

INTEGRATED ASSET MANAGEMENT CORP. (\$1.16 - IAM:TSX)

Recommendation

Strong Buy

Risk

Medium

Target Price

1-Year: \$2.35
(Lowered from \$3.00)

Price (August 21)

\$1.16

52-Week Range

\$1.69 - \$1.10

Potential Return

1-Year: 2.0x

Shares O/S

28.6 million

Market Cap

\$33.2 million

Average Daily Volume

20 day: 6,725
150 day: 13,100

Year-End

September 30

C\$	Per Share	
	EBITDA	Mult
2007a	\$0.26	4.5x
2008e	\$0.26	4.5x
2009e	\$0.27	4.3x
AUM \$ bill	\$3.4	

	Amount	Yield
Dividend	\$0.08	6.9%



Data Source: www.BigCharts.com

OVERVIEW

Integrated Asset Management (“IAM”) reported consolidated EBITDA for the third quarter of fiscal 2008 (June 30, 2008) of \$4.1 million or \$0.14 per share, up from \$2.7 million or \$0.10 per share in the same period last year. These results were marginally below expectations. Performance fees in the quarter, although strong, were lower than expected by about \$1.0 million. Management fees were weaker than expected declining 10% Y/Y. However, core management fees from real estate and private corporate debt increased Y/Y. The shortfall in management fees occurred in both the Retail Alternative Investment (Retail) operations as well as from lower closing fees as there were fewer real estate and debt transactions.

Total AUM (assets under management), including committed AUM, increased by 10% Y/Y to \$3.3 billion as management was successful in closing 2 major funds in the first quarter. Net income for the third quarter, after taxes and non-controlling interest, was reported at \$1.8 million or \$0.06 per share versus \$1.2 million or \$0.04 per share in the same quarter last year.

FISCAL 2008 AND 2009 OUTLOOK

We believe management will be successful in delivering improved earnings in both fiscal 2008 and 2009 in spite of the current volatile market environment. We expect earnings to be driven by higher management fees as committed assets become more fully invested. However, lower management fees and performance fees from the Retail group may be more of a drag than we originally expected.

Analysts

Robin Cornwell, B.A. (Economics), MBA
Bob Weir, B.Sc., B. Comm, CFA

For fiscal 2008, our EBITDA forecast of \$8.0 million or \$0.28 per share has been lowered slightly to \$7.8 million or \$0.26 per share. This lower forecast reflects our revised revenue forecast of \$30.7 million down from \$34.1 million previously. The lower revenue is based on lower expected management fees and performance fees. Net income for fiscal 2008 has been lowered to \$2.4 million or \$0.08 per share from \$2.7 million or \$0.09 per share previously.

For fiscal 2009, we have lowered our forecast EBITDA to \$8.0 million or \$0.27 per share from \$8.7 million or \$0.30 per share. Our forecast for net income has been lowered to \$2.8 million or \$0.09 per share from \$3.0 million or \$0.11 per share. This forecast is based on revenues of \$32.0 million, down from our previous estimate of \$36.0 million. We expect performance fees and management fees to be lower driven by uncertain equity markets. We expect the dividend will be increased to \$0.10 by the end of fiscal 2009 representing an increase of about 10% annually.

OPINION

IAM's business model has historically demonstrated significantly less AUM volatility because its asset managers are more closely involved with their investments than traditional asset managers, thereby providing a more stable and controllable AUM base. In addition, IAM has the potential to earn significant and demonstrated performance fees. Projected AUM of \$3.4 billion by fiscal year-end 2009 will be generally underinvested for the next 12 months providing the prospect of growing revenues for that period even with no further new business.

IAM's common shares currently trade at 4.3 times projected 2009 EBITDA, which is well below the overall industry average of about 9.2 times 2009 estimated EBITDA. However, given our lower earnings forecast for fiscal 2009 and the lower market valuations generally for asset managers we believe it necessary to lower our 12 month share price target of \$3.00 per share to \$2.35 per share. The shares are considered significantly undervalued and continue to be recommended as a Strong Buy. The annual dividend rate paid is \$0.08 per share payable semi-annually. The yield is 6.9%.

