

September 19, 2008

## Intrinsyc Software International Inc. (ICS-T, \$0.20)

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**Rating: SECTOR OUTPERFORM; 12-Month Target: \$1.50; Risk: SPECULATIVE**

**Impact: Positive**

### Event: Leading Mobile Device Developer Selects Destinator Navigation Software

- Intrinsyc Software signed a software license agreement (SLA) for its newly-acquired Destinator® navigation software with an industry-leading mobile phone and consumer product device manufacturer. The licensee will use Destinator's software for a new series of personal navigation devices (PNDs).
- Intrinsyc will customize and integrate the navigation software, ensuring that a complete global positioning system (GPS) solution is delivered.
- Financial details were not disclosed; we estimate the deal is valued at US\$2-US\$4 per unit.

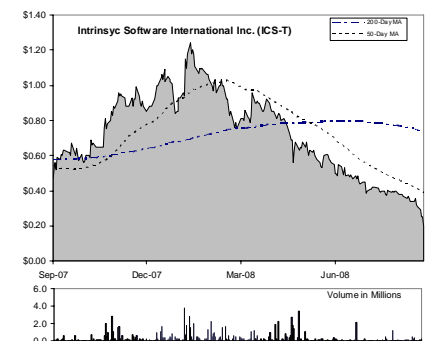
**Implications:** Positive; this SLA illustrates the leverage of the Destinator® acquisition. Destinator® has a solid foundation in the GPS market with customers such as LG, Motorola, and ASUSTeK. We expect to see more SLA's from the Destinator® business and from their Soleus™ product division. We expect Soleus™ royalties to begin in 2H/08 which should increase revenue visibility and strengthen Intrinsyc's financials.

**Valuation:** From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Software Universe based on our CY2009/CY2010 estimates (EV/Sales: '09: 0.3x versus 2.4x, '10: 0.2x versus 2.0x). Our DCF-based target of \$1.50 yields a CY2010 valuation of 3.7x EV/Sales. As of Q2/08 (and including the Destinator acquisition), the Company has US\$21.5M in cash (\$0.13/share) and no debt on the balance sheet, which should sustain its operations until profitability is reached.

[Last Research: August 13, 2008](#)

Target Price	\$1.50	52-Week High / Low	\$0.19 / \$1.30
Current Price	\$0.20	Shares O/S	161.9 million (basic)
Return (incl. dist'n)	650%		191.0 million (F/D)
YTD Performance	-78%	<b>Market Capitalization</b>	\$32.4 million
Dividend / Yield	\$0.00 / 0.0%	Enterprise Value	\$10.9 million
		Daily Volume	
		(3 mo avg)	170K
<b>Risk Profile:</b>	<b>High</b>	Currency	C\$ unless noted
Forecast Risk	High	Company Web Site	www.intrinsyc.com
Financial Risk	High	CEO	Glenda M. Dorchak
Valuation Risk	High		

### Price Performance



Source: Bloomberg

Please see rating structure, important disclosures, risk profile parameters, disclaimers, and notes on pages 3 - 6 of this report.





<b>Intrinsic Software International Inc.</b>	<b>Ticker</b> Shares O/S (M)	<b>ICS-T</b> 191.0	<b>Price</b> Market Cap. (\$M):	<b>\$0.20</b> <b>\$32</b>	<b>Rating: Sector Outperform</b> Target: \$1.50
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Alpha: Product delivery in Taiwan, China and EMEA will provide positive synergy and momentum to future licensing deals.

**Investment Highlights**

**Company Description** - Intrinsic is a leader in software and services that enable next-generation handheld and embedded products, including mobile handsets, smart phones and converged devices.

**Investment Brief** - The company's mobile software products, engineering services, and years of expertise help OEMs, service providers, and silicon providers deliver compelling wireless products with faster time-to-market and improved development cost. Intrinsic is a Microsoft Windows Embedded Gold Partner, the 2007 Windows Embedded Excellence Award winner for System Integrator, and a Symbian Platinum Partner.

