

Intrinsyc Software International Inc.

ICS : TSX : C\$0.63

SPECULATIVE BUY

Target: C\$1.40

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COMPANY STATISTICS:

52-week Range: C\$0.39 - 1.30
 Avg. Daily Vol. (000s): 562.5
 Market Cap (M): C\$95.1
 Shares Out (M) basic: 150.9
 Shares Out (M) diluted: 150.9

EARNINGS SUMMARY:

FYE Aug	2005A	2006A	2007A	2008E	2009E
Revenue (M):	US\$17.5	US\$18.7	US\$19.7	US\$25.6	US\$63.2
EV/Sales (x):	3.6	3.4	3.2	2.5	1.0
EPS:	US\$(0.11)	US\$(0.24)	US\$(0.18)	US\$(0.11)	US\$0.05
P/E (x):	NM	NM	NM	NM	13.5

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

KEY TAKEAWAYS FROM COURT FILINGS

Event

We have reviewed the court documents pertaining to Destinator's bankruptcy protection and the proposed acquisition by Intrinsyc.

Impact

Neutral. We would highlight four key observations: i) Destinator sales have declined from US\$31 million in F06 (ending January 2006) to US\$29 million in F07 to US\$27 million in F08 (annualized), ii) gross margin has eroded from 46% in F07 to 41% in F08, leading to an F08 operating loss of roughly US\$12 million, iii) broader list of customers disclosed – includes Acer, ASUSTek, Delphi Grundig, LG, Motorola, Sony Ericsson, Packard Bell, Ngai Lik and Shinco, iv) NAVTEQ is Destinator's key vendor relationship – the company is owed almost \$12 million, about 80% of which is aged more than 90 days.

Action

We see no major surprises in the court filings. We continue to believe that Destinator represents an attractive opportunity for Intrinsyc to quickly gain share in the growing LBS market. The ability to acquire only select assets at a compelling valuation, combined with Intrinsyc's seasoned management team reduces the M&A risk in this transaction. As such, we maintain our SPECULATIVE BUY rating and C\$1.40 target based on our DCF analysis.

Valuation

Intrinsyc trades at a discount at 0.9x F09E revenue vs. its peers at 3.1x.

Financials

Destinator sales have been declining over the past few years – from US\$31 million in F06 (ending January 2006) to US\$29 million in F07 and US\$27 million in F08 (annualized). Gross margin has eroded from 46% in F07 to 41% thus far in F08. Total expenses have been cut by about 10% in F08. As a result, Destinator’s operating loss has stabilized at roughly \$12 million in F08. Destinator is rapidly bleeding cash, on the order of \$500K per month. With effectively zero cash on the balance sheet, Destinator will require the \$3.25 million in post petition financing to continue operations. The company’s projected cash flow statement is shown below.

Figure 1: Destinator Abbreviated Income Statement

US\$ (000's)	31-Jan-06	31-Jan-07	31-Oct-07	Annualized
Sales	30,994	29,074	20,241	26,988
Gross Margin	13,127	13,480	8,367	11,156
Gross Margin %	42%	46%	41%	41%
Operating Expenses	20,064	25,424	17,036	22,715

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Timeline

We summarize the current timeline of proceedings as follows:

Figure 2: Schedule of Events

Schedule of Events	Date
Company to seek CCAA protection	May 20th
Monitor to seek provisional stay and financing relief in the US under Chapter 15	May 21st
Monitor to seek interim approval of bidding procedures in the US	May 23rd
Monitor to seek order recognizing CCAA proceedings in the US and final approval of bidding procedures and financing	June 10th
Date for receipt of competing bids	June 20th
Auction Date	June 25th
Canadian court approval date	June 30th
US Court approval date	July 1st

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Key Customers

The court documents provided a few other customers beyond those disclosed by Intrinsic. The list includes Acer, ASUSTek, Delphi Grundig, LG, Motorola, Sony Ericsson, Packard Bell, Ngai Lik and Shinco. We would note that only ASUSTek appears on Destinator’s list of five largest receivables accounts, which in aggregate represent 60% of the company’s total.

Figure 3: Customers

Customer	(US\$000s)
Support Plus US	564
ASUSTeK Computer Inc.	432
MLS Multimedia	378
Empresa Basileira de Solucoes de Mobilidad	333
Voxson Sales PTY Ltd.	176
Total	1,883

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Vendor Relationships

Destinator's key vendor relationship is with map data provider, NAVTEQ. We believe the vast majority of Destinator's COGS are basically third party resale of NAVTEQ's data set. NAVTEQ is owed almost \$12 million, about 80% of which is aged more than 90 days. A mutual agreement between Intrinsic and NAVTEQ on their go-forward relationship is a pre-requisite for consummation of the transaction.