OTHER QUARTERLY HIGHLIGHTS

- Total revenue of \$11.4 million in Q3/08 was up 3% Y/Y. Revenue for the nine months was \$24.9 million down 6% due to lower performance fees as noted below.
- Total performance fees in Q3/08 were \$5.7 million up Y/Y by 6% and were largely the result of monetizing GPM (7), recording performance fees of about \$5.6 million. For the nine months to date, performance fees were \$7.2 million down 22% Y/Y.
- Total SG&A expenses of \$4.4 million were down from \$5.2 million in the same period last year which included non-recurring costs of \$0.3 million. Excluding the non-recurring costs SG&A declined about 10% Y/Y. For the nine months to-date SG&A is essentially flat Y/Y.
- Total committed AUM is expected to increase 10% Y/Y to \$3.3 billion for the fiscal year-ended September 30, 2008. Integrated Debt will be responsible for most of increase through the recent \$425 million fund closing. Integrated Debt is now estimated to have \$1.1 billion in total committed AUM of which we estimate about 70% is at present actively invested.
- GPM's committed AUM increased to an estimated \$740 million with its recent closing of GPM (11) of \$148 million less the monetization of about \$100 million of GPM (7). We estimate GPM is about 80% actively invested.
- Cash balances declined to \$11.2 million from \$15.4 million as at September 30, 2007 but increased from \$10.9 million as at the end of the prior quarter. Including the \$6.0 million investment in the Exemplar Portfolios, cash balances were up Y/Y to about \$17.2 million.

Table 1 IAM Assets Under Management

IAM Asset Breakdown AUM & Committed Assets \$millions	Years Ended				Forecast	
	30-Sep 2004	30-Sep 2005	30-Sep 2006	30-Sep 2007	30-Sep 2008E	30-Sep 2009E
Integrated Private Debt						
Managed	\$ 243	\$ 258	\$ 221	\$ 652	\$ 800	\$ 1,080
Committed		\$ 522	\$ 598	\$ 102	\$ 280	\$ -
Total Private Debt	\$ 243	\$ 780	\$ 819	\$ 754	\$ 1,080	\$ 1,080
GPM						
GPM - AUM	\$ 370	\$ 533	\$ 562	\$ 692	\$ 580	\$ 690
GPM - AUM Committed	\$ -	\$ -	\$ -	\$ -	\$ 120	\$ 10
Darton Property Advisors	\$ 505	\$ 710	\$ 702	\$ 759	\$ 775	\$ 850
Total GPM	\$ 875	\$ 1,243	\$ 1,264	\$ 1,451	\$ 1,475	\$ 1,550
Integrated Partners & Futures	\$ 62	\$ 66	\$ 60	\$ 19	\$ 25	\$ 30
Retail Alternative Investments	\$ 552	\$ 785	\$ 739	\$ 756	\$ 720	\$ 740
Total IAM Assets Managed	\$ 1,732	\$ 2,352	\$ 2,284	\$ 2,878	\$ 2,900	\$ 3,390
Total Committed AUM	\$ 1,732	\$ 2,874	\$ 2,882	\$ 2,980	\$ 3,300	\$ 3,400

Source: Company

FINANCIAL FORECAST

IAM's committed AUM is forecast to remain near the \$3.3 billion level until the end of fiscal 2008 then increase to an estimated \$3.4 billion as at the end of fiscal 2009, which is a level slightly lower than originally expected due in part to market volatility. Managed AUM is forecast to increase by about 1% annually to \$2.9 billion and almost \$3.4 billion in fiscal 2008 and 2009 respectively. Overall, IAM will be generally underinvested for the next 12 months providing the prospect of growing revenues for that period even with no further new business. We expect the managed AUM to be over 98% invested by the end of fiscal 2009 as follows:

