

## Intrinsyc Software International Inc.

ICS : TSX : C\$0.38

**SPECULATIVE BUY**

**Target: C\$1.20 ↓**

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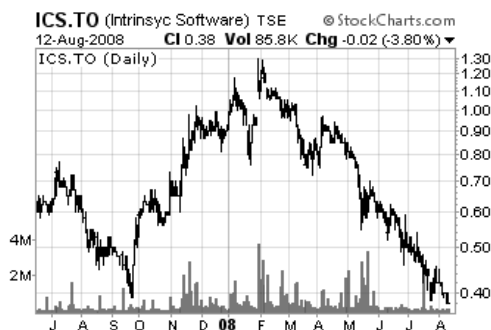
### COMPANY STATISTICS:

52-week Range: C\$0.38-1.30  
 Avg. Daily Vol. (000s): 318.0  
 Market Cap (M): C\$61.1  
 Shares Out (M) basic: 161  
 Shares Out (M) diluted: 161

### EARNINGS SUMMARY:

FYE Aug	2006A	2007A	2008E	2009E
Revenue (M):	US\$18.7	US\$19.7	US\$28.0	US\$67.0
EV/Sales (x):	2.1	2.0	1.4	0.6
EPS:	US\$(0.24)	US\$(0.18)	US\$(0.12)	US\$0.01
P/E (x):	NM	NM	NM	60.3

### 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

## IN-LINE RESULTS AND GUIDANCE

### Event

Intrinsyc reported an in-line FQ2 for period ended June 30, 2008. Sales came in at US\$5.6 million, in line with consensus and US\$0.2 million below our forecast. Soleus contributed US\$0.6 million this quarter vs. just under US\$0.5 million last quarter, which is higher than we had anticipated. The GAAP loss per share was US\$0.03, in line. Management also reaffirmed FY08 guidance at US\$26-29 million and still expects to sign four Soleus contracts this year.

### Impact

Neutral. Management's commentary for the quarter remained very bullish on its pipeline. This quarter marked the launch of the first Soleus-based device: the Mio Moov 380. Additional product launches are also expected from Quanta and Samsung later this year. In our opinion, Intrinsyc's product roadmap appears solid: Soleus 2.0, which is still in development, will have a touch interface with gestures and Soleus Transit, integrating the Destinator LBS application.

### Action

Despite a strong portfolio and product pipeline, we expect that the stock will likely languish pending material news flow of new contract wins and further evidence that Intrinsyc's software business is beginning to ramp. We estimate Intrinsyc's current cash balance at roughly US\$20-22 million, which is a bit lower than we had expected. Although management maintains that it is comfortable with its cash balance; we would prefer to see more of a buffer in case of Destinator integration hiccups or further Soleus delays. Nevertheless, with the stock now trading at about 0.6x our 2009 revenue estimate and with approximately one-third of the market cap in cash, we continue to see a favourable risk/reward. We reiterate our speculative buy rating but are lowering our target to C\$1.20 from C\$1.40 to account for the Soleus delays and reduced cash balance. Our target is based on our DCF.

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**Outlook and recommendation**

As expected, Intrinsic reported an in-line FQ2 with few surprises. Management also reaffirmed its fiscal 2008 sales forecast at US\$26-29 million and still expects to sign four Soleus contracts this year. Management's commentary for the quarter remained very bullish on its pipeline. This quarter marked the launch of MiTAC International's Mio Moov 380 the first Soleus-based device shipped. Furthermore, management stated that it still expects product launches from Quanta and Samsung later this year. In our opinion, Intrinsic's product roadmap appears solid: Soleus 2.0, which is still in development, will have a touch interface with gestures and Soleus Transit, integrating the Destinator LBS application.

Despite a strong portfolio and product pipeline, we expect that the stock will likely languish pending material news flow of new contract wins and further evidence that Intrinsic's software business is beginning to ramp. Management did state that the MSI product is delayed and that it has no visibility as to when it may be commercially available. We estimate Intrinsic's current cash balance at roughly US\$20-22 million, which is a bit lower than we had expected. Although management maintains that it is comfortable with its cash balance; we would prefer to see more of a buffer in case of Destinator integration hiccups or further Soleus delays.

