational management software. Bellamy delivers solutions as either an installed package or via the "Software as a Service" (SaaS) model. In the SaaS model, users typically pay a small amount monthly to access and use the software solution, usually through a web interface hosted by the Company.

The Connectivity division integrates large Enterprise Resource Planning systems (ERP) with customized or packaged software. The two main products are Syloway mobile and Sylobridge. Syloway mobile allows mobile devices to interact with large ERP's and is often used in manufacturing and inventory management. Sylobridge allows connectivity to systems, such as the leader SAP. Sylobridge is certified by SAP for data integration.

Sylogist is head-quartered in Calgary, Alberta, and also has offices in Edmonton, Alberta and Atlanta, Georgia.

Bellamy Software

Bellamy Software is the marketing name for Sylogist's Enterprise Systems division. It primarily concentrates on the public sector in the education and municipal government areas. Most of its customer base is location in western Canada. This division accounted for approximately 86%, or \$8.3 million, of Sylogist's \$9.7 million fiscal 2010 revenue.

1. Municipal Sector

Bellamy's municipal software offers a variety of solutions to streamline daily business processes. Bellamy can service both larger local governments with software installs and smaller governments with hosted solutions. Bellamy also offers disaster recovery of financial information through its Business Continuity services. Also, the Call2Order products allows easy meeting management. Bellamy has an easy-to-use user interface that is efficient in allowing users to find the information that they are looking for.

Some of the key areas where Bellamy adds value to municipalities are in financial administration, municipal service management, and citizen self-service. Financial administration, through the use of Bellamy's enterprise accounting software, can tighten financial controls and ensure compliance with internal and external reporting requirements.

Municipal services, can be automated in both the administration and operations areas which can reduce the overhead in delivering services. Using the Citizen Self-Service application, citizens can access municipal information easily over the internet.

In addition to providing the software solutions needed by local governments, Bellamy offer support and consulting services to allow it to be the main point of contact for any issues related to the product. This allows the company to reduce reliance on other vendors and/or competitors and maintain a strong relationship with its customer base. This also allows for additional revenue to be generated by leveraging off the initial install of the product.

2. Education Sector

Bellamy's software solutions for the education sector can help lessen the administrative burden for its clients and allow easier dissemination of information to key parties. The Company offers services through site installation, or through hosted service and provides support for these services. This allows smaller or less technologically savvy customers to easily access the product while keeping Bellamy as its main point of contact for its services, thus building a strong relationship.

Bellamy's Software offers a financial system that can be used to manage a school board's finances, human resources, and operations. The School Board Finance software allows processing of receipts and payments, and easy compliance with reporting requirements. Bellamy's consultants help to add initial financial information to speed up the process of system use. The payroll and HR package can handle virtually all HR activity and provides automatic notification of renewal periods as well.

Connectivity Division

Sylogist's Connectivity division is primarily focused on large Enterprise Resource Planning (ERP) systems such as SAP. SAP is the world's fourth largest software company and the gold standard for inventory and manufacturing management. It initially launched in Europe; however, SAP has become the software of choice for large-scale manufacturers in North America over the past several years. This bodes well for Sylogist as the bulk of its connectivity customers are in the USA. Two key products are used to deliver connectivity solutions: Sylobridge and Syloway mobile. This division accounted for approximately 14%, or \$1.4 million, of Sylogist's \$9.7 million fiscal 2010 revenue.

1. Sylobridge

Sylobridge communicates with SAP at the most fundamental level. Its key strength is that it allows direct access to SAP's extensive RFC library enabling functions to be called. This allows external applications to use SAP processes. SAP has certified Sylobridge as a connectivity tool, which is a great marketing feature, as customers will trust its ability to work with SAP.

This connectivity tools allows third party applications to integrate data without requiring costly and time-consuming programming changes to existing applications. Sylobridge essentially becomes a hub for data to flow through for one or multiple applications.

2. Sylogist Mobile Solutions

Remote connectivity is required for many users to update inventory and manufacturing data on the spot. Sylogist's mobile solutions allow customers to increase productivity, reduce costs and administrative overhead. Key customers are warehouse users who manage inventory via the Inventory Management Solution. Also, the Syloway and Syloway.net tools allow applications to be developed for mobile users. Sylogist mobile has over 70 customers using its mobile solutions. Currently, some major clients include Farmland (a fresh meat supplier), Vishay (a semi-conductor manufacturer), and Texas Aero (an aviation maintenance company).

OUTLOOK

Sylogist's two divisions have different growth and stability profiles. Its Enterprise Solutions division (Bellamy Software) concentrates on the public sector and has a more stable revenue stream than its Connectivity division, which has more risk since it operates in a more competitive environment with the need constantly to update its solutions to meet or exceed its competitors offerings. The bulk of the Company's revenues are derived in Canada and from its Bellamy Division.

There are commonalities between both divisions and this leads to growth potential for the upcoming year. Management intends to grow both organically and via acquisition. Organic growth will be by developing and marketing its public sector offerings, and by partnering with other software companies to offer unique solutions to its customers and grow outside of its traditional western Canadian base. The Company's acquisition strategy is to target companies that will allow it to expand into different vertical and geographic markets. The Company has nearly \$14 million in cash and cash equivalents on hand as of December 31, 2010 and, thus, should be able to fund this growth plan internally.