- GPM recently completed a total new capital raise of \$148 million in GPM (11). Total committed and managed AUM is forecast to increase to \$700 million with GPM's managed AUM at \$580 million by the end of fiscal 2008 and then increase to \$690 million by the end of fiscal 2009.
- Integrated Debt is forecast to have managed AUM of \$800 million as at the end of fiscal 2008 and be about 78% invested. By the end of fiscal 2009 we expect the group to be 100% invested with AUM of about \$1.1 billion.
- Retail Alternative Investments, as previously noted, is expected to continue its focus on marketing and selling new BluMont Capital products including more prospectus-based alternative funds that will be accessible to a wider group of retail investors and resource flow-through funds. However, recent market volatility has made the marketing more challenging. We forecast total AUM to decrease to \$725 million in fiscal 2008 and then increase to approximately \$740 million by the end of fiscal 2009. This level of asset growth will constrain both management fees growth and performance fees.
- Integrated Partners is not expected to close any new offerings in 2008 and we expect AUM will remain at \$16 million in fiscal 2008 and 2009. We have assumed little change in AUM until after fiscal 2008 as refocusing strategies take effect.
- Managed Future's AUM is projected to increase to \$9 million and \$14 million in fiscal 2008 and 2009 respectively with additions from the new BluMont Capital product offering. No performance fees are assumed for either year.

Total consolidated revenue is forecast to decrease to about \$30.7 million (previously forecast \$34.1 million) in fiscal 2008 and then increase to \$32.0 million (previously \$36.0 million) in fiscal 2009. The lower revenue forecasts are driven by the lower AUM levels, lower transaction closing fees and lower estimated performance fees. Due largely to market volatility, performance fees are forecast to decline by 23% in fiscal 2008 to \$7.2 million (previously estimated at \$8.0 million) and a further 17% in fiscal 2009 to \$6.0 million (previously estimated at \$8.0 million).

We have forecast a slower growth in operating expenses for the balance of fiscal 2008 and all of fiscal 2009. We expect an improved operating expense ratio of closer to 80% by fiscal 2009 versus 94% in fiscal 2007. Generally, IAM has been viewed as deriving its profits from performance fees, but we believe the Company has matured to a new operating level where its scale now allows for a positive EBITDA from only recurring management fees.

For fiscal 2008, EBITDA is forecast to increase to about \$7.8 million or \$0.26 per share down marginally from our previous estimate of \$8.0 million, which represents a margin of 25.4% up from 20.5% in fiscal 2007. For fiscal 2009, we have revised our forecast EBITDA downward to \$8.0 million or \$0.27 per share from \$8.7 million or \$0.30 per share.

Net income has been revised downward slightly to \$2.4 million or \$0.08 per share for fiscal 2008 (previously \$2.7 million) and lowered for fiscal 2009 to \$2.8 million or \$0.09 per share (previously \$3.0 million). We expect the dividend will be increased to \$0.10 by the end of fiscal 2009, representing an increase of about 10%.

