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Intrinsyc Software International Inc. (ICS–TSX), $1.10

World Mobile Congress Takeaways Reaffirm Thesis

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Stock Rating: Buy

Target Price: $2.00

US$000, Yr-end Dec 31	F06 *	F07 *	F08E **	F09E **
Revenue	18,657	19,706	24,616	45,775
EBITDA	(12,495)	(14,164)	(10,680)	86
EPS f.d	(0.24)	(0.18)	(0.10)	(0.01)
Price/Sales	7.0x	6.7x	5.3x	2.9x
EV/Sales	6.0x	5.7x	4.5x	2.4x

Projected return	82%
Shares outstanding (basic)	119,493
Market capitalization	131,442
52-week High/Low	$1.30/$0.39

Balance sheet as of Aug 07:

Cash ***	19,628
Debt	0

* In C$; yr end was Aug 31.
** In US$; company switching to US$ reporting and FY aligned with CY
*** Current FX rate is parity

Source: Company reports; MGI Securities Inc.

Company Profile: Intrinsyc Software International Inc. is a wireless software solutions provider. Its business is based on licensing software products developed in-house and providing systems integration services. Intrinsyc targets the growing wireless handheld market which includes consumer mobile handsets, personal navigation devices, smartphones, and other consumer converged devices.

Event

Takeaways from World Mobile Conference reaffirm thesis. **Maintain Buy recommendation and $2.00 target.**

Investment Opinion

Executing on Strategy. We had the opportunity to see handheld devices from two reference design wins the company has secured and it is our understanding that launch customers for these devices are to be announced soon. **These data points indicate the company is executing on its strategy and is on track to begin receiving high margin royalty revenues beginning H2/08, which will signal ICS' gradual transition to becoming a software company.**

Market Opportunity Large and Intact. Evolving trends we gleaned at the conference give us confidence the market opportunity for Intrinsyc's Soleus platform is large and growing.

Conversation with Samsung Reaffirms Earlier Channel Checks. We had the opportunity to speak to representatives from Samsung and our checks affirm prior feedback that the application processor they will be embedding Soleus into will be targeted at mobile devices including PND's, PMP's (personal media players), feature phones targeted at the China market as well as consumer electronic devices.

Valuation and Recommendation

We maintain our BUY recommendation and a $2.00 target price. Our target is DCF based with a discount rate of 12% and a terminal growth rate of 5%. On an EV/Sales basis, ICS trades at 2.2× consensus F2009 estimates, essentially inline with its peers but well below industry leaders like RIM. We believe that given ICS' strong management team, pending catalysts and potential for upside to expectations, our premium valuation is justified.

World Mobile Congress Takeaways Reaffirms Our Thesis – Reiterate Buy Rating

We attended the World Mobile Congress (a premier event for the global mobile industry) in Barcelona, Spain last week. We had the opportunity to speak to several key members of Intrinsyc's management team as well as customers, partners and competitors. The trends we observed at the conference and feedback we received from customers and partners reaffirms our thesis that Intrinsyc is well positioned to capitalize on the opportunity in the feature phone market and is executing on its strategy. **We reiterate our Buy rating and $2.00 target.**

Key Takeaways from the Conference

(i) Executing on Strategy. We had the opportunity to see handheld devices from two reference design wins the company has secured and it is our understanding that launch customers for these devices are to be announced soon. In March 2007, ICS had announced its first Soleus mobile OS license win with a global manufacturer of personal navigation and handheld devices. We believe this license win was with the subsidiary of a leading Taiwan-based manufacturer of personal navigation devices (PND's), personal digital assistants (PDA's) and smartphones. We had a chance to view the product (PND device with voice and IM capability) and the launch customer for this product will be announced at CeBit (begins March 8th in Hanover) who we believe is a Taiwan-based wireless services provider. We also reviewed Micro-Star International's (MSI) 5608 handset, which is based on Soleus and was ICS' second design win (June 5th, 2007). This product (a hybrid PND and mobile TV device) was unveiled at the Consumer Electronics Show (CES) in January with shipments expected to begin approximately two months from now. Although anticipated volume shipments were not disclosed we conservatively forecast both these devices to ship at least 100K – 300K units initially. **These data points indicate the company is executing on its strategy and is on track to begin receiving high margin royalty revenues beginning 2H/08, which will signal ICS' gradual transition to becoming a software company (please see our initiating coverage report dated February 8th for details).**