**Catalysts** - Continued design wins, two have been announced so far, should drive royalty revs.

**Risks** - Handset mfrs and OEMs decide not to go with Windows CE platform; slow shipments delay royalty stream.

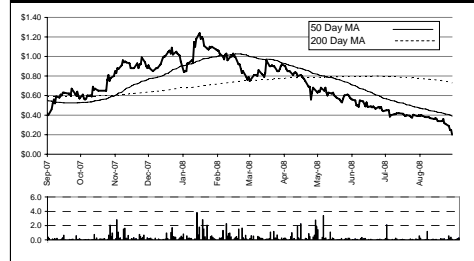
**Recent Financings:**

Equity Offering Feb 2008 - 28.6M @ \$1.05  
Past Equity Offering May 2007 - 33.3M @ \$0.60

**Management:**

Glenda Dorchak, Chairman & CEO; George Reznik, CFO; Randy Kath, CTO

**Intrinsic Software International Inc. - Chart**



**Financial Forecasts**

FY-end Dec-31	Annual					Quarterly				
	2007A	2008E	2009E	2010E	2011E	Q1/2008A	Q2/2008A	Q3/2008E	Q4/2008E	Q1/2009E
<b>Revenues (\$mlns)</b>	18.2	27.6	50.1	70.1	86.1	5.6	5.6	8.0	8.5	9.7
Rev. Growth %		52%	81%	40%	23%		0%	43%	7%	13%
<b>Consensus Revenue Est. (\$mlns)</b>	19.8	32.6	55.1	72.3	91.5	4.9	5.4	8.4	8.9	10.1
3 months ago.	20	24	45	56	74	5	5	6	6	7
<b>EBITDA (\$mlns)</b>	(16.6)	(17.6)	(4.1)	12.6	18.6	(3.7)	(3.9)	(5.5)	(4.6)	(2.9)
EBITDA Growth %		-6%	77%	405%	48%		-5%	-42%	16%	37%
<b>Consensus EBITDA Est. (\$mlns)</b>	(14.2)	(16.7)	(7.3)	12.1	19.8	(3.6)	(4.4)	(5.9)	(5.3)	(3.8)
3 months ago.	(14.2)	(14.4)	(3.9)	6.0	15.1	(3.6)	(4.4)	(5.9)	(5.3)	(3.8)
<b>EPS (FD) (\$)</b>	(0.16)	(0.11)	(0.03)	0.06	0.09	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)
EPS Growth %		30%	71%	282%	60%		4%	-12%	11%	37%
<b>Consensus EPS Est. (\$)</b>	(0.17)	(0.13)	(0.06)	0.01	0.10	(0.03)	(0.03)	(0.04)	(0.04)	(0.03)
3 months ago.	(0.17)	(0.10)	(0.04)	0.04	-	(0.03)	(0.03)	(0.03)	(0.02)	(0.02)
<b>CFPS (FD) (\$)</b>	(0.15)	(0.08)	0.01	0.07	0.12	(0.04)	(0.01)	(0.01)	(0.02)	(0.02)
CFPS Growth %		-48%	111%	740%	75%		60%	16%	-68%	18%
<b>Consensus CFPS Est. (\$)</b>	-	(0.08)	0.01	0.07	0.13	(0.02)	(0.01)	(0.01)	(0.02)	(0.02)
3 months ago.	-	(0.08)	-	0.07	-	(0.02)	(0.01)	(0.02)	-	-