Table 2 IAM Consolidated Income Statement

IAM Consolidated Year end Sept 30	3rd Quarter Ended		9 months Ended		Years Ended			
	30-Jun 2008A	30-Jun 2007A	30-Jun 2008A	30-Jun 2007A	30-Sep 2006A	30-Sep 2007A	30-Sep 2008E	30-Sep 2009E
Revenue								
Mgmt & Adv. Fees	\$ 5,136,781	\$ 5,701,489	\$ 16,456,416	\$ 15,816,511	\$ 19,954,884	\$ 21,482,395	\$ 21,800,000	\$ 24,400,000
Performance Fees	\$ 5,676,295	\$ 5,413,415	\$ 7,185,726	\$ 9,298,048	\$ 11,561,353	\$ 9,369,468	\$ 7,200,000	\$ 6,000,000
Equity Loss of Investment	\$ 329,028	\$ (381,628)	\$ 280,914	\$ (386,008)	\$ (574,554)	\$ (381,628)	\$ 330,000	\$ -
Other Income & Interest	\$ 249,064	\$ 369,470	\$ 1,022,696	\$ 1,763,519	\$ 1,491,007	\$ 2,200,697	\$ 1,400,000	\$ 1,600,000
Total Revenue	\$ 11,391,168	\$ 11,102,746	\$ 24,945,752	\$ 26,492,070	\$ 32,432,690	\$ 32,670,932	\$ 30,730,000	\$ 32,000,000
Net Performance Fees	\$ 3,665,877	\$ 2,936,911	\$ 7,185,726	\$ 4,548,884	\$ 5,449,049	\$ 4,616,364	\$ 4,400,000	\$ 3,300,000
Expenses								
SG&A	\$ 4,417,518	\$ 5,213,403	\$ 13,887,170	\$ 14,027,018	\$ 18,702,721	\$ 20,175,402	\$ 18,400,000	\$ 19,700,000
Investment Advisory Fees	\$ 166,659	\$ 36,764	\$ 427,800	\$ 229,477	\$ 681,416	\$ 262,344	\$ 600,000	\$ 240,000
Service Fees to Dealers	\$ 345,976	\$ 297,144	\$ 1,012,088	\$ 852,091	\$ 1,285,891	\$ 1,131,365	\$ 1,300,000	\$ 1,360,000
Service & Perform Fees	\$ 2,010,418	\$ 3,197,504	\$ 2,774,233	\$ 5,914,164	\$ 6,112,304	\$ 4,753,104	\$ 2,800,000	\$ 2,700,000
Deprec. Prop & Equip	\$ 69,596	\$ 72,132	\$ 199,581	\$ 174,158	\$ 248,270	\$ 254,159	\$ 300,000	\$ 250,000
Amort. D.S. commissions	\$ 525,964	\$ 484,740	\$ 1,572,865	\$ 1,293,859	\$ 724,454	\$ 1,917,494	\$ 2,100,000	\$ 2,300,000
Amort. Mgmt Contracts	\$ -	\$ 35,000	\$ -	\$ 167,948	\$ 1,359,230	\$ 156,303	\$ -	\$ -
Interest Expense	\$ 8,579	\$ 56,138	\$ 67,491	\$ 160,217	\$ 221,378	\$ 226,922	\$ 80,000	\$ 50,000
Stock Based Comp.	\$ 50,091	\$ 17,574	\$ 145,728	\$ 82,733	\$ 146,604	\$ 125,691	\$ 150,000	\$ -
Total Expenses	\$ 7,594,801	\$ 9,410,399	\$ 20,086,956	\$ 22,901,665	\$ 29,482,268	\$ 29,002,784	\$ 25,730,000	\$ 26,600,000
Operating Income	\$ 3,796,367	\$ 1,692,347	\$ 4,858,796	\$ 3,590,405	\$ 2,950,422	\$ 3,668,148	\$ 5,000,000	\$ 5,400,000
Income Tax	\$ 1,215,097	\$ 703,467	\$ 1,343,542	\$ 1,215,384	\$ (1,128,397)	\$ (1,285,656)	\$ (1,300,000)	\$ (1,600,000)
Minority Interest	\$ (796,698)	\$ 181,520	\$ (1,108,491)	\$ (294,272)	\$ (595,807)	\$ (602,507)	\$ (1,200,000)	\$ (1,000,000)
Net Income (Loss)	\$ 1,784,572	\$ 1,170,400	\$ 2,406,763	\$ 2,080,749	\$ 1,226,218	\$ 1,779,965	\$ 2,400,000	\$ 2,800,000
Earnings Per Share								
EPS - (basic & fd)	\$ 0.06	\$ 0.04	\$ 0.08	\$ 0.08	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.10
EBITDA	\$ 4,122,000	\$ 2,740,000	\$ 6,564,000	\$ 5,851,000	\$ 6,225,000	\$ 6,730,000	\$ 7,800,000	\$ 8,000,000
EBITDA per share (basic & fd)	\$ 0.14	\$ 0.10	\$ 0.23	\$ 0.23	\$ 0.29	\$ 0.26	\$ 0.26	\$ 0.27

Source: Company

DEVELOPMENTS: LAST 12 MONTHS

Several developments took place over the last 12 months, which we view as positive and a logical step in integrating IAM's operation as a diversified alternative asset manager.

