

Intrinsyc Software International Inc.

ICS : TSX : C\$0.24

SPECULATIVE BUY

Target: C\$0.75 ↓

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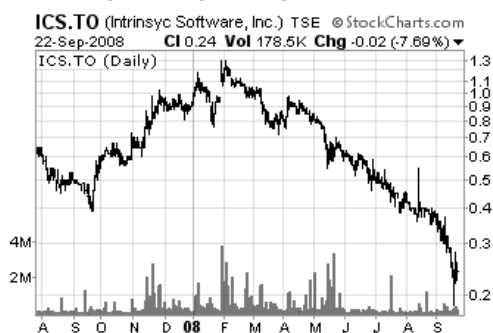
COMPANY STATISTICS:

52-week Range: C\$0.18-1.30
 Avg. Daily Vol. (000s): 171.6
 Market Cap (M): C\$168.8
 Shares Out (M) basic: 161.9
 Shares Out (M) diluted: 161.9

EARNINGS SUMMARY:

FYE Aug	2006A	2007A	2008E	2009E
Revenue (M):	US\$18.7	US\$19.7	US\$26.2	US\$57.0
EV/Sales (x):	1.0	0.9	0.7	0.3
EPS:	US\$(0.24)	US\$(0.18)	US\$(0.12)	US\$0.00
P/E (x):	NM	NM	NM	NM

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Intrinsyc Software is a mobility software and services company, based in Vancouver, BC. The company's technologies and services enable companies to identify and create solutions to make mobile devices connect and work. Intrinsyc creates and licenses mobile and embedded software products to OEMs, as well as a suite of server-based interoperability solutions. Additionally, the company provides engineering services to support these products.

All amounts in C\$ unless otherwise noted.

Technology – Software – Software and Services

INTRINSYC RESTRUCTURES OPERATIONS

Event

Intrinsyc announced that it has completed its integration of Destinator Technologies and announced several restructuring initiatives along with a business update.

Impact

Negative. We are lowering our revenue estimates to account for the slower-than-expected ramp in software revenues from both the Soleus and Destinator platforms due to customer delays, lack of recent design wins, and the current macro economic environment. Our EPS estimates remain effectively unchanged as we have incorporated about US\$7 million in annual cost savings to result from a 20% workforce reduction at the company.

Action

Overall, the restructuring announcement does not come as a major surprise. The lack of new contract wins and meaningful revenue contribution from Soleus to date have been apparent and to some extent is already reflected in the company's sagging share price. Positive takeaways from the announcement include: i) 2008 revenue guidance was maintained at US\$26-29 million, although the actual figure will likely be on the lower end; ii) three new Soleus wins are still expected for the remainder of this year; iii) Destinator integration should be completed ahead of schedule; and iv) confirmation that the first Soleus units have shipped in Q3. With shares now trading at 0.3x our new F09 revenue estimate of US\$57 million, we continue to see a favourable risk/reward. As such, we maintain our SPECULATIVE BUY rating; however, we are lowering our target price to reflect the slower revenue ramp. Our new 12-month target price is C\$0.75 (previously C\$1.20), which is based on our DCF.

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Integration and restructuring details

- Destinator integration should be completed ahead of schedule.
- Management announced several cost-reduction initiatives that are expected to yield cost savings of US\$6-8 million per year, which include:
 - A worldwide headcount reduction of 20%
 - The restructuring of executive management:
 - Appointed Tracy Rees to new position of COO; this new role consolidates the two VP positions of Worldwide Sales, and Marketing and Business and Global Engineering Operations.
 - Intrinsic expects to record a charge related to severance costs and other write-offs in Q3 and Q4/F08.
 - Cost-reduction initiatives are expected to be completed in November 2008.

