

### Intrinsyc Software International Inc.

ICS : TSX : C\$0.75

**SPECULATIVE BUY**

**Target: C\$1.75**

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#### COMPANY STATISTICS:

52-week Range: \$0.34-0.77  
Avg. Daily Vol. (000): 196.8  
Market Capitalization (M): \$87.3  
Shares Out. (M) basic: 116.4  
Shares Out. (M) fd: 116.4

#### EARNINGS SUMMARY:

FYE Aug	2005A	2006A	2007E	2008E	2009E
Revenue (M):	17.5	18.7	19.7	29.7	69.1
EV/Sales:	3.8x	3.5x	3.3x	2.2x	1.0x
EPS:	(0.11)	(0.24)	(0.19)	(0.10)	0.09
P/E:	NM	NM	NM	NM	8.0x

#### 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 and Services

### COMPANY REMAINS ON TRACK

#### Event

Intrinsyc reported Q3 results which were slightly higher than our estimates on the top-line and in line on an adjusted EPS basis. Revenue for the quarter was reported at C\$5.1 million compared to our estimate of C\$5.0 million. EPS was reported at C\$(0.05), but after adjusting for foreign-exchange losses and taxes was C\$(0.04), in line with our estimate.

#### Impact

Slightly positive. On the macro front, Intrinsyc continues to make solid progress positioning itself in the high growth mobile OS market and provided additional colour on its pipeline of opportunities. The company has identified 30 prospects for the Soleus software platform, and management is currently in discussions with more than 15 of these potential customers. This bodes well for the company into F08 and F09; hence, we have not changed our F08 and F09 estimates.

#### Action

Overall, our core thesis remains valid as the outlook provided by management confirms that the company is on track to gain additional platform and design wins and translate these contracts into material recurring revenue streams. We reiterate our SPECULATIVE BUY recommendation and C\$1.75 price target, based on our DCF analysis.

#### Valuation

Intrinsyc trades at a discount to peers on an F08 EV/Sales basis trading at 2.2 times, well below the industry average of 3.9 times. We believe the company should be trading at higher multiples than the peer average due to its impressive growth potential in F08 and beyond.

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**Q3/F07 results**

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**Figure 1: Q3/F07 Results**

(C\$ millions)	Q3/F07A	CA Q3/F07E	B/(W)	Q2/F07A	Q3/F06A	% Change Q/Q	% Change Y/Y
<b>Revenue</b>	<b>5.1</b>	<b>5.0</b>	0.1	<b>5.0</b>	<b>4.4</b>	1.5%	16.5%
Gross Profit	2.6	2.4	0.2	2.5	1.5	6.7%	71.3%
% of Revenue	51.8%	48.0%		49.3%	35.2%		
Total Op Ex	6.6	6.2	0.4	6.8	5.7	-4.1%	15.2%
% of Revenue	128.3%	122.9%		135.7%	129.7%		
EBITDA	-3.7	-3.6	-0.1	-4.1	-3.9	-10.5%	-5.8%
% of Revenue	-72.5%	-71.3%		-82.2%	-89.6%		
GAAP Net Income	-4.4	-3.8	-0.6	-4.2	-4.7	3.2%	-6.8%
% of Revenue	-85.7%	-75.8%		-84.3%			
<b>GAAP EPS - diluted</b>	<b>(0.05)</b>			<b>(0.05)</b>	<b>(0.06)</b>	-5.8%	-23.7%
<b>Adjusted EPS - diluted</b>	<b>(0.04)</b>	<b>(0.04)</b>	0.0	<b>(0.05)</b>	<b>(0.06)</b>	-17.3%	-32.9%

Source: Canaccord Adams, Company reports,

**Pipeline update**

On the conference call, management provided additional colour in regard to its current pipeline of opportunities and recent wins. The company has identified 30 prospects for the Soleus software platform, and management is currently in discussions with more than 15 of these potential customers. While specific details were not provided, management noted that a number of companies in the pipeline focus on the PND segment and multimedia oriented handsets. In our opinion, the company is currently in discussion with a large OEM/ODM that is looking to enter the mid-tier handset market utilizing a Microsoft-based software platform. We believe that this vendor may ramp rapidly over the next 12 months.