- **Asset Acquisition From Augen Capital:** BluMont Capital recently acquired approximately \$30 million of AUM from Augen Capital Corp. The transaction plus future transactions will add mineral flow-through products to BluMont Capital's range of product offerings.
- **Board of Directors:** Bruce Day, a chartered accountant with over 20 years with Rogers Communications Inc. in corporate development, finance and treasury, was elected to the Board and has become a member of the Audit Committee, chaired by David Atkins, and the Compensation and Governance Committee, chaired by Don Lowe. IAM recently concluded that the business associated with Augen Capital could become a significant portion of IAM's business and that there could arise potential conflicts of interest in the future given that both Michel LeBel and George Elliott are both directors of Augen Capital. For this reason both Michel LeBel and George Elliott did not stand for re-election to IAM's Board.
- **Dividend Increase:** IAM recently announced a 14% increase in its regular annual dividend policy to \$0.08 cents per share payable semi-annually up from \$0.07 per share previously.
- **Launch of Exemplar Portfolios:** In May the Company launched this new group of investment products on a continuous offering basis to retail investors. The Exemplar Portfolios allow the portfolio managers more flexibility to take advantage of diverse and volatile markets both domestically and internationally. IAM intends to invest a total of \$6.0 million in these two funds.
- **GPM Announced Completion of GPM (11) for \$148.2 million:** GPM announced on April 15, 2008 that it had completed the final closing for GPM (11) for a total raise of \$148.2 million. Investors are pension funds, large and small, public and private, and endowments.
- **IPD-LP II Closed New Commitment of \$425 million:** Integrated Private Debt announced on April 1, 2008 the closing of Integrated Private Debt Fund LP II (IPD-LP II) with total commitments of \$425 million.

Conflict of Interest: Koloshuk Farrugia Corp., the largest shareholder of Integrated Asset Management Corp. ("IAM"), is also the largest shareholder of Independent Equity Research Corp. (operating as eResearch). IAM entered into a contract with eResearch whereby eResearch will provide annual continuous research coverage on IAM for a cash fee of \$35,000. This is the fourth year of the contract. All other terms and conditions of this contract are substantially the same as eResearch has with its other arm's-length clients. For further information concerning eResearch's compliance policies, business practices, and independence, please refer to the About Us section on our web-site, www.eresearch.ca.

NOTES

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eResearch analysts on this report: Robin Cornwell, B.A. (Economics), MBA : Robin Cornwell is one of Canada's foremost financial services analysts with over 30 years experience. He has been both a research analyst and an investment banker covering the banks and other financial service stocks for Pitfield, McKay, Ross and Gordon Capital. He served as banking advisor to Canada's House of Commons on two occasions. Robin is founder and president of investment advisor, Catalyst Equity Research Inc.

Bob Weir, B. Comm, B.Sc., CFA. Bob Weir has 42 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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Strong Buy:	Expected total return within the next 12 months is at least 40%.
Buy:	Expected total return within the next 12 months is between 10% and 40%.
Speculative Buy:	Expected total return within the next 12 months is substantial, but Risk is High (see below).
Hold:	Expected total return within the next 12 months is between 0% and 10%.
Sell:	Expected total return within the next 12 months is negative.

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High Risk:	<i>Financial</i> - Little or no revenue and earnings, Ltd. financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
Medium Risk:	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry
Low Risk:	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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