



Sera Kim, CFA
skim@gmpsecurities.com
(416) 943-6639

Associate: Chris Lee
clee@gmpsecurities.com
(416) 943-6664

Mid-day
Comment
November 13, 2008

Intrinsyc Software Inc.^{1,7}

BUY

ICS C\$0.15

Target: C\$0.65

What's Changed

	New	Old
Recommendation	nc	BUY
Target	nc	C\$0.65
Revenue 2008E (mm)	nc	\$27.0
Revenue 2009E (mm)	nc	\$38.9
EPS 2008E	nc	(\$0.14)
EPS 2009E	nc	(\$0.09)

Share Data

Shares – mm (basic/f.d.)	161.9/161.9
52-week high/low	C\$1.30/C\$0.115
Market capitalization (mm)	\$20
Enterprise value (mm)	(\$2)
Cash (mm)	\$21.5
Total projected return	333%

Financial Data

YE Dec. 31	07A	08E	09E
Revenue (mm)	\$17.6	\$27.0	\$38.9
P/S	1.1x	0.7x	0.5x
EPS	(\$0.16)	(\$0.14)	(\$0.09)
P/E	nm	nm	nm
EBITDA (mm)	(\$13.5)	(\$19.4)	(\$11.1)
EV/EBITDA	nm	nm	nm

Note: All figures in US\$ unless otherwise stated.

Note: Proforma post Destinator acquisition.

Note: F07 has Aug YE; all others reflect Dec YE

Glenda Dorchak leaves CEO/Chairman post; Tracy Rees, COO, appointed interim CEO

- This morning, ICS announced that effective immediately, Glenda Dorchak, CEO and Chairman, will leave the company
- Tracy Rees, COO, has been named as interim CEO; and Phil Ladouceur will take on the role of Chairman
- We are surprised by this news, and we believe a change in management at this juncture may be viewed as negative by the market even though ICS expects a smooth transition; we believe this is unrelated to ICS' expected Q3 results tomorrow
- Separately, ICS reported 2 new Soleus design wins this past week for connected PNDs, but we view these as lower volume opportunities
- No changes to our estimates, rating, and target price pending tomorrow's conference call

GLEND A DORCHAK LEAVES INTRINSYC EFFECTIVELY IMMEDIATELY

Event: This morning, Intrinsyc issued a surprising press release indicating that Glenda Dorchak has left the company to pursue other interests. As a result, the Board of Directors has appointed Tracy Rees, current COO, as the interim CEO effective immediately. In addition, Philip Ladouceur, a Director of the company since January 2008, has been appointed Chairman of the Board of Directors.

Background on Tracy Rees

Tracy Rees joined Intrinsyc in 2007 as acting General Manager for the APAC region. More importantly, he was instrumental in closing the majority of Intrinsyc's Soleus design wins over the past year, which was a contributing factor to recently being promoted to his current COO position. Rees has over 25



Sera Kim, CFA
skim@gmpsecurities.com
(416) 943-6639

Associate: Chris Lee
clee@gmpsecurities.com
(416) 943-6664

years of experience in the high technology industry with deep expertise in mobility software and embedded technology. He also has CEO experience and significant sales and general management experience, including prior posts as CEO of Annasoft Systems; Executive VP of Sales, Marketing and International Operations at BSQUARE; and General Manager and VP of Sales at CalAmp, an embedded software and service provider. According to the press release, Rees will continue to focus on revenue generating activities and emerging product areas at Intrinsyc.

ICS does not expect any hiccups in the business as a result of this news...

Management was unable to provide much more color on the details surrounding Ms. Dorchak's departure. However, management did say that Glenda Dorchak has left the company on "amicable" terms, and expects a smooth transition with the new management team. As mentioned above, Tracy Rees has been instrumental in signing new Soleus design wins and drumming up business in the Engineering Services business. As such, we have confidence in his abilities to continue generating revenue opportunities for the company.

...but we believe the market will view this surprising news as negative in the near term, which could potentially prompt selling pressure

In the last two years, Glenda Dorchak has made significant contributions to the company, including leveraging her relationships and bringing on board an experienced management team to support her. We believe that the newly appointed management team has the experience and depth to grow the business; however, we are mindful that there could be some negative repercussions in the share price as some investors who invested in the company solely based on Glenda's reputation, may no longer wish to be patient, especially in the current market environment.

The focus for Intrinsyc continues to be successful execution in the ramp of its Soleus business. In the near term, we believe the new management team will need to also focus on providing more clarity on the near-term business opportunities, particularly higher-volume cell phone opportunities for Soleus, as well as addressing issues such as managing potential delays in Soleus ramps amid deteriorating economic conditions, cash burn and/or time to profitability, and the impact to its Balance Sheet.

We will look for additional details on the upcoming quarterly conference call to be held tomorrow, November 14, 2008 at 8:30 am EST. The dial-in number is: 416-850-9143 or 1-866-400-2280. We expect Q3/08 revenue of \$7.6 mm and FD EPS of (\$0.04). Refer to our preview note published on November 7th.

TWO SOLEUS DESIGN WINS ANNOUNCED THIS PAST WEEK

In the past week, Intrinsyc announced two new Soleus design wins for connected PNDs, which we view as lower-volume opportunities (albeit likely comes with higher ASPs given the lower volumes). We remain hopeful that the company will be able to announce a higher volume cell phone design win over the next couple of quarters to help provide validity to the Soleus platform for cell phone applications.

Soleus design win #2 – Connected PND for the European market

Last Friday, Intrinsyc announced its second design win of the year, which will be a connected PND for the European market. The device will be manufactured by a current Soleus customer acting as an ODM who is using Soleus for their own branded products. We believe this to be Mitac since Mitac is the only Soleus customer with multiple products. We believe the end customer could be Magellan given that the company has had challenges bringing a connected PND device to market. This device is expected to be ready by Q1/09, supporting the thesis that Soleus enables handset makers to come out with devices quickly but we believe this will be a lower-volume win.

November 13, 2008



Sera Kim, CFA
skim@gmpsecurities.com
(416) 943-6639

Associate: Chris Lee
clee@gmpsecurities.com
(416) 943-6664

Soleus design win #3 – Connected PND using Soleus Transit

Intrinsyc announced last night their third Soleus design win with Hong-Kong based manufacturer, GPS Technologies Company, for a connected PND. This device will support voice capabilities and will be released in China (timeline not provided). GPS Technologies was previously using a WinCE platform and Intrinsyc up-sold them to use Soleus as well, which highlights the cross-selling potential stemming from the Destinator asset acquisition last summer. This win also marks the availability of Soleus Transit, which combines Soleus with support for the Destinator software. We were expecting a Soleus Transit win as we highlighted in our October update.

VALUATION AND RECOMMENDATION

Given that the company is reporting Q3/08 results tomorrow morning, we are leaving our estimates, rating, and target price unchanged. Currently, we have a BUY rating and a \$0.65 target price on Intrinsyc, which is derived by using a sum-of-the-parts method valuing the different businesses: 1) a target multiple of 2.0x 2010E revenues discounted to 2009 to value Soleus; 2) a target multiple of 2.0x 2009E revenues for Destinator; and 3) a target multiple of 1.0x 2009E revenues for engineering services. On a consolidated basis, this implies a target C2009 P/S multiple of 2.3x.

As discussed in our preview note last week, we do see risks mounting due to timing of Soleus revenue ramps, which has been heightened given this week's news out of Circuit City (bankruptcy protection) and Best Buy ("seismic changes in consumer behavior", which led to a cut in its earnings outlook). Given the current macro environment, we believe cost containment remains a critical issue given the company's cash burn, and will look for additional details out of management on further managing its cash burn.



Sera Kim, CFA
skim@gmpsecurities.com
(416) 943-6639

Associate: Chris Lee
clee@gmpsecurities.com
(416) 943-6664

¹ GMP Securities L.P. has, within the previous 12 months, provided paid investment banking services or acted as underwriter to the issuer.

² GMP Securities L.P. is a market maker for the securities of the issuer.

³ non-voting

⁴ subordinate-voting

⁵ restricted-voting

⁶ multiple-voting

⁷ The analyst who prepared this report has viewed the material operations of this issuer.

⁸ The analyst who prepared this research report owns this issuer's securities.

⁹ limited voting

¹⁰ GMP Securities L.P. owns 1% or more of this issuer's securities.

The information contained in this report is drawn from sources believed to be reliable but the accuracy or completeness of the information is not guaranteed, nor in providing it does GMP Securities L.P. ("GMP") assume any responsibility or liability whatsoever. Information on which this report is based is available upon request. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any securities. GMP and/or affiliated companies or persons may participate in an underwriting of, have a position in, or make a market in, the securities mentioned herein, including options, futures or other derivative instruments thereon, and may, as principal or agent, buy and sell such products. Griffiths McBurney Corp., an affiliate of GMP, accepts responsibility for the contents of this research subject to the foregoing. U.S. clients wishing to effect transactions in any security referred to herein should do so through Griffiths McBurney Corp. GMP will provide upon request a statement of its financial condition and a list of the names of its directors and senior officers. © GMP. All rights reserved. Reproduction in whole or in part without permission is prohibited. 145 King Street West, Suite 300 Toronto, Ontario M5H 1J8 Tel: (416) 367-8600; Fax: (416) 943-6134.

Each research analyst and associate research analyst who authored this document and whose name appears herein certifies that (1) the recommendations and opinions expressed in the research report accurately reflect their personal views about any and all of the securities or issuers discussed herein that are within their coverage universe and (2) no part of their compensation was, is or will be, directly or indirectly, related to the provision of specific recommendations or views expressed herein.

GMP Analysts are compensated competitively based on several criteria, including performance assessment criteria based on quality of research. The Analyst compensation pool is comprised of several revenue sources, including, sales and trading and investment banking.

GMP policies do not allow the issuer to pay any expenses associated with a visit to its material operations by the Analyst.

GMP Securities L.P. prohibits any director, officer, employee or Canadian agent of GMP from holding any office in publicly traded companies or any office in private companies in the financial services industry.

All relevant disclosures required by IIROC Rule 3400 may be obtained by calling your Investment Advisor. GMP's recommendation statistics and research dissemination policies can be obtained at www.gmpsecurities.com or by calling your investment advisor.

The GMP research recommendation structure consists of the following categories:

FOCUS BUY. Small cap stocks (defined as stocks with less than \$500 million market capitalization) in this category have a total return potential (including dividends payable) of greater than 25% and large cap stocks a greater than 20% total return potential, as well as superior qualitative and timing characteristics.

BUY. These stocks will have 15% or greater (small cap) or 10% or greater (large cap) total return potential.

SPECULATIVE BUY. These stocks will have a 30% or greater total potential return and they will have a speculative component which could be material to the return expectations.

HOLD. Small cap stocks ranked Hold will have a total return potential of 0% to 15%; large cap stocks ranked Hold will have a total return potential of 0 to 10%; and stocks that have a speculative component which could be material to the return expectations ranked HOLD will have a total return potential of 0% to 30%.

REDUCE. Companies ranked Reduce have a negative potential total return.

FOCUS REDUCE. Companies ranked Focus Reduce have a significant negative potential total return and materially compromised qualitative and timing characteristics.

Note: Analysts have discretion within 500 basis points of the upper and lower limit of each rating to maintain the recommendation.