(ii) Market Opportunity Large and Intact. The market opportunity that Soleus is targeting is mid-market handheld devices that include one or several multi-media features (camera, MP3 player, location based features, gaming, mobile TV etc) and are priced competitively (i.e., below the price point of high-end devices like Blackberry). Handset devices in this mid-market segment (i.e., feature phones) typically lack the processing power, memory and battery power required to run a high capacity operating system (OS) such as Windows Mobile or Symbian that can support advanced multi-media applications. Intrinsyc's Soleus platform offers handset/device Original Device Manufacturers (ODM), Original Equipment Manufacturers (OEM's) as well as silicon vendors a flexible platform that enables them to bring new handset designs with multi-media capabilities to market faster and in a cost efficient manner. **Evolving trends we gleaned at the conference gives us confidence the market opportunity for Intrinsyc's Soleus platform is large and growing**. They include:

- **(a) ARPU Pressure on Operators** – Mobile operators continue to face ARPU (Average Revenues per User) pressure and slimmer margins especially in developed markets and need to drive usage of value added data/multi-media services among their customers to boost revenues. This requires them to provide their customers with a rich user experience, which involves providing a user friendly interface (i.e., handset screen, icons etc) with the ability to customize the interface and offer feature rich applications for which competitively priced handsets with multi-media features is a necessity. ***ICS offers handset manufacturers and mobile operators the ability to bring to market feature rich handsets (i.e., with multi-media features and customization) in a cost efficient and timely manner.***
- **(b) Mobile Operators Looking to Cut Costs**. Faced with margin pressure from declining ARPU, mobile operators are looking to cut costs by standardizing the number of operating systems, platforms and applications they support on their networks. In fact Vodafone CEO, Arun Sarin stated in his keynote that mobile OS consolidation is required to expand the mobile phone industry as the current proliferation of OS platforms requires application developers to write applications for a multitude of platforms, which is cumbersome, time consuming and not cost effective. ***ICS offers a modular architecture that can be used across a variety of handsets based on the same platform with limited custom coding needed. This facilitates lower costs, faster time to market and easier application development.***
- **(c) Handset Vendors Facing Shorter Product Cycles**. Handset ODM and OEM's are facing shorter product cycles given the constant innovation and competitive nature of the mobile handset industry. Product cycles which were typically 18 – 24 months long are now being compressed to 12 – 18 months long as customers refresh/replace their handset devices more frequently in response to new features from newer designs. This is putting pressure on handset vendors to bring to market and new innovative designs quicker and in a cost effective manner. Shaving even a month or two off development time can significantly impact a handset's return on investment (ROI). ***As discussed above, Intrinsyc's Soleus OS offers handset ODM's/OEM's a flexible platform to accomplish this.***
- **(d) Developing Markets have different Dynamics.** One theme that we could decipher from handset vendors was – "low price does not always mean light on features". For example Nokia indicated that it will

begin offering entry level models for the Indian market with features that include colour screens and cameras (Nokia 2600 camera phone-FM Radio; Nokia 1209 color phone) with both handsets each priced under US$100. We believe the entry level segment will continue to demand advanced features at affordable price points. Research firm In-Stat in a recent report indicated that although mobile subscribers in China exceeded 500mm in 2007 there are nearly 800mm potential subscribers who have cellular network coverage but do not yet have a mobile phone. ***This is one of the key market opportunities that ICS is targeting by offering OEM's/ODM's a cost effective way to design competitively priced phones that go beyond voice only capability.*** Our checks indicate not all well established handset brands will be able to penetrate this segment by offering handsets with multi-media features at a lower price point than in developed markets they serve as they risk brand dilution. ***However, Asia based handset ODM's/OEM's are better positioned in this regard and Intrinsyc is already establishing deep relationships with such vendors, which opens up a vast market opportunity.***

(e) RTOS model not Sustainable. RTOS or Real Time Operating Systems are in-house developed proprietary code based operating systems that several handset manufacturers have traditionally relied on. In a stable development environment with limited handset models and limited features RTOS based platforms are effective. However, in a dynamic environment with new features and designs being introduced constantly the inflexibility of RTOS platforms requires extensive custom coding for each handset, which increases cost of development and time required for development of new designs. RTOS based platforms still accounts for the bulk of the feature phone segment – in 2007 it is estimated feature phones accounted for 60% of the 1.2bn handsets shipped (or 700mm feature phone units) of which only 15% were non-RTOS based (or ~ 100mm - 120mm units). We believe the remainder of the feature phone segment which is currently RTOS based (~ 550mm – 600mm units) will eventually be forced to move away from the rigid inflexible RTOS based architecture to more open platforms. ***ICS' Soleus OS platform has a modular, open architecture and is well positioned to address the legacy platform challenges that handset vendors face, which is a large market opportunity.***

(iii) Conversation with Samsung Reaffirms Earlier Channel Checks. We had the opportunity to speak to representatives from Samsung and they confirmed that the application processor they will be embedding Soleus into (design win # 6 with Samsung LSI Semiconductor division – Jan 30th, 2008) will be targeted at mobile devices including PND's, PMP's (personal media players), feature phones targeted at the China market as well as consumer electronic devices. This reaffirms our earlier checks prior to initiating coverage where feedback we received indicated Samsung could likely target several customers in the consumer electronics segment including Sanyo, Tom Tom and likely Epson in addition to Samsung Mobile.

We are conservatively forecasting $9.0mm in royalty revenues from this deal in F09, although our analysis indicates potential royalty revenues from this deal could exceed our forecast by $15mm - $25mm, which could add $0.01 - $0.02 to F09 EPS over and above our forecast. Exhibits 1 – 3 highlight the sensitivity of the penetration rate to LSI's processor shipments.

Exhibit 1. Samsung Processor Penetration (Soleus) – Units (mm)

Penetration Rate (%)	Samsung Processors Shipped (mm)					
	60.0	**65.0**	**70.0**	**75.0**	**80.0**	**85.0**
5%	3.0	3.3	3.5	3.8	4.0	4.3
10%	6.0	6.5	7.0	7.5	8.0	8.5
15%	9.0	**9.8**	**10.5**	**11.3**	**12.0**	12.8
20%	12.0	**13.0**	**14.0**	**15.0**	**16.0**	17.0
25%	15.0	**16.3**	**17.5**	**18.8**	**20.0**	21.3
30%	18.0	19.5	21.0	22.5	24.0	25.5
35%	21.0	22.8	24.5	26.3	28.0	29.8

Source: MGI Securities Inc.

Exhibit 2. Samsung Royalty Revenues Sensitivity (mm)

Samsung Processors Shipped (mm)

Penetration Rate (%)	$2.00	$2.15	$2.30	$2.45	$2.60	$2.75
5%	$6.0	$7.0	$8.1	$9.2	$10.4	$11.7
10%	$12.0	$14.0	$16.1	$18.4	$20.8	$23.4
15%	$18.0	**$21.0**	**$24.2**	**$27.6**	**$31.2**	$35.1
20%	$24.0	**$28.0**	**$32.2**	**$36.8**	**$41.6**	$46.8
25%	$30.0	**$34.9**	**$40.3**	**$45.9**	**$52.0**	$58.4
30%	$36.0	$41.9	$48.3	$55.1	$62.4	$70.1
35%	$42.0	$48.9	$56.4	$64.3	$72.8	$81.8

Source: MGI Securities Inc.

Exhibit 3. Samsung Partnership EPS Impact

ASP per Processor

Net Margin (%)	$2.00	$2.15	$2.30	$2.45	$2.60	$2.75
7%	$0.00	$0.00	$0.00	$0.01	$0.01	$0.01
8%	$0.01	$0.01	$0.01	$0.01	$0.01	$0.02
9%	$0.01	**$0.02**	**$0.02**	**$0.02**	**$0.02**	$0.03
10%	$0.02	**$0.02**	**$0.03**	**$0.03**	**$0.03**	$0.04
11%	$0.03	**$0.03**	**$0.04**	**$0.04**	**$0.05**	$0.05
12%	$0.04	$0.04	$0.05	$0.06	$0.06	$0.07
13%	$0.05	$0.05	$0.06	$0.07	$0.08	$0.09

Source: MGI Securities Inc.

We note that timing on how quickly higher penetration rates can be achieved is hard to accurately predict and the above analysis highlights the potential opportunity if Samsung LSI captures sufficient penetration with Samsung Mobile and other ODM's/OEM's focused on the Chinese handset market. It is likely this could take two to three years to achieve and our analysis is an attempt to try and quantify what the potential opportunity here under an achievable set of assumptions.

Google and Android – Competitive Implications?

A key competitive development in recent months has been Google's announcement of Android, a software stack that will include an operating system, middleware and application suite. The Android platform was announced in Nov. 2007 by Google in conjunction with several partners including hardware vendors (Samsung, Motorola, LG, HTC etc), operators (NTT DoCoMo, KDDI, China Mobile, Telecom Italia etc), silicon vendors (Marvell, TI etc) collectively known as the Open Handset Alliance. Google is positioning Android as a low cost (or even free) open and comprehensive platform for mobile devices. Google's primary goal it appears in floating this initiative is to replicate its phenomenal success in the world of PC based Internet advertising revenues in the mobile advertising market as well through an OS platform likely optimized to run its web browser.

Android's presence in Barcelona was noticed at the booths of several chip makers including ARM, TI, ST Microelectronics and Qualcomm among others demonstrating Android based prototypes. With Android likely to be offered free it is a potential threat to Soleus and this is a development that needs monitoring but there are several issues that Google needs to address before Android could be proclaimed a success. They include:

(a) Google is working with a diverse set of partners including mobile operators, handset manufacturers, chip set vendors etc, each of whom have their own agendas and priorities and forging a common set of objectives among disparate partners may not always be easy;

(b) The success of the platform will depend on the enthusiasm of application developers to build new mobile applications and until there is a sufficient installed base of Android driven handsets in the market place application developers may delay introducing such applications (the chicken and egg syndrome);

(c) Google is not a mobile software company and any technical or performance problems including lack of sufficient drivers and technical support for application developers could impact the success of the platform;

(d) Mobile operators have traditionally exerted control and influence over the mobile handset user interface (UI) as well as the number and types of devices and third party applications that run on its networks. Large operators like AT&T and Verizon may be reluctant to cede control over these aspects (especially if it impacts their pricing structure for services), which could delay the adoption rate of this platform.

ICS's management indicated that the pipeline of design win opportunities remains intact and has not been impacted by external developments like Android. Nevertheless, Android warrants monitoring going forward but our take is the market size (especially feature phone segment) is large enough in the medium term to accommodate several players and we do not view Android as an immediate threat to Intrinsyc.

Microsoft Acquires Danger. During the conference Microsoft announced it was acquiring Danger, Inc., a Software as a Service (SaaS) company that provides mobile operators with an integrated solution to deliver mobile data and Internet services through Danger OS enabled devices. Danger's data driven services include web browsing, email, games and easy access to online social networks like MySpace etc. Microsoft will add Danger to its entertainment and devices division (products include Xbox, Zune, Windows Live etc). Although Microsoft's strategy here is not fully clear it is likely the company is potentially looking to make inroads into new revenue streams from hosted mobile offerings similar to Apple's iTunes offering and RIM's dedicated network, which attracts fees from carriers. Industry publications are estimating Microsoft paid US$500 mm for Danger implying a multiple of nearly 9.0x T12 month Price/Sales. Assuming a similar multiple for Intrinsyc would imply a take-out value of around $3.00 (using F09 consensus revenues). Intrinsyc at its core is a Windows based shop and as it gains sufficient traction with ODM's/OEM's and expands the Soleus footprint it could likely be acquired by Microsoft looking to fend of competition from Google.

Outlook and Catalysts

With 25% topline growth expected in F08 and 86% in F09 we have a positive outlook for ICS. Eliminating one outlier estimate we are above consensus for F09 (current consensus in C$ - company switching to US$ reporting) for F09 with revenues of $45.7mm (vs. cons for $41.8mm) and EPS of $(0.01) (vs. cons for $(0.02)). Our above consensus forecast reflects our confidence in the potential of recent deals (especially Samsung) to significantly impact financials heading into F09. Pending catalysts for the stock include:

- New design wins from ODM's/OEM's or silicon vendors;
- Commencement of royalty revenues ramp from previously secured design wins;
- Commencement and ramp up of royalties from Samsung deal (expected in late 2H/F08);
- Additional design wins from existing ODM/OEM partners;
- Potential for accretive acquisitions.

The stock can be news driven with design win announcements acting as catalysts for the stock which could lead to near term volatility. However, we recommend investors take a medium to longer term