Nevertheless, with the stock now trading at about 0.6x our 2009 revenue estimate and with approximately one-third of the market cap in cash, we continue to see a favourable risk/reward. We reiterate our SPECULATIVE BUY rating but are lowering our target to C\$1.20 from C\$1.40 to account for the Soleus delays and reduced cash balance. Our target is based on our DCF.

**Q2/F08 results**

Intrinsic reported its Q2/F08 results with revenues of US\$5.6 million and a GAAP loss per share of US\$0.03. The top-line results were in line with consensus and missed our estimate by approximately US\$0.2 million. On the bottom line the loss of US\$0.03 was in line with our expectations and consensus.

Revenue in the quarter was driven by US\$4.0 million in wireless services revenue, US\$1.3 million in software licence revenue and US\$0.3 million in hardware revenue. Overall Soleus revenue, including services and support was US\$0.6 million, up from under US\$0.5 million in Q1/F08. This was split US\$295,000 for software licences and US\$285,000 for services.

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**Figure 1: Q2/F08 results**

(US\$ millions)	Q2/F08A	CA Q2/F08E	B/(W)	Q1/F08A	Q2/F07A	Consensus	% Change Q/Q	% Change Y/Y
Revenue	5.6	5.8	-0.2	5.6	4.5	5.6	0.2%	23.3%
Gross Profit	2.6	2.7	-0.1	2.5	2.3		2.9%	11.7%
% of Revenue	46.9%	46.7%		45.7%	51.8%			
Total Op Ex	7.0	7.2	-0.3	6.7	5.8		3.7%	20.3%
% of Revenue	125.1%	125.0%		120.9%	128.2%			
EBITDA	-3.9	-4.0	0.2	-3.5	-3.2		11.3%	21.2%
% of Revenue	-69.4%	-69.6%		-62.4%	-70.6%			
GAAP Net Income	-4.3	-4.3	0.1	-3.8	-3.9		10.8%	9.8%
% of Revenue	-76.4%	-75.0%		-69.1%	-85.7%			
GAAP EPS - diluted	(0.03)	(0.03)		(0.03)	(0.04)		-3.8%	-29.6%
Adjusted EPS - diluted	(0.03)	(0.03)	0.0	(0.03)	(0.04)	(0.03)	-3.3%	-36.1%

Source: Bloomberg, Canaccord Adams

**Progress on Soleus**

This quarter marked the launch of the first Soleus-enabled handset MiTAC International's Mio Moov 380; it launched in Taiwan in June and is scheduled to launch in Europe later this year. Also occurring this quarter, Intrinsic announced the availability of the Soleus version 1.5 platform, which is designed to support media-rich 3G and 3.5G handsets and will be used as the platform for Quanta Computer's new mobile device that is expected to ship this fall. Management stated that it also expecting a mobile device launch by Samsung later this year. Regrettably, management announced that the MSI 5608, which was projected for commercial launch in Q2, has been delayed and that it has no visibility as to when the MSI may be commercially available.

During the quarter, Intrinsic acquired Destinator Technologies, a wireless navigation software developer for GPS devices and handsets. Intrinsic has signed over 20 new software licence agreements with navigation software customers since announcing the acquisition. In addition, Intrinsic signed a global contract with Motorola to provide the GPS navigation application for the Motorola A1600 MING handset as well as other handsets based on the Destinator software product. In addition, we believe that Intrinsic's product roadmap appears solid: Soleus 2.0, which is still in development, will have a touch interface with gestures and Soleus Transit, integrating the Destinator LBS application. On the conference call, management reaffirmed its four Soleus design wins target for this year.

**Costs and margins**

Gross margins in the quarter were 47% compared with 46% in the prior quarter and 52% in Q2/F07. The high comparable gross margin in Q2/F07 was due to a unique services contract that was completed with higher-than-typical margins. The improvement in gross margins over the prior period was a result of higher software revenues (23% of total revenue, up from 13% in the prior quarter) and improved execution on wireless services revenue.

Operating expenses for the period totalled US\$7.0 million vs. US\$6.7 million in the prior period and US\$5.8 million Y/Y. R&D costs were US\$2.7 million, or 48% of revenue, up

from the prior period's US\$2.5 million (46% of revenue). G&A expenses came in at US\$1.8 million, or 32% of revenue, relatively flat compared with the prior period. Sales and marketing expenses were flat Q/Q at US\$1.8 million, or 33% of revenue.