Figure 4: Vendors

Vendors	(US\$000s)
NavTeq	11,642
Sensis PTY Ltd.	1,844
Tele Atlas	288
Lingo Systems	64
MapInfo Australia PTY Ltd.	60
Total	13,898

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Break Fee and Post Petition Financing

The break fee offered to Intrinsic is \$463,000 (3% of purchase price) plus expense reimbursement to be capped at \$1.5 million. Intrinsic will lead a post-petition financing round for Destinator based on the company's dire cash position. A total of \$3.25 million will be made available to Destinator, consisting of an initial \$2.5 million (\$2 million from ICS and \$0.5 million from GMP) followed by a \$0.75 million backstop funded by GMP and the debenture holders.

Closing Conditions

Key closing conditions for Intrinsic include:

- Key customer and supplier contracts to either be assigned to ICS or ICS to enter into new agreements with each customer and supplier
- Acceptance of 85% of employees and 100% of key employees (5) to whom offers are made

- Working capital deficit cannot exceed \$2 million; any deficiency in excess of \$2 million to be satisfied from the holdback
- Delivery of audited 2008 financial statements or an exemption from ICS
- Orders from the Ontario and US courts vesting in ICS the purchased assets free and clear of all liens, claims and encumbrances
- No material adverse change to company's business

Liabilities

Destinator's only secured creditors are the debenture holders, who are owed an aggregate of about \$26 million, including accrued interest. Destinator issued the 12% secured convertibles in October 2006 for a total of \$21.6 million. The company has been in default on these debentures since October 31, 2007. The debenture holders have not yet made a formal demand for payment. There are a total of 63 debenture holders. About 8% of the debenture holders, representing 56% of the amount of the debentures are Destinator board members or officers. Deal consummation will require a two-thirds approval by the debenture holders.

Destinator's indebtedness to unsecured creditors totaled about \$19 million, the majority related to vendor obligations. The company's largest vendor by far is map data provider, NAVTEQ, which is currently owed almost \$12 million. Of this total, about \$9.5 million is aged greater than 120 days. NAVTEQ has issued a demand for payment on April 24, 2008

Figure 5: Destinator Projected Cash Flow

US\$(000s)	18-May-08	25-May-08	1-Jun-08	8-Jun-08	15-Jun-08	22-Jun-08	29-Jun-08	Total
Receipts	197	50	102	486	125	150	135	1,245
Disbursements								
COGS	110	110	110	110	110	110	110	770
Employee Costs	157	205	289	160	137	107	612	1,667
Professional Fees	290	143	148	108	108	108	218	1,120
Other	292	131	174	74	37	62	227	996
Total Disbursements	849	589	720	452	391	387	1,166	4,554
Net Cash Flow	(652)	(539)	(618)	34	(266)	(237)	(1,031)	(3,309)
Opening Cash balance	59	(593)	(1,132)	(1,750)	(1,716)	(1,982)	(2,219)	59
Ending cash balance	(593)	(1,132)	(1,750)	(1,716)	(1,982)	(2,219)	(3,250)	(3,250)

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Figure 6: Destinator Income Statement

US\$ (000's)	31-Jan-06	31-Jan-07	31-Oct-07	Annualized
Sales	30,994	29,074	20,241	26,988
Cost of Sales	17,867	15,594	11,874	15,832
Gross Profit	13,127	13,480	8,367	11,156
Expenses				
Sales and marketing	5,640	5,450		
Operations	2,029	1,697		
Research and development	4,283	7,472		
General and administrative	8,111	9,515		
Workforce reduction		1,290		
Total Expenses	20,064	25,424	17,036	22,715
Operating Loss	(6,937)	(11,944)	(8,669)	(11,559)
Other items	(6,335)	(2,608)		
Interest Expense	(5)	(1,125)		
Loss before income taxes	(13,276)	(15,677)		
Income tax expense	107	223		
Net loss for the year	(13,383)	(15,901)		
Deficit, Beginning of year	(2,644)	(16,027)		
Deficit, End of year	(16,027)	(31,928)		

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Figure 7: Destinator Balance Sheet

US\$ (000s)	31-Jan-06	31-Jan-07	31-Oct-07
Current Assets			
Cash and Cash Equivalents	3,193	1,053	754
Accounts Receivable	8,717	7,507	6,583
Inventory	100	59	128
Prepays and deposits	319	1,261	1,294
Total Current Assets	12,328	9,881	8,759
Capital Assets			
Restricted Cash	141	206	232
Capital Assets	2,314	2,548	2,129
Intangible Assets	424	348	291
Goodwill	280		
Future Income Taxes	52	176	428
Total Assets	3,212	3,278	3,080
Liabilities			
Accounts Payable (incl accrued liabilities)	13,549	11,055	14,396
Other liabilities	351	1,361	770
Debentures		12,272	21,639
Total Liabilities	13,900	24,688	36,805

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Figure 8: Destinator Cash Flow

US\$ (000s)	31-Jan-06	31-Jan-07
Operating Cash Flows		
Net Loss for the year	(13,383)	(15,901)
Items not affecting cash	6,485	3,123
Changes in Non-cash working capital	1,220	(1,177)
CFO	(5,678)	(13,955)
Financing		
Issuance of Series B preferred shares	6,613	
Exercise of stock options		21
Warrants issued	197	
Issuance of convertible debentures	700	13,008
CFF	7,510	13,029
Investing		
Restricted Cash	(141)	(65)
Proceeds from disposal of capital assets	2	3
Purchase of capital assets	(2,298)	(1,152)
CFI	(2,438)	(1,214)
Net Cash outflow for the year	(606)	(2,140)
Cash, beginning of year	3,800	3,193
Cash, end of year	3,193	1,053

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Figure 9: Destinator Patents

Patent or Application number	Title	Country	Owner
(P)5043736	Cellular Position Locating System	United States	Destinator Technologies Intellectual Properties Inc.
(A)2049818	Cellular Position Locating System	Canada	Destinator Technologies Intellectual Properties Inc.
(A)11/356,271	Systems, Methods and Apparatuses for Continuous In-Vehicle and Pedestrian Navigation	United States	Destinator Technologies Inc.
(A)PCT/EP2006/001544	Systems, Methods and Apparatuses for Continuous In-Vehicle and Pedestrian Navigation	PCT	Destinator Technologies Inc.
(A)95107422	Systems, Methods and Apparatuses for Continuous In-Vehicle and Pedestrian Navigation	Taiwan	Destinator Technologies Inc.
(P)136207	An E-Mail Management System for Wireless	Israel	Destinator Technologies Inc. (Canada)
(P)136206	Modular Device Organizer	Israel	Destinator Technologies Inc. (Canada)
(P)132046	A Cartographic Display Accelerator Method	Israel	Destinator Technologies Inc. (Canada)
(A)60/920,241	Continuous Navigation System	United States	Destinator Technologies Inc.
(A)11/824,234	Magnetometer Normalization (DCN)	United States	Destinator Technologies Inc.
(A)11/977,268	Route Calculation Based on Traffic Events	United States	Destinator Technologies Inc.
(A)11/974.391	Collaborative GPS/INS Integration for Continuous Positioning and Navigation	United States	Destinator Technologies Inc.
(A)11/977,341	Generation in a Mobile Device of a Traffic Map Based on Traffic Messages	United States	Destinator Technologies Inc.
200620122261.1	AGPS Positioning System	China	Destinator Technologies Inc. (China)

Source: Intrinsic/Destinator court documents, adapted by Canaccord Adams

Valuation

Intrinsyc trades at a discount to peers on both an F09E EV/sales and P/E basis. The company trades at 0.9x F09E revenue vs. peers at 3.1x and 13x P/E vs. peers at 20x. Based on Intrinsyc's growth potential, we believe that the discount is not justified.

Figure 10: Comparables

			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. 9.05	46	60	30%	0.37	0.65	75%	4.4	3.3	24.2	13.8
Red Hat	RHT	:N	\$23.58	673	807	20%	0.80	0.89	12%	6.1	5.1	29.5	26.5
Research In Motion	RIMM	:Q	\$138.61	11,667	15,992	37%	4.75	7.00	47%	6.5	4.8	29.2	19.8
TrollTech	TROLL	:OS	14.00 kr	293	386	32%	0.05	0.64	NM	2.2	1.7	NM	22.0
Wind River	WIND	:Q	\$8.27	369	401	9%	0.43	0.53	24%	1.6	1.4	19.4	15.6
Zi Corp	ZIC	:T	\$0.52	15	15	3%	0.00	0.00	NM	1.6	1.5	NM	NM
Average						21%			39%	4.1	3.1	25.6	19.5
Median						25%			36%	4.4	3.3	26.7	19.8
Intrinsyc	ICS.	:T	\$0.63	26	63	147%	-0.11	0.05	-320%	2.3	0.9	NM	12.6
Intrinsyc	ICS.	:T	\$1.40	26	63	147%	-0.11	0.05	-320%	6.9	2.8	NM	28.0

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 Intrinsic'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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(as of 1 May 2008)

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Speculative Buy	61	11.4%	59.0%
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	536	100.0%	

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

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