

Intrinsyc Software International Inc.

(ICS-T \$0.38)

Modest Improvements Not Good Enough in Tough Market

Financial Summary (US\$)

(end-Dec)	Revenue (m)	EBITDA (m)	P/Sales (x)	EPS	P/E (x)
FY07	19.7	(6)	3.1	(0.18)	Na
FY08e	27.4	(14)	2.2	(0.13)	Na
FY09e	44.8	(5)	1.4	(0.07)	Na
FY10e	65.0	10	0.9	0.03	12

All figures in US\$ unless otherwise noted

- ▶ Intrinsyc announced Q2 results of \$5.6m and a loss of \$4.1m or \$0.03 per share.
- ▶ Intrinsyc continues to show modest revenue growth as its new Soleus software ramps, but showed little to no improvement in its pursuit of profitability.
- ▶ We have lowered our target price from \$1.00 to \$0.75.

Impact of Q2 Results

Last night, Intrinsyc reported Q2 revenues of \$5.6m and an EPS loss of \$0.03. We were looking for \$5m and an EPS loss of \$0.03. The top line was better than expected although unchanged from Q1 levels and operating losses remain high with no visibility to any specific timeline for profitability.

The vast majority of the Company's revenues came from its wireless design consulting business, although the new Soleus business did well, growing to \$0.6m on early licensing and royalty revenues (up from \$0.5m). Further growth in royalty revenues from Soleus are expected in Q3 but no new design wins were announced in the quarter and major wins like Samsung will not scale until 2009. Generally, the Company appears to be on track with our assumptions although we will adjust our forecasts for the Destinator acquisition. We are modelling \$27m in revenues (from \$21m) with EPS of (\$0.13) (from loss of \$0.10) for FY08, \$45m and (\$0.07) for FY09 (from \$35m and \$0.04 loss) and \$65m and \$0.03 for FY10 (from \$55m and \$0.05).

Overall, the results and the continued cash burn are as expected but the tougher stock market will not reward ICS. Unfortunately, in a tougher economic environment, the high operating losses are less appealing and the stock is down 75% in the last 6 months. We hope that the deal flow and the growing revenues from Soleus will eventually win over new investors and as such we maintain our Buy rating but have lowered our target price to \$0.75 from C\$1.00 based on 3x FY09 sales (from 3x FY10 previously).

Stock Rating:

Buy

 12- target (C\$) ↓\$0.75
 Potential ROR 97%

Company Profile

Sector	Wireless
Ticker	ICS-T
Shares O/S, basic (m)	162
Shares O/S, float (m)	161
Mkt cap, basic (C\$m)	62
Mkt cap, float (C\$m)	62
Next event	Q3 Results Nov 2008

Key Metrics

Cash (\$m)	30
Book Value/sh (\$)	0.32
Debt (\$ m)	Nil
Enterprise Value (\$m)	32

Research Team

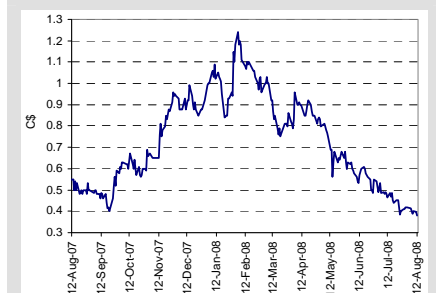
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1-Year Stock Chart


 08/13/08 FY08-09 EPS and target lowered (\$0.75)
 05/14/08 Target lowered (\$1.00)
 02/08/08 Initiating target price (\$2.00)

Source: Bloomberg

Q2 Results

The Q2 results were roughly similar to Q1 results although the net losses increased thanks to an FX loss and other expenses. The following table highlights the comparison of this quarter's results with the previous quarter and from a year earlier:

Table 1: Q2 Highlights					
	Q2/F2008	Q1/F2008	Q2/F2007	% Change	
				Q1/F2008	Q2/F2007
Revenue (US\$)	5,566	5,556	4,513	0.2%	23.3%
Gross Margin (%)	46.9%	45.7%	51.8%	1.2%	-4.9%
Operating Expense	6,312	6,196	5,389	1.9%	17.1%
Operating Income	(3,702)	(3,660)	(3,051)	NMF	NMF
Net Income	(4,251)	(3,837)	(3,870)	NMF	NMF
EPS - basic **	(\$0.03)	(\$0.03)	(\$0.04)	NMF	NMF

Source: Company, Paradigm Capital

On the balance sheet cash was down by ~\$5.0m, pushing cash to \$30m or \$0.20 per share (down from \$35m last quarter). Receivables were up noticeably to \$6.5m (by \$1m), while payables grew by \$1m to \$4.6m. For the quarter, the total negative cashflow was \$5.2m. The company has no debt.