#### Cash and cash flow

The company recorded free cash flow in the quarter of (US\$2.5 million), an improvement from last quarter's (US\$5.2 million). Subsequent to quarter-end, Intrinsyc completed its acquisition of Destinator for US\$15.9 million inclusive of estimated related transaction expenses. Intrinsyc paid US\$8.4 million in cash and issued 11 million in Intrinsyc common shares from treasury. As a result, we estimate Intrinsyc's current cash balance at roughly US\$20-22 million, or approximately US\$0.12-0.14 per share, which is a bit lower than we had expected. Although management maintains that it is comfortable with its cash balance, we would prefer to see more of a buffer in case of Destinator integration hiccups or further Soleus delays.

#### Estimate revisions

We are trimming our forward estimates on account of the Soleus delays and reduced cash balance observed this quarter. Our Q3 revenue estimate decreases slightly by US\$0.2 million to US\$8.0 million, while our EPS estimate remains static at (US\$0.03). Our F08 revenue estimate declines by US\$0.7 million to US\$28.0 million and our EPS estimate remains steady at (US\$0.12). Our F09 revenue estimate declines to US\$67.0 million from US\$69.8 million and our EPS estimate remains unchanged at one cent.

**Figure 2: Estimate revisions**

	Q3/F08	F08	F09
<b>Revenue (M)</b>			
Revised	8.0	28.0	67.0
Original	8.2	28.7	69.8
<b>Adjusted EPS</b>			
Revised	(0.03)	(0.12)	0.01
Original	(0.03)	(0.12)	0.01

Source: Canaccord Adams

#### Valuation

Intrinsyc trades at 0.6x our new F09 revenue estimate of US\$67 million. This is based on our assumed current cash balance of US\$22 million and 161 million issued shares. Our 12-month target price of US\$1.20 translates into a 2.6x multiple, which we believe is reasonable given the company's growth profile.

13 August 2008

**Figure 3: Comparables**

Company	Ticker	Ex.	LAST	Revenue			EPS			EV/Sales		P/E	
				2008	2009	Growth	2008	2009	Growth	F08	F09	F08	F09
Access	4813	:TSE	300	33	38	16%	305	4,378	NM	4.8	4.1	NM	NM
Call Genie	GNE.	:V	\$0.54	8	25	NM	-0.20	-0.05	NM	2.9	0.9	NM	NM
Esmertec	ESMN	:EB	SFr. 9.99	46	60	30%	0.37	0.65	75%	4.8	3.7	26.7	15.3
Red Hat	RHT	:N	\$23.23	673	807	20%	0.80	0.89	12%	6.1	5.1	29.1	26.1
Research In Motion	RIMM	:Q	\$128.29	11,667	15,992	37%	4.75	7.00	47%	6.1	4.4	27.0	18.3
Wind River	WIND	:Q	\$12.32	369	401	9%	0.43	0.53	24%	2.5	2.3	28.9	23.2
Zi Corp	ZIC	:T	\$0.35	15	15	3%	0.00	0.00	NM	1.0	0.9	NM	NM
<b>Average</b>						<b>19%</b>			<b>39%</b>	<b>4.5</b>	<b>3.4</b>	<b>27.9</b>	<b>20.7</b>
<b>Median</b>						<b>20%</b>			<b>36%</b>	<b>4.8</b>	<b>3.9</b>	<b>27.9</b>	<b>20.8</b>
Intrinsyc	ICS.	:T	\$0.38	28	67	139%	-0.12	0.01	NM	1.4	0.6	NM	38.0
Intrinsyc	ICS.	:T	\$1.20	28	67	139%	-0.12	0.01	NM	6.1	2.6	NM	NM

Source: Bloomberg, Baseline, Canaccord Adams

**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 Intrinsic’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 5 August 2008)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	374	64.2%	35	35.8%
Speculative Buy	59	10.1%	57	57.6%
Hold	126	21.6%	21	21.4%
Sell	24	4.1%	3	12.5%
	583	100.0%		

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Intrinsic Software International Inc.	1A, 2, 3, 7

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