Sylogist has invested in its product development over the past year and 2011 revenue should increase with the commercialization of the product investments. Added functionality to existing product lines can increase its footprint in the marketplace and allow the Company to grow in other markets. Also, support agreements are expected to be resigned at a high rate by its customer base. The Company derives its revenue from a diverse array of sources, between its two divisions. Its main sources are: support and maintenance services, software consulting services, third party hardware and software sales, and hosting of software services.

Management has also a strong plan to grow the company via acquisitions and/or increasing penetration in its existing customer base. As of December 31, 2010, the Company was developing its web-based Bellamy software solutions, Call2Order (meeting management) software, fixed asset integration and a small parts storage system. This will allow management to reach its goal of increasing penetration in its existing customer base and expand its growth into other vertical industries.

FINANCIAL PERFORMANCE

1. Annual Results (2008-2010)

Revenue in fiscal 2010 (ended September 30) increased over the previous year by 5% to \$9.7 million. The revenue growth was due to new hosted application (SaaS) customers and customer upgrades. Licensed revenue declined in 2010 but was offset by higher SaaS growth.

Total cost of sales decreased to \$3.6 million in 2010 from \$4.5 million in 2009. This was accomplished by the reduced use of external consultants and staffing level adjustments. Gross profit was \$6.1 million in 2010 which is up from the \$5.2 million in the same period a year earlier. This represents a gross profit of 63% versus 56% a year earlier.

EBITDA was up significantly from 2009 in fiscal 2010, at \$4.2 million compared to \$1.9 million in the previous fiscal year. This was due to a combination of higher revenues and lower expenses, which resulted in higher margins. This is evidenced in F2010 net income rising to \$3.08 million from \$1.48 million a year earlier. This translates to a fiscal 2010 Basic EPS of \$0.18 vs \$0.09 a year earlier.

With a July 2010 financing that raised \$6.9 million, the Company ended F2010 with \$14.14 million in cash and cash equivalents, up significantly from \$5.08 million a year earlier.

| <u>\$000s; Annual, to Sep. 30</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|--|--------------------|--------------------|--------------------|
| Revenues | 963 | 9,228 | 6,908 |
| Gross Profit | 6,058 | 5,165 | 2,728 |
| Gross Margin | | | |
| EBITDA | 4,219 | 1,948 | (2,891) |
| Net Income | 3,075 | 1,476 | (4,002) |
| Net Margin | | | |
| EPS | \$0.18 | \$0.09 | \$0.23 |
| Cash/Equivalents | 14,140 | 5,076 | |
| Goodwill | 1,934 | 1,934 | |
| Liabilities | 3,572 | 2,774 | |
| Shareholders' Equity | 18,401 | 9,945 | |

2. First Quarter Ended December 31, 2010

Revenue for Q1/F2011, ended December 31, 2010, decreased 11% to \$2.28 million from \$2.55 million in Q1/F2010. The drop in revenue was due to lower than expected license sales and professional services revenue. By division, the Bellamy division was unchanged year-over-year at \$2.1 million, but the Connectivity division decreased to \$206,000 from \$464,000 in the same period in 2009, which was augmented by a one-time project for a U.S.-based customer.

Cost of sales dropped to \$0.6 million vs \$0.9 million in Q1/F2010. Gross profit was flat at \$1.64 million for the quarter compared to the same period last year. However, as revenue dropped, this saw an increase in gross profit as a percentage of revenue from 64% in the same period last year to 72% in the most recent quarter.

EBITDA decreased to \$799,000 in the most recent quarter versus \$919,000 in the same quarter last year, and EPS dropped to \$0.02 from \$0.06 a year earlier. This is largely due to the dilution from a financing done in July 2010.

| <u>\$000s; Q1, to Dec. 31</u> | <u>2010</u> | <u>2009</u> |
|--------------------------------------|--------------------|--------------------|
| Revenues | 2,280 | 2,552 |
| Gross Profit | 1,640 | 1,645 |
| Gross Margin | 72% | 64% |
| EBITDA | 799 | 919 |
| Net Income | 391 | 935 |
| Net Margin | 17% | 37% |
| EPS | \$0.02 | \$0.06 |
| Cash/Equivalents | 13,968 | 1,847 |
| Goodwill | 1,934 | 1,934 |
| Liabilities | 6,194 | 5,384 |
| Shareholders' Equity | 18,534 | 10,532 |

The Company continues to deliver solid earnings from the last fiscal year and in the first quarter of this year. Once management begins to bring more of its new product offerings to the market we expect growth to pickup.

MANAGEMENT

Jim Wilson: President and CEO

Malgorzata Lewandowski: acting CFO

BOARD OF DIRECTORS

Jim Wilson, Dave Elder, Ron Cherkas, C. Fraser Elliot.

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Declaration: I, Haris Siddiqi, and I, Bob Weir, hereby state that I do not own, directly or indirectly, any shares in Sylogist Ltd.

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