

Intrinsyc Software International Inc.

ICS : TSX : C\$0.13

SELL ↓

Target: C\$0.10 ↓

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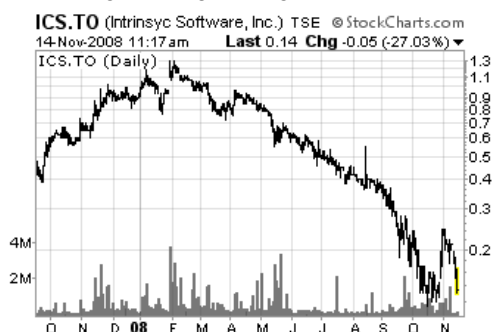
COMPANY STATISTICS:

52-week Range:	C\$0.12 -1.30
Avg. Daily Vol. (000s):	317.5
Market Cap (M):	C\$21.0
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\$25.8	US\$28.8
EV/Sales (x):	-0.1	-0.1	-0.1	-0.1
EPS:	US\$(0.24)	US\$(0.18)	US\$(0.13)	US\$(0.10)
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

REDUCED VISIBILITY + CEO DEPARTURE; DOWNGRADE TO SELL

Event

Intrinsyc reported weak Q3 results and guidance, missing our EPS by one penny and stating that full-year sales would be slightly below the guided range of US\$26-29 million. Revenue was reported at US\$7.9 million above our estimate of US\$7.4 million and in line with consensus of US\$7.8 million. EPS was reported at US\$(0.04) versus our estimate of US\$(0.03) and consensus of US\$(0.04).

Impact

Negative. Management expressed caution in the macro environment as evidenced by some cancelled orders and reduced visibility with two of its largest customers, Motorola and Symbian. Intrinsyc has withdrawn its Soleus design win target and has not offered any detailed views on 2009. Intrinsyc's cash balance was in line with expectations at US\$20 million, or roughly US\$0.12 (C\$0.15 per share at current f/x rates). Based on the reduced visibility heading into what looks to be a difficult 2009, management reiterated its commitment to preserving cash.

Action

The poor operational results come on the heels of the unexpected departure of CEO, Glenda Dorchak, announced yesterday. A surprise executive departure will always raise questions. In this case, the uncertainty is exacerbated. As a result, we are reducing our 2009 estimates to sales of US\$28.8 million and EPS of US\$(0.10) from US\$57.0 million and US\$0.00, respectively. With little confidence in Intrinsyc's ability to weather the macro headwinds in 2009, we must look toward the company's cash balance as the closest proxy to fair valuation. If we assume that Intrinsyc is able to reduce its cash burn to an average of US\$1.5-2.0 million per quarter, we reach an ending cash balance of about C\$0.10 per share in 12 months' time. We therefore reduce our rating to SELL and institute a 12-month target of C\$0.10 based on our forecast cash balance (previously Speculative Buy and C\$0.40 before being placed Under Review).

Outlook and recommendation

Intrinsyc reported weak Q3 results and guidance, missing our EPS by one penny and stating that full-year sales would be slightly below the guided range of US\$26-29 million. Management expressed caution in the macro environment as evidenced by some cancelled orders and reduced visibility with two of its largest customers, Motorola and Symbian. Intrinsyc has withdrawn its one Soleus design win per quarter target and has not offered any detailed views on 2009. Offering some solace, Intrinsyc's cash balance was in line with expectations at US\$20 million, or roughly US\$0.12 (C\$0.15 per share at current f/x rates). Based on the reduced visibility heading into what looks to be a difficult 2009, management reiterated its commitment to preserving cash.

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Q3/F08 results

Intrinsyc reported revenue at US\$7.9 million, above our estimate of US\$7.4 million and in line with consensus of C\$7.8 million. EPS was reported at US\$(0.04) versus our estimate of US\$(0.03) and consensus of US\$(0.04). Approximately US\$3 million was contributed by the software group, which includes core Intrinsyc and Destinator revenue.

Costs and margins

Gross margins in the quarter were 61% compared with 47% in the prior quarter and 49% in Q3/F07. The improvement in gross margins over the prior period was a result of higher software revenues (38% of total revenue, up from 23% in the prior quarter) and improved execution on wireless engineering services revenue. Operating expenses for the period totalled US\$10.8 million vs. US\$7.0 million in the prior period. R&D costs were US\$4.1 million, or 52% of revenue, up from the prior period's US\$2.7 million (48% of revenue). G&A expenses came in at US\$2.5 million, or 31% of revenue, compared with the prior period's US\$1.8 million, or 32% of revenue. Sales and marketing expenses were US\$2.3 million, or 29% of total revenue, compared with US\$1.8 million, or 33% of revenue in Q2/F08.

Cash and cash flow

The company recorded free cash flow in the quarter of US\$(2.8 million), a decrease from last quarter's US\$(2.5 million). During the quarter Intrinsyc closed its acquisition of Destinator for US\$7.8 million, net of cash acquired. Intrinsyc's cash balance at the end of quarter was US\$19.6 million, or approximately US\$0.12 per cash (C\$0.15 per share at current foreign exchange rates), which was in line with our expectations.

Estimate revisions

We are cutting our forward estimates in response to poor operational results and a lack of visibility heading into 2009. Our Q4/F08 revenue estimate decreases by US\$500K to US\$6.8 million while our EPS remains unchanged at US\$(0.03). As a result, our FY08 revenue estimate becomes US\$25.8 million and US\$(0.13). For fiscal 2009, we have slashed our revenue by US\$28.2 million to US\$28.8 million and our EPS has decreased from nil to US\$(0.10).

Figure 1: Estimate revisions

	Q4/F08	F08	F09
Revenue (M)			
Revised	6.8	25.8	28.8
Original	7.7	26.2	57.0
Adjusted EPS			
Revised	(0.03)	(0.13)	(0.10)
Original	(0.02)	(0.12)	0.00

Source: Canaccord Adams

Investment risks

The main risks to our outlook include the macroeconomic conditions improving in 2009. Also, Intrinsic could win new contracts, which may make a material contribution to our forward estimates. Management could elect to reduce expenses faster than we had modelled, which would position the company for breakeven ahead of our forecast. Finally, the company could make management changes, which have a positive impact on Intrinsic's prospects.

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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.

Distribution of Ratings:

Global Stock Ratings
(as of 4 November 2008)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	371	62.1%	34.5%
Speculative Buy	68	11.4%	52.9%
Hold	139	23.3%	18.0%
Sell	19	3.2%	10.5%
	597	100.0%	

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