

Intrinsyc Software International Inc.

ICS : TSX : C\$0.75

SPECULATIVE BUY

Target: C\$1.60

Peter Misek, CA, CPA, CFA 1.416.869.7920
 peter.misek@canaccordadams.com
 Dushan Batrovic, MBA 1.416.869.7399
 dushan.batrovic@canaccordadams.com
 Neal Gilmer, MBA 1.416.869.7294
 neal.gilmer@canaccordadams.com

COMPANY STATISTICS:

52-week Range: C\$0.39-1.30
 Avg. Daily Vol. (000s): 714.0
 Market Cap (M): 89.7
 Shares Out (M) basic: 119.5
 Shares Out (M) diluted: 119.5

EARNINGS SUMMARY:

FYE Aug	2005A	2006A	2007A	2008E	2009E
Revenue (M):	17.5	18.7	19.7	25.6	66.9
EV/Sales (x):	4.4	4.2	3.9	3.0	1.2
EPS:	(0.11)	(0.24)	(0.18)	(0.11)	0.06
P/E (x):	NM	NM	NM	NM	12.7

Note: F08 and F09 estimates are in USD (Dec 31 FYE)

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

OKAY RESULTS; 2008 SOLEUS STORY BEGINNING TO UNFOLD

Event

Intrinsyc reported its four-month transition period results with revenues of C\$5.2 million and a GAAP loss per share of C\$0.06. The headline results were slightly below expectations due to a series of one-time items. F/X and a delayed contract lowered the top line by more than C\$0.6 million, while the closing of the UK operation and new office openings in Asia raised opex by close to C\$1 million.

Impact

Neutral. We believe that the fundamental story remains very much intact as evidenced by the series of Soleus contract wins thus far in 2008 and management's expectations of realizing their first royalty revenues in Q2. Additionally, we expect a Q1 rebound to the legacy business.

Action

While we see nothing to alter our thesis, we do believe it prudent to trim our estimates. Management continues to target one new Soleus contract per quarter. Although conservative in our view, we will move our projections closer to this guideline. Second, we remain rather cautious on the macro economy, which also tempers our views on smartphone/feature phone volumes. Our F08 and F09 revenue estimates become US\$26 million and US\$67 million, respectively (December 31 FYE). Our EPS estimates fall by one cent in F08 and three cents in F09. We believe that a rebound in the legacy business, new Soleus contracts and royalty revenues in Q2 will continue to fuel shares in the coming months. We maintain our SPECULATIVE BUY rating and C\$1.60 target based on our DCF.

Valuation

Intrinsyc trades at a discount to peers on an F08 EV/sales basis, trading at 2.7 times – below the industry average of 3.6 times.

Canaccord Adams is the global capital markets group of Canaccord Capital Inc. (CCI : TSX|AIM)

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Outlook and recommendation

Intrinsyc's headline results were slightly below expectations due to a series of one-time items and adverse foreign exchange effects. We believe that the fundamental story remains very much intact as evidenced by the series of Soleus contract wins thus far in 2008 and management's expectations of realizing their first royalty revenues in Q2. F/X and a delayed contract lowered the top line by more than C\$0.6 million, while the closing of the UK operation and new office openings in Asia raised opex by close to C\$1 million according to our calculations.

We believe that, with roughly C\$40 million in cash post financing, Intrinsyc has the resources to see its multiple Soleus contracts through to fruition (i.e., significant ramp in high-margin recurring royalty revenue in the back half of 2008). Additionally, we expect that, with the added balance sheet flexibility, Intrinsyc will likely consider small acquisitions that expand either the company's addressable market or product functionality.

In summary, we believe that a rebound in the legacy business, new Soleus contract announcements and royalty revenues in Q2 will continue to fuel shares in the coming months. We maintain our SPECULATIVE BUY recommendation and C\$1.60 target based on our DCF.

Transition period results

Intrinsyc reported its four-month transition period results with revenues of C\$5.2 million and GAAP loss per share of C\$0.06. The results were slightly below our rough estimation of C\$6-7 million and a GAAP loss per share of approximately C\$0.04. The company noted that revenue and gross margin were impacted by a late contract signing in the period as well as foreign exchange headwinds. Included in the results was a restructuring charge of C\$0.65 million related to the closure of its UK engineering office.

The revenues of C\$5.2 million and gross margin of 36% for the transition period were a little on the light side, however we view the miss as immaterial. The company noted that revenue and gross margin was negatively impacted by C\$0.43 million (using Q4/F07 exchange rates) due to the depreciation of the US dollar. Adjusting for these two items, we believe that the legacy business remains strong. At the same time, Intrinsyc is executing on its go-to-market strategy with Soleus. Management noted on the conference call that it expects to begin to recording Soleus licence revenue in late Q2 of this year.