\*All consensus numbers are from Capital IQ, covered companies are denoted by \*

**Key Statistics**

<b>Price / Target / Return</b>	\$0.20	\$1.50	650.0%
<b>52wk Hi / Lo</b>	\$1.30	\$0.19	
<b>Shares O/S (mlns)</b>			
Basic / F.D.		161.9	191.0
Float			150.2
<b>Cash Burn (mths) / Dividend Yield</b>		1.3	0.0%
<b>Short Interest / as % of Float</b>		0.0	0.0%
<b>Daily Volume (3-Mth. Avg. mlns)</b>			0.17
<b>Market Cap. / Enterprise Value (mlns)</b>		32.4	10.9
<b>Cash / Debt (mlns)</b>		21.5	0.0
<b>Cash / Shr &amp; Net Cash / Shr</b>		\$0.13	\$0.13
<b>Tang. Book Value / Share</b>			\$0.23
<b>Company CEO / Website</b>	Glenda M. Dorchak		www.intrinsic.com
<b>Top Holders:</b>			
1) Carlin Asset Management Limited			4.5%
2) IG Investment Management, Ltd.			2.6%
3) Gruber & McBaine Capital Management, LLC			1.1%
<b>Ownership:</b>			
Management Control (Proxy)	1.7 M		1.0%

\*Source: CapitalIQ, Bloomberg

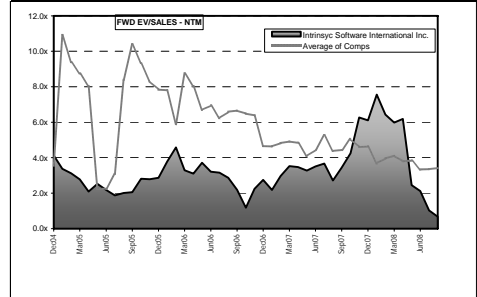
**Valuation Metrics**

	2006	2007	2008	2009
<b>EV/EBITDA - Current</b>	NM	NM	NM	NM
<b>Est. EV/EBITDA - Target</b>				21.0x
<b>EV/SALES - Current</b>	1.9x	NM	0.6x	0.3x
<b>Est. EV/SALES - Target</b>				5.3x
<b>Current, 1-Year, 2-Year DCF Target</b>		\$1.37	\$1.44	\$1.55

**Analyst Ratings: Capital IQ**

	Potential Upside
<b>Average Target</b>	\$1.00
<b>Median Target</b>	\$0.95
<b>Sector Outperform</b>	6
<b>Sector Perform</b>	0
<b>Sector Underperform</b>	0
<b># of Analysts</b>	6

**Historical Valuation Parameters**



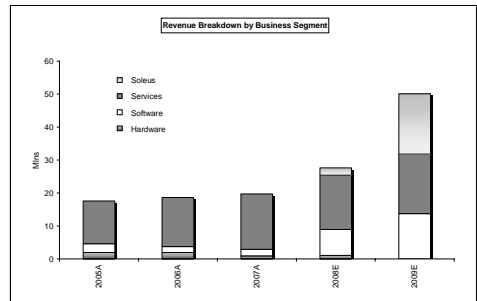
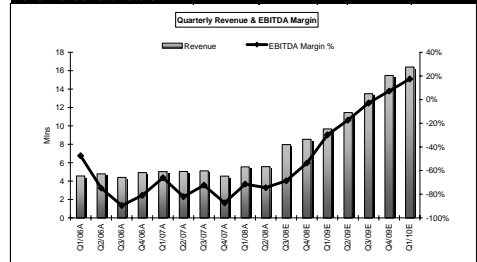
Comparables	Stock Price		Pot. Return	EV/Sales			EBITDA Margin		P/E		EV/EBITDA	
	Today	Target		2008	2009	2010	2008	2009	2008	2009	2008	2009
<b>*Intrinsic Software International Inc</b>	0.20	1.50	650%	0.6x	0.3x	0.2x	-64%	-8%	NM	NM	NM	NM
<b>Esmerlec AG</b>	8.50	10.00	18%	3.8x	2.9x	2.6x	9%	13%	NM	NM	NM	22.2x
<b>Access Company, Ltd.</b>	208.600	289.667	39%	2.0x	1.7x	1.4x	6%	10%	NM	43.7x	NM	18.1x
<b>Opera Software ASA</b>	16.50	25.13	52%	3.2x	2.4x	1.8x	14%	19%	37.8x	21.6x	23.1x	12.6x
<b>BSQUARE Corp.</b>	3.48	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Smith Micro Software Inc.</b>	7.99	10.83	36%	2.2x	1.9x	1.7x	16%	21%	14.1x	10.2x	14.0x	8.9x
<b>Infracore Inc.</b>	12.850	25.000	95%	3.5x	2.7x	2.2x	30%	39%	15.6x	8.9x	11.6x	6.9x
<b>Acrodea Inc.</b>	237.700	491.000	107%	3.9x	2.8x	2.6x	28%	36%	40.5x	23.0x	13.7x	7.8x
<b>Average</b>				<b>3.1x</b>	<b>2.4x</b>	<b>2.0x</b>	<b>17%</b>	<b>23%</b>	<b>27.0x</b>	<b>21.5x</b>	<b>15.6x</b>	<b>12.8x</b>

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Historical Valuation Parameters	EV/EBITDA		P/CF		EBITDA Growth		EPS Growth		Sales Growth		Returns %		
	3-Yr Avg.	NTM	TTM	2008	2009	2008	2009	2008	2009	2008	2009	Last 3mth	YTD
<b>*Intrinsic Software International Inc</b>	NM	NM	NM	NM	NM	6%	-77%	30%	71%	52%	81%	-64%	-78%
<b>Esmerlec AG</b>	1.9x	NM	NM	NM	25.0x	189%	100%	89%	119%	26%	30%	-17%	-23%
<b>Access Company, Ltd.</b>	NM	20.7x	36.3x	29.4x	-32%	71%	103%	NM	4%	13%	-19%	-59%	
<b>Opera Software ASA</b>	NM	NM	32.6x	19.4x	NM	83%	NM	75%	47%	37%	-27%	28%	
<b>BSQUARE Corp.</b>	NM	2.6x	NM	NM	NM	NM	NM	NM	NM	NM	-26%	-49%	
<b>Smith Micro Software Inc.</b>	14.4x	NM	NM	NM	115%	56%	NM	38%	37%	19%	22%	-6%	
<b>Infracore Inc.</b>	14.6x	NM	12.8x	7.9x	42%	67%	51%	76%	36%	30%	-30%	-19%	
<b>Acrodea Inc.</b>	22.7x	23.8x	19.6x	10.5x	NM	75%	NM	76%	NM	37%	-23%	-30%	
<b>Average</b>	<b>13.4x</b>	<b>15.7x</b>	<b>25.3x</b>	<b>18.4x</b>	<b>78%</b>	<b>75%</b>	<b>81%</b>	<b>77%</b>	<b>30%</b>	<b>28%</b>	<b>-17%</b>	<b>-23%</b>	

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**Performance Parameters**



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Source: Haywood Securities, Capital IQ





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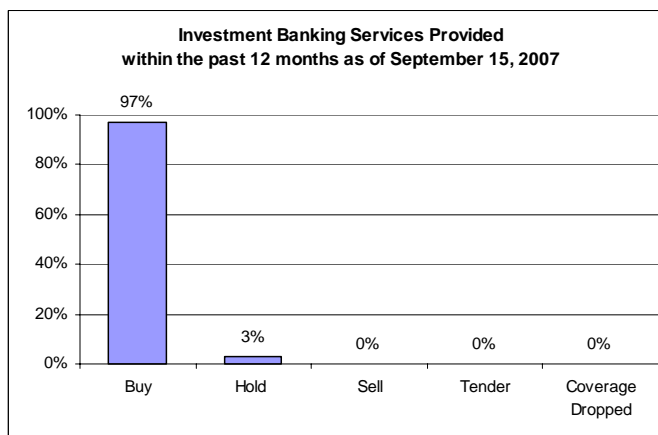
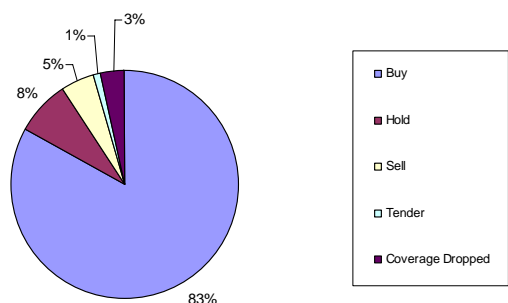
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