Business update

- Management confirmed that the first Soleus units shipped in Q3/F08 in Taiwan and are expected to ship in Europe by the end of fiscal 2008.
- Development work with Quanta Computer remains on schedule for release in Q4/F08.
- Engagements with Samsung Semiconductor System LSI Division are progressing and are expected to be a material revenue contributor for Soleus in 2009.
- Management reiterated its guidance of US\$26-29 million in revenue and four design wins for fiscal 2008.

Estimate revisions

We lowering our revenue estimates to account for the slower-than-expected ramp in software sales from both the Soleus and Destinator platforms due to customer delays, lack of recent design wins, and the current macro economic environment. We have also lowered our cost estimates to account for the company's restructuring efforts. Our Q3/F08 revenue estimate decreases by US\$600K to US\$7.4 million, while our loss per share remains unchanged at (US\$0.03). Our fiscal 2008 revenue estimate decreases by US\$1.8 million to US\$26.2 million and our loss per share remains constant at (US\$0.12). Our fiscal 2009 revenue estimate decreases to US\$57 million from US\$67 million and our earnings per share decreases to nil from a penny. These estimates do not take into account one-time restructuring costs.

Figure 1: Estimate revisions

	Q3/F08	F08	F09
Revenue (M)			
Revised	7.4	26.2	57.0
Original*	8.0	28.0	67.0
Adjusted EPS			
Revised	(0.03)	(0.12)	0.00
Original*	(0.03)	(0.12)	0.01

Source: Canaccord Adams estimates

Valuation

Intrinsyc trades at 0.3x our new fiscal 2009 revenue estimate of US\$57 million. This is based on our assumed Q3 ending cash balance of US\$20 million and 161.9 million issued shares. Our C\$0.75 12-month target price translates into a 1.8x EV/sales multiple.

Figure 2: Comparables

Company	Ticker	Ex.	LAST	Revenue			EPS			EV/Sales		P/E	
				2008E	2009E	Growth	2008E	2009E	Growth	F08E	F09E	F08E	F09E
Access	4813	:TSE	209,100	30,800	34,600	12%	2,442	5,576	NM	2.2	1.9	NM	37.5
Call Genie	GNE.	:V	\$0.19	7	23	NM	-0.19	-0.02	NM	0.5	0.1	NM	NM
Esmertec	ESMN	:EB	SFr. 9.39	47	61	29%	-0.11	0.05	-149%	4.7	3.6	NM	NM
Red Hat	RHT	:N	\$17.85	675	814	21%	0.75	0.89	19%	4.6	3.8	23.8	20.1
Research In Motion	RIMM	:Q	\$97.84	12,148	17,978	48%	4.44	6.70	51%	4.5	3.0	22.0	14.6
Wind River	WIND	:Q	\$9.93	371	414	12%	0.50	0.60	20%	1.9	1.7	19.9	16.6
Average						24%			-15%	3.0	2.4	21.9	22.2
Median						21%			19%	3.3	2.5	22.0	18.3
Intrinsyc	ICS.	:T	\$0.24	26	57	118%	-0.12	0.00	NM	0.7	0.3	NM	NM
Intrinsyc	ICS.	:T	\$0.75	26	57	118%	-0.12	0.00	NM	3.8	1.8	NM	NM

Source: Bloomberg, Thomson One, Baseline, Canaccord Adams estimates

Investment risks

The main risks to our outlook include the competitive environment intensifying, design wins taking longer than expected to close, design wins not translating into material revenue due to failed device launches, ESG division revenue erosion, and key management leaving the firm. Other risks include litigation, adverse F/X trends, slower-than-expected growth in the mobile device market, faster-than-expected ASP erosion at handset OEM/ODMs pressuring Intrinsyc's ASPs down significantly, and broader macroeconomic forces impacting the market.

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Site Visit:

An analyst has visited Intrinsyc's material operations in Vancouver, BC, Canada. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*



* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 2 September 2008)

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	581	100.0%	

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Company	Disclosure
Intrinsyc Software International Inc.	1A, 2, 3, 7

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