Intrinsyc backs away from deal with Annabooks

BY MICHAEL LEWIS
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Vancouver's **Intrinsyc Software Inc.** has backed away from a planned union with Microsoft Corp. distributor Annabooks Software LLP, citing capital market meltdowns that undermined a share swap tied to the original deal.

Analysts and technology industry venture capitalists say the cancelled merger is an example of the "carnage" in the technology sector that has flowed from double-digit declines in equity values over the past few weeks — and the plunge of the C$.

With Intrinsyc shares (ICS/VSE) trading at the 70¢ level, off sharply from nearly $4 last March, "it is unlikely that the financing conditions required can be satisfied within the period stipulated," chief executive Derek Spratt said yesterday.

The merger, announced in March, has been postponed indefinitely.

Just over a month ago, Intrinsyc and San Diego-based Annabooks announced a "definitive agreement" that would have seen the two merge to form the world's leading supplier of Microsoft operating systems and tools to the embedded software market.

Under terms of the now defunct deal, Intrinsyc would have acquired all of Annabook's stock in exchange for shares of Intrinsyc U.S. Co. a new corporation that would have been formed through the merger.

"A lot of business is on hold," said Jason Zandberg of Vancouver's Pacific International Securities Inc. "The whole market is slowing right down in terms of mergers and acquisitions."

He said initial public offerings by tech firms on the Vancouver Stock Exchange are scarce — while a spokesman for the Toronto Stock Exchange said IPOs there have dwindled in frequency and value.

TSE figures show 56 IPOs valued at $5.23 billion resulting in market listings to the end of September, only six of which involved tech companies. The TSE hosted 71 IPOs through the end of September 1997 with a total value of $9.82 billion. There were 79 IPOs on the TSE in 1996, which generated nearly $5.5 billion.

Denzil Doyle, an Ottawa-based venture capital financier and veteran high-tech watcher, said while market conditions may have curtailed mergers and acquisitions, particularly among small and mid-cap software companies, the most telling impact is in the IPO market.

Share price declines have "all but dried up" new capital issues by tech firms, he said.

Weak share prices and the shrinking C$ also mean "everything is cheaper in Canada." Several well-known software companies here could face hostile takeover bids.

Moreover, the low value of the C$ means Canadian high-tech companies try to avoid establishing costly U.S. sales networks, opting instead for distribution partnerships.

The result, Doyle said, is that the firms are limited in their product offerings, since value-added software applications usually require direct sales support.