Other relevant metrics in the quarter include the following:

- ICS closed its acquisition of Destinator's GPS software assets slightly after quarter end.
- ICS released its Soleus software for 3G wireless networks (Soleus version 1.50). The software is expected to launch with Quanta later this year.
- Soleus 2.0 is also expected before year end.
- ICS's customer MiTAC started shipping the first Soleus enabled device (the Mio Moov 380 personal navigation device) into Taiwan.

Bottom Line: Adjusting Forecasts

With the Q2 results and the subsequent to quarter end closing of the Destinator acquisition, we are adjusting our estimates for FY08, FY09 and FY10. The old and new estimates are as follows:

Table 3: Revised Estimates						
(US\$m)	Previous Estimates			Revised Estimates		
	Q2e	FY08e	FY09e	Q2a	FY08e	FY09e
Revenues	5.0	21.3	34.5	5.6	27.4	44.8
GAAP EPS	(0.03)	(0.10)	(0.04)	(0.03)	(0.13)	(0.07)

Source: Company, Paradigm Capital



Valuation

The Q2 results saw modest improvements on the income statement over Q1 although losses grew and remain high at the company as it continues to chase new business. The Company also burned \$5m in the quarter and then used \$8.5m to help fund the acquisition of Destinator, leaving cash slightly above \$20m. Fortunately, the Soleus rollout continues to progress and revenues should ramp more aggressively in late 2008 and early 2009. Unfortunately, given the tougher economic environment and the tougher stock market it is a rough time to be losing money and still ramping Soleus.

As a result, we maintain our Buy rating but have lowered our target price to \$0.75 (from \$1.00) based on 3x sales (unchanged). We think that the stock is attractive long term but in the short term the market for small cap tech stocks is brutal, which makes for a tough ride for ICS.



Table 3:

(in US\$ 000s) CAN GAAP Fiscal year end December 31st	Actual FY06 (Aug)	Actual FY07 (Aug)	Stub Dec-31 (four months)	Actual Mar-08	Actual Jun-08	Estimate Sep-08	Estimate Dec-08	Estimate FY08	Estimate FY09	Estimate FY10
Revenue	18,658	19,706	5,221	5,556	5,566	8,000	8,250	27,372	44,750	65,000
Y/Y Change	6.4%	5.6%		10.6%	10.5%	56.5%	81.8%	38.9%	63.5%	45.3%
Q/Q Change				22.5%	0.2%	43.7%	3.1%			
COGS	11,318	10,034	3,319	3,019	2,956	3,600	3,300	12,876	14,100	13,000
Gross Profit	7,340	9,672	1,902	2,536	2,610	4,400	4,950	14,496	30,650	52,000
Gross Margin	39.3%	49.1%	36.4%	45.7%	46.9%	55.0%	60.0%	53.0%	68.5%	80.0%
R&D	11,107	12,026	3,346	2,547	2,695	3,700	4,000	12,941	17,500	20,000
% of Revenue	59.5%	61.0%		45.8%	48.4%	46.3%	48.5%	47.3%	39.1%	30.8%
S,G&A	8,865	11,810	4,525	3,649	3,617	4,650	5,000	16,917	20,000	22,000
% of Revenue	47.5%	59.9%		65.7%	65.0%	58.1%	60.6%	61.8%	44.7%	33.8%
Operating Expenses	19,971	23,836	7,871	6,196	6,312	8,350	9,000	29,858	37,500	42,000
% of Revenue	107.0%	121.0%	150.8%	111.5%	113.4%	104.4%	109.1%	109.1%	83.8%	64.6%
Operating Income	-12,632	-14,164	-5,969	-3,660	-3,702	-3,950	-4,050	-15,362	-6,850	10,000
% of Revenue				-65.9%	-66.5%	-49.4%	-49.1%	-56.1%	-15.3%	15.4%
Interest Expense	692	609	-195	-172	-254	-175	-150	-751	-475	-250
Depreciation	1,471	821	284	212	211	800	825	2,048	3,360	3,500
Writedowns	1	0	659	0	0	1,500	0	1,500	0	0
FX Loss	428	126	289	-215	53	0	0	-162	0	0
Stock Based Compensation	915	669	230	284	283	300	300	1,168	1,200	1,200
Other Expense	124	294	0	23	159	125	135	0	0	0
Pretax Income	-14,920	-16,682	-7,237	-3,792.9	-4,153	-6,500	-5,160	-19,164	-10,935	5,550
% of Revenue	-80.0%	-84.7%	-138.6%	-68.3%	-74.6%	-81.3%	-62.5%	-70.0%	-24.4%	8.5%
Income Tax	131	316	58	44	98	0	0	0	0	0
Tax Rate	-0.9%	-1.9%	-0.8%	1.3%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-16,394	-16,998	-7,294	-3,837	-4,251	-6,500	-5,160	-19,748	-10,933	5,550
				-69.1%	-76.4%	-81.3%	-62.5%	-72.1%	-24.4%	8.5%
Shares	67,618	94,182	119,493	131,129	151,002	162,000	162,125	151,564	162,413	175,000
Fully Diluted Shares	67,618	94,182	119,493	131,129	151,002	162,000	162,125	151,564	162,413	180,000
Proforma EPS (Ex Special Items)	(\$0.24)	(\$0.18)	(\$0.06)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.03)	(\$0.13)	(\$0.07)	\$0.03
	(\$0.24)	(\$0.18)	(\$0.06)	(\$0.03)	(\$0.03)	(\$0.04)	(\$0.03)	(\$0.13)	(\$0.07)	\$0.03
Y/Y Change	165.2%	-25.6%		-42.9%	-45.0%	-23.9%	-7.4%	-27.8%	-48.3%	-208.9%
Q/Q Change				-14.9%	-3.8%	42.5%	-20.7%			

Source: Company, Paradigm Capital

Table 4:

August 12, 2008						
Balance Sheet	2005	2006	2007	2007*		
(in C\$ 000s)	Q4	Q4	Q4	Stub	Q1	Q2
Fiscal year end December 31st	Aug-05	Aug-06	Aug-07	Dec-07	Mar-08	Jun-08
Cash & Equivalents	7,318	22,487	19,629	12,048	35,247	30,006
Short-Term Investments	0	0	0	0	0	0
Accounts Receivable	3,910	3,790	3,081	3,564	5,459	6,463
Inventory	134	111	16	103	51	0
Prepaid Expenses	346	386	541	693	703	932
Total Current Assets	11,708	26,774	23,267	16,407	41,460	37,401
PP&E, Net	981	1,361	1,479	1,398	1,473	1,790
Goodwill	14,190	14,190	14,190	14,190	13,823	13,916
Intangible & Other	1,213	1,134	397	411	623	2,058
Total Assets	28,091	43,458	39,333	32,406	57,379	55,164
Accounts Payable	2,790	4,011	3,563	3,339	3,496	4,643
Income Tax Payable	263	219	423	244	195	271
Notes Payable	0	0	0	0	0	0
Deferred Revenue	837	543	703	1,164	1,259	1,220
Other	0	0	15	16	16	63
Total Current Liabilities	3,890	4,772	4,704	4,763	4,966	6,197
Other Long Term Liabilities	261	230	184	137	109	188
Note Payable	0	7,618	0	0	0	0
Total Long Term Liabilities	261	7,848	184	137	109	188
Total Liabilities	4,152	12,620	4,889	4,901	5,075	6,385
Total Equity	23,939	30,839	34,444	27,505	52,304	48,779
Total Liabilities & Equity	28,091	43,458	39,333	32,406	57,379	55,164

Source: Company, Paradigm Capital

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