Management highlighted that discussions can vary from three to six months and, once a licensing agreement is in place, product shipment can take anywhere from nine to 12 months to start ramping. The company also provided insight into recent wins. In Q4/F07 management expects that a vendor will begin to ship devices into field trials, and full commercial shipments will begin sometime in Q1/F08 and ramp throughout the year.

**Soleus update**

The following are key highlights provided by management pertaining to Soleus:

- In line with management's strategy of advancing the Soleus software platform to meet customer demands and expand the addressable market, the company intends to launch the next version of Soleus towards the end of 2007 (Soleus V1.01). V1.01 will incorporate additional aspects related to telephony and IP.

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- The company has continued to invest resources in the development and marketing of the Soleus software platform. YTD investment in R&D and S&M expenses related to Soleus is approximately C\$10.1 million, or 66.3% of total YTD revenue.
- The headcount has remained relatively flat on a Y/Y basis at 220; however, management has reallocated staff to the Soleus deployment from the ESG segment. In addition, the company has hired additional personnel with key industry experience that management believes will be able to help in achieving additional traction for Soleus in the marketplace.
- Management has initiated steps to establish and expand sales presence in key markets. As a result, the company has opened offices in Washington DC, Taiwan, Eastern Canada and California.

**Figure 2: Soleus expense analysis**

(C\$ '000)	30-Nov-05	28-Feb-06	31-May-06	31-Aug-06	30-Nov-06	28-Feb-07	31-May-07
Soleus related R&D and S&M	1,540	2,510	2,930	3,580	3,370	3,800	3,300
Sequential growth		63.0%	16.8%	22.3%	-6.0%	12.9%	-13.2%
as % of revenue	33.8%	52.4%	66.8%	72.8%	67.1%	75.5%	64.6%

Source: Company reports, Canaccord Adams

**Cash and cash flow**

As expected, free cash flow was negative for the quarter. Intrinsyc recorded free cash flow in the quarter of (C\$2.8 million), compared to (C\$3.2 million) in Q2/F07 and (C\$3.5 million) in Q3/F06. This is better than we anticipated, primarily due to the lower than expected capital expenditures and an unanticipated accretion and amortization adjustment of long-term debt. Cash balances at the end of the quarter totaled C\$21.4 million, up from C\$5.9 million the previous quarter and C\$5 million Y/Y, due to the recent equity issue. Accounts receivables equaled C\$3 million for the quarter, down C\$1.0 million Q/Q and \$0.5 million Y/Y. Finally, prepaid expenses were C\$0.3 million for the quarter, down almost C\$0.1 million sequentially and up C\$0.1 million from the prior year.

**Guidance**

Management announced that a number of moves have been made to align the operations more closely with the firm's strategic plan. These included:

- Winding down a hardware business;
- Closing an engineering services office in Singapore; and
- Redirecting sales and marketing resources away from the embedded business into wireless opportunities.

These actions are expected to have a top line impact to the Q4/F07 results. Management provided guidance of a 10-20% sequential revenue decline for Q4. The company did not provide guidance beyond Q4/F07.

**Estimate revisions**

In light of management providing top line guidance expectations for Q4, we have adjusted our estimates going forward to incorporate the closure of the Singapore services office and have accelerated our expectation of the company exiting the hardware business. For

Q4/F07 our revenue expectation declines from C\$5.5 million to C\$4.6 million, while our EPS estimate stays flat. For F07, our revenue expectations decline by C\$0.9 million to C\$19.7 million, while our EPS declines by a penny as the Q3 results flow through. While we have not changed our F08 and F09 estimates, we have changed the quarterly skew of the F08 revenue levels to be more backend loaded. We will revisit our estimates as management provides further updates and additional wins are announced.

**Figure 3: Estimate revisions**

	Q4/F07	F07	F08	F09
<b>Revenue (M)</b>				
<b>Revised</b>	4.6	19.7	29.7	69.1
Original	5.5	20.6	29.7	69.1
<b>Adjusted EPS</b>				
<b>Revised</b>	(0.04)	(0.19)	(0.10)	0.09
Original	(0.04)	(0.18)	(0.10)	0.09

Source: Canaccord Adams

### Outlook and recommendation

Our thesis is predicated on several key factors, which remain valid. These include: (i) The size and growth of the addressable market, driven by increased convergence of functionality within handsets; (ii) our belief in the credibility of the core management team which is comprised of seasoned professionals from specific industry verticals; and (iii) competitive positioning of the Soleus software platform, as an effective and viable alternative for OEMs and ODMs. We believe that the company's association with Microsoft serves as a very strong support mechanism in achieving design wins.

In our opinion, the outlook provided by management confirms that the company is on track to gain additional platform and design wins and translating these contracts into material recurring revenue streams. We believe that this growth will translate into higher valuations; and hence superior returns for investors. Hence, we reiterate our SPECULATIVE BUY recommendation and C\$1.75 price target, based on our DCF analysis.

### Valuation

Intrinsyc trades at a discount to peers on an F08 EV/Sales basis trading at 2.2 times, well below the industry average of 3.9 times. We believe the company should be trading at higher multiples than the peer average due to its impressive growth potential in F08 and beyond.

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Figure 4: Comparables

Company	Ticker	Exchange	Last	Revenue			EPS			EV/Sales		P/E	
				F07	F08	Growth	F07	F08	Growth	F07	F08	F07	F08
Access	4813	:TSE	355,000	34,757	39,195	13%	-30,075	3,024	-110%	4.0	3.5	NM	117.4
Aplix	3727	:TSE	154,000	6,174	6,756	9%	-76,011	6,137	-108%	2.5	2.3	NM	25.1
Trolltech	TROLL	:OS	10.80	240.9	340.1	41%	-0.67	-0.19	NM	2.2	1.5	NM	NM
Call Genie	GNE.	:V	\$2.39	2.3	19.0	NM	-0.08	0.08	NM	NM	9.5	NM	NM
Red Hat	RHT	:N	\$21.26	488.0	608.0	25%	0.66	0.83	26%	7.8	6.2	32.2	25.6
Research In Motion	RIMM	:Q	\$211.07	4,786.4	7,015.0	47%	5.18	7.59	47%	8.1	5.5	40.7	27.8
Wind River	WIND	:Q	\$10.40	328	371	13%	0.32	0.51	59%	2.4	2.1	32.5	20.4
Zamano	ZMNO	:L	29.00	20	25	23%	0.04	0.05	18%	1.0	0.8	11.1	9.3
Zi Corp.	ZICA	:Q	\$1.14	12	15	24%	-0.09	-0.01	NM	4.1	3.3	NM	NM
<b>Average</b>						<b>24%</b>			<b>-11%</b>	<b>4.0</b>	<b>3.9</b>	<b>29.1</b>	<b>37.6</b>
<b>Median</b>						<b>24%</b>			<b>22%</b>	<b>3.2</b>	<b>3.3</b>	<b>32.4</b>	<b>25.4</b>
<b>Intrinsyc*</b>	<b>ICS</b>	<b>:T</b>	<b>\$0.75</b>	20	30	50%	-0.19	-0.10	90%	3.3	2.2	NM	NM
<b>Intrinsyc*</b>	<b>ICS</b>	<b>:T</b>	<b>\$1.75</b>	20	30	50%	-0.19	-0.10	90%	9.2	6.1	NM	NM

Source: Company reports, Bloomberg, Canaccord Adams estimates

### Investment risks

The main risks to our outlook include the competitive environment intensifying, design wins take longer than expected to close, design wins to not translate 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 Intrinsyc'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.

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Global Stock Ratings  
(as of 29 June 2007)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	302	55.6%	42.4%
Speculative Buy	68	12.5%	69.1%
Hold	147	27.1%	36.7%
Sell	26	4.8%	11.5%
	543	100.0%	

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

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