

Intrinsyc Software International Inc.

ICS-TSX

Slower-than-Expected Soleus Ramp; Downgrading Rating and Target

Event

Intrinsyc reported F3Q08 results on November 14. Revenues were US\$7.9 mln (RJ and consensus: US\$7.8 mln). EPS loss of US\$0.04 was in-line with our estimate and consensus.

Action

We are downgrading Intrinsyc to a MARKET PERFORM rating (from OUTPERFORM). We are reducing our target to C\$0.12 (was C\$0.40). Our target is based on a 1.0x (was 1.5x) EV/sales multiple – at a discount to the group average of 1.5x EV/C2010 sales to reflect increasing risk regarding Intrinsyc's ability to obtain financing next year as it continues to burn cash.

Analysis

Soleus royalty revenues commenced late in F3Q08 (MiTAC and SiRF) and are expected to modestly increase in 4Q. We believe Soleus revenues ramp is significantly much slower than our expectation. We are also expecting Intrinsyc's engineering services revenues to decline going forward as Motorola (MOT-NYSE, not rated, recent: \$4.08) recently announced its decision to move away from the Symbian platform. We are reducing our estimates to account for these changes. Intrinsyc has ~US\$19.5 mln in net cash as of the end of F3Q08 and we estimate Intrinsyc is burning cash between US\$5.5-\$6.0 mln per quarter.

Valuation

Intrinsyc is currently trading below cash (US\$0.12/share net cash) while comparable mobile software companies trade at 1.5x C2009E revenues.

CHANGES

FY-Dec 31	Revenue F2008E	Revenue F2009E	Revenue F2010E	EPS F2008E	EPS F2009E	EPS F2010E
OLD	28.3	49.7	59.4	-0.12	-0.08	-0.04
NEW	25.8	29.8	35.8	-0.13	-0.14	-0.10

RATING & TARGET

RATING	MARKET PERFORM 3 ↓
Target Price (6-12 mths)	0.12 ↓
Closing Price	0.11
Total Return to Target	14%

MARKET DATA

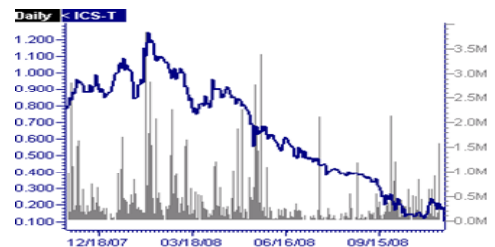
Market Capitalization (\$mln)	17
Current Net Debt (\$mln)	(20)
Enterprise Value (\$mln)	(4)
Shares Outstanding (mln)	161
Avg Daily Dollar Volume (3mo, mln)	n.a.
52 Week Range	\$0.10 - \$1.30

KEY FINANCIAL METRICS

FY-Dec 31	2008E	2009E	2010E
EPS (US\$)	-0.13 ↓	-0.14 ↓	-0.10 ↓
P/E	n.m.	n.m.	n.m.
EPS - 1Q (US\$)	-0.03 A	-0.03	n.a.
EPS - 2Q (US\$)	-0.03 A	-0.04	n.a.
EPS - 3Q (US\$)	-0.04 A	-0.03	n.a.
EPS - 4Q (US\$)	-0.03	-0.03	n.a.
EBITDA (US\$ mln)	-18.1 ↓	-17.8 ↓	-14.7 ↓
EV/EBITDA	n.m.	n.m.	n.m.
Revenue (US\$mln)	25.8 ↓	29.8 ↓	35.8 ↓
Yield (%)			

COMPANY DESCRIPTION

Intrinsyc is a mobile software and engineering services company that provides systems integration for wireless handsets. The company has leveraged its expertise to develop a high-level operating system (HLOS) called Soleus, to enable handset manufacturers and telecommunications operators to deliver feature phones more rapidly, at a lower cost, and with customizable options and design.



All figures in C\$, unless otherwise noted.

Sources: Raymond James Ltd., ThomsonOne, CapIQ

Risks

- Risk of design wins not translating into material revenue due to failed device launches.
- Heightened competition from competing OS providers.
- Exposure to currency fluctuations.
- Lumpiness inherent in Engineering services business.

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Company	Symbol	Exchange	Disclosures
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