

Intrinsyc Software (ICS-T)

Intelligent Connected Devices

Recommendation: BUY

Close: \$2.42 S/O: 39.7M F/D: 40.5M 52 Week Range: \$1.12-\$3.45

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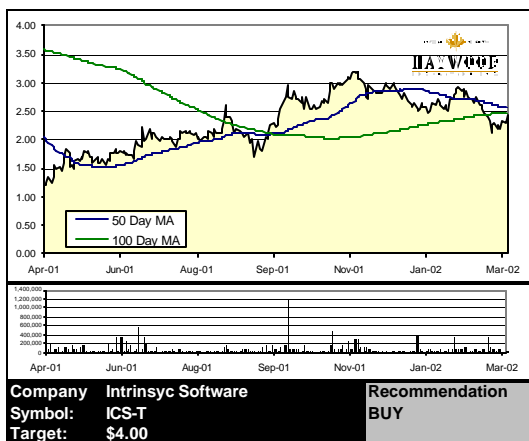
TARGET: \$4.00

www.intrinsyc.com

Year-End:	Aug 31
Price:	\$2.42
52-Week High/Low:	\$3.45/\$1.12
Shares Outstanding (f.d.):	40.5 million
Market Cap:	\$98 million
Cash/Share:	\$0.58
EV/Fwd 2002 Revenue:	4.7
EV/Fwd 2002 Earnings:	n/a
FQ3:02 Revenue:	\$4.1 million
FQ3:02 Earnings:	(\$0.01)
FY2002 Revenue:	\$15.6 million
FY2002 Earnings:	(\$0.03)

At the end of Intrinsyc's (ICS-T, \$2.42) first quarter, we suggested two things: that the company's stock price would receive short-term weakness and that the mid- to long- term outlook remained strong. Since the release of the company's second quarter results our views have been validated by both the market's negative reaction to the stock and the company's current growth of a strong sales backlog of \$9-\$11 million.

In its second quarter announced March 27, the company received C\$3.4 million in revenue, down C\$400,000 from our estimates. Net loss for the period was C\$592,896 while we were expecting a net loss of C\$120,000. Gross margins were down to 59% from our expected 64% and Days-Sales-Outstanding (DSO) was an unhealthy 95 days up from 51 days in the first quarter. The company suggested that large increase in DSO was primarily due to invoicing in the latter parts of the quarter. The company has indicated that this anomaly will be rectified shortly.



These results clearly demonstrate a weaker than expected quarter. However, the outlook for the second half of the year looks strong. The company has a strong order backlog and sustainable longer-term contracts. We understand the company believes it can achieve between \$16-\$18 million in revenue this year which means that the remaining two quarters combined will show operational profitability, and much risk in the investment will be reduced. However, the company is planning acquisitions over the next twelve months creating a potentially dilutive environment for shareholders.

We continue to believe that FY2002 is a "seeding" year for the company and that FY2003 is where leverage in the business model will be demonstrated and valuation multiples may seem more appropriate for the less speculative investor. The market continues to be attractive and the company's management continues to impress us as they demonstrate a global and customer centric awareness. Intrinsyc has expanded its public message, and positions itself as an enterprise provider of the "intelligent connected devices".

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In short, while the quarter was weaker than expected, we remain bullish on the company's second half of the year and longer-term prospects and are keeping our \$4.00 target price. However, we caution investors on the expensive valuation risk. Haywood recommends the stock as a **BUY**.

INTRINSYC SOFTWARE FORECASTED INCOME STATEMENT	Q1:02				Q2:02				Q3:02				Q4:02				FY2002		FY2003	
	YEAR-END 2001	cs %	30-Nov-01 Q1	cs % q/q seq	28-Feb-02 Q2	cs % q/q seq	31-May-02 Q3	cs % q/q seq	31-Aug-02 Q4	cs % q/q seq	YEAR-END 2002	cs %	yr/yr	YEAR-END 2002	cs %					
Revenue	10,940	100%	3,148	100% 91% -18%	3,428	100% 67% 9%	4,113	100% 22% 20%	4,936	100% 57% 20%	15,624	100%	43%	23,436	100%					
Software Licenses	10,940	100%	3,148	100%	3,428	100%	4,113	100%	4,936	100%	15,624	100%		23,436	100%					
Cost of Sales	4,608	42%	1,124	36% 5%	1,414	41% 18%	1,563	38% 0%	1,876	38% 0%	5,977	38%	30%	8,906	38%					
Direct cost of inventory sold	4,608	42%	1,124	36%	1,414	41%	1,563	38%	1,876	38%	5,977	38%		8,906	38%					
Gross Profit/GP Margin Ratio	6,332	42%	2,024	64%	2,014	59%	2,550	62%	3,060	62%	9,647	62%		14,530	62%					
Expenses	4,360	40%	843	27% 18% -30%	1,040	30% -1% 23%	1,234	30% -11% 19%	1,481	30% 76% 20%	4,598	29%	5%	6,796	29%					
Selling and Marketing	2,758	25%	906	29% 94% 17%	909	27% 42% 0%	1,000	24% 14% 10%	1,050	21% 16% 5%	3,865	25%	40%	4,687	20%					
Research and Development	3,169	29%	417	13% -56% -46%	346	10% -53% -17%	420	10% -41% 22%	420	9% 1% 0%	1,603	10%	-49%	2,344	10%					
General and Administration	10,287	94%	2,166	69% 2% -21%	2,295	67% -6% 6%	2,654	65% -11% 16%	2,951	60% 36% 11%	10,066	64%	-2%	13,827	59%					
Income																				
Income (Loss) b/f Depreciation, Amortiz	-3,955	-36%	-143	-5%	-282	-8%	-104	-3%	109	2%	-419	-3%		703	3%					
Amortization	603		283		339		340		340		1,302			1,500						
Interest	332		99		77		100		100		376			750						
Other																				
Income before income taxes	-4,226		-326		-545		-344		-131		-1,345			-47						
Income taxes																				
Net income / Net Profit Margin Ratio	-4,226	-39%	-326	-10%	-545	-16%	-344	-8%	-131	-3%	-1,345	-9%		-47	0%					
Operating EPS																				
Basic	(\$0.12)		(\$0.00)		(\$0.01)		(\$0.00)		\$0.00		(\$0.01)			\$0.02						
Fully diluted	(\$0.10)		(\$0.00)		(\$0.01)		(\$0.00)		\$0.00		(\$0.01)			\$0.02						
Net earnings per share																				
Basic	(\$0.13)		(\$0.01)		(\$0.02)		(\$0.01)		(\$0.00)		(\$0.04)			(\$0.00)						
Fully diluted			(\$0.01)		(\$0.01)		(\$0.01)		(\$0.00)		(\$0.03)			(\$0.00)						
Shares (basic) (millions)	32.20		32.70		33.50		33.50		33.50		33.50			33.50						
Shares (fully) (millions)	39.00		39.70		40.50		40.50		40.50		40.50			40.50						

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