Operating expenses for the period totalled C\$9.0 million. R&D costs were C\$3.3 million or 64% of revenue, slightly above Q4/F07 as a percentage of revenue. G&A expenses came in at C\$2.2 million or 41% of revenue. The company noted that the expenses included the costs of opening its Taiwan office and Asian operations. Management noted that G&A should fall to levels similar to those reported in Q4/F07 going forward. Sales and marketing expenses were C\$2.4 million or 45% of revenue for the transition period as the company continued to invest in its go-to-market strategy and to build awareness as a wireless software provider. Intrinsyc also incurred restructuring charges of C\$0.6 million to close its UK engineering office as previously announced on its Q4/F07 conference call. The company does not expect further restructuring charges related to the closure of this office. The company used C\$7.6 million of cash in the period, primarily driven by the net loss in the period and investment in working capital. The company ended the period with C\$12.0 million in cash. Subsequent to the end of the period the company raised approximately C\$30 million in cash through an offering of 28.6 million shares.

Estimate revisions

While we see nothing in Intrinsic's results that would alter our thesis, we do believe it prudent to trim our estimates. Management continues to target one new Soleus contract per quarter. Although we believe this figure is conservative, we will move our projections closer to this guideline. Second, we remain rather cautious on the macro economy, which also tempers our views on smartphone/feature phone volumes in general. For F08, we are lowering our revenue from C\$29.7 million (based on August 31 FYE) to US\$25.6 million (based on December 31 FYE). Our loss per share drops by one cent to US\$0.11 from C\$0.10 previously. For F09, we are lowering sales from C\$69 million (based on August 31 FYE) to US\$67 million (based on December 31 FYE). Our EPS falls to US\$0.06 from C\$0.09. The drop is partially attributed to a higher share count as a result of the recent equity financing.

Figure 1: Estimate revisions

		F08	F09
Revenue (M)	Revised	25.6	66.9
	Original*	29.7	69.1
Adjusted EPS	Revised	(0.11)	0.06
	Original*	(0.10)	0.09

Source: Canaccord Adams estimates

* Based on August 31 FYE and CDN dollars

Valuation

Intrinsyc trades at a discount to peers on an F08 EV/Sales basis trading at 2.7 times, below the industry average of 3.6 times. We believe the company should be trading at higher multiples than the peer average due to its impressive growth potential in F08 and beyond.

Figure 2: Comparables

			LAST	Revenue			EPS			EV/Sales		P/E	
				F07	F08	Growth	F07	F08	Growth	F07	F08	F07	F08
Access	4813	:TSE	297,000	30,655	34,302	12%	-36,482	948	NM	3.8	3.4	NM	NM
Aplix	3727	:TSE	133,000	6,001	5,738	-4%	-66,720	7,263	NM	2.2	2.3	NM	18.3
Trolltech	TROLL	:OS	15.80	228	296	30%	-0.55	0.04	NM	3.0	2.3	NM	NM
Call Genie	GNE.	:V	\$0.51	2.0	8.7	NM	-0.15	-0.11	NM	18.0	4.1	NM	NM
Red Hat	RHT	:N	\$17.06	402	523	30%	0.51	0.70	38%	7.2	5.5	33.5	24.3
Research In Motion	RIMM	:Q	\$104.94	3,037	6,012	98%	1.14	2.26	98%	18.9	9.5	92.1	46.4
Wind River	WIND	:Q	\$6.48	329	410	25%	0.31	0.45	43%	1.4	1.1	20.8	14.5
Zamano	ZMNO	:L	0.40	21	56	169%	0.04	0.06	53%	1.0	0.4	0.2	0.1
Zi Corp.	ZICA	:Q	\$0.61	13	NA	NA	-0.11	NA	NM	1.5	NA	NM	NM
Average						51%			58%	6.3	3.6	36.6	20.7
Median						30%			48%	3.0	2.9	27.2	18.3
Intrinsyc *	ICS.	:T	\$0.75	18	26	39%	-0.18	-0.11	59%	3.8	2.7	NM	NM
Intrinsyc	ICS.	:T	\$1.60	18	26	39%	-0.18	-0.11	59%	10.6	4.6	NM	NM

Source: Bloomberg, Canaccord Adams

* Assumed CAD/USD rate of 1.0 - F08 estimates are in USD. Includes impact of recent equity financing

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 29 February 2008)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	310	60.9%	43.9%	
Speculative Buy	63	12.4%	71.4%	
Hold	119	23.4%	22.7%	
Sell	17	3.3%	5.9%	
	509	100.0%		

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

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