

Intrinsyc Software Inc. (TSE - ICS \$3.24)

STRONG BUY 12-18 month Target \$9.70

Intrinsyc Reports Q1 2001 Revenues of \$1.65 Million

52 Wk Rng	S/O F.D.	Mkt/Cap (mm)	Rev 2000A (mm)	Rev 2001E (mm)	Rev 2002E (mm)	P/Rev 2001E (mm)	P/Rev 2002E (mm)
\$1.30-\$9.70	39 mm	\$126.4	\$3.16	\$10.08	\$17.08	13X	7X

- Yesterday, Intrinsyc reported results for Q1 2001. Revenues for the quarter were \$1,651,889, a 421% increase from Q1 2000 revenues of \$316,970, and a 39% increase from the previous quarter's revenues of \$1,192,016. Net loss for the quarter was \$1,377,143 or \$0.05 per share, versus \$1,043,778 or \$0.05 per share in Q1 2000.
- During the quarter, Intrinsyc sold 200 new development kits and added 14 new revenue-generating customers, bringing the total number of customers to 52. Seeding the market with its development kits remains an important part of the company's business plan, as it is through the sale of these kits that high-margin run-time licensing and service contracts are ultimately realized. We are encouraged by the number of kit sales and newly-added customers experienced this quarter. Approximately 20% of the company's revenues are now coming from customers outside of North America, adding significant strength to the diversity of its customer base.
- On the technology front, the company continues to invest in broadening the depth of its offering. During the quarter it added Bluetooth capabilities to its CerfBoard reference platform through an alliance with Socket Technologies – a U.S.-based developer of connection products for Windows-powered computers and other devices.
- Gross margins came in somewhat lower than expected at 35% primarily due to 2 large new orders that had a significant hardware component associated with them. Inforetech Wireless Technology, a provider of wireless and GPS (global positioning system) technologies used in recreation applications, purchased a supply of Intrinsyc's hardware reference platform. Also, a supply of 80 new development kits was shipped to Asia late in the quarter. It should

take a few months for these new orders to translate into licensing and services contracts.

- The company's expense items grew significantly over Q1 2000. Administration expenses were up 84% over last year, primarily due to increased staffing requirements, expanded facilities/office space, legal fees and recruitment costs. As of the end of the quarter, total headcount is at 86. Sales and marketing expenses were up 66% year over year, primarily due to the addition of 5 new sales personnel and an aggressive sales and marketing plan. Research and Development expenses were up 173% over last year, mostly a result of continued work on the Bluetooth initiatives and deviceCOM for Linux – a new networking technology that links Linux-based devices to Windows enterprise systems. We are confident that this ramp-up in expenses is simply a reflection of Intrinsyc's current state of rapid revenue growth and business plan execution.
- In summary, we are satisfied with the results of Q1 2001. Revenues are ramping as anticipated and client base diversification continues to strengthen. The company met our revenue forecasts for the quarter, and should be able to meet our fiscal 2001 revenue estimate of \$10 million assuming it can sustain quarterly revenue growth of about 30%. We continue to recommend Intrinsyc as a **STRONG BUY**.

Loewen, Ondaatje, McCutcheon Limited has acted in an underwriting and/or financial advisory capacity for Intrinsyc Software Inc. within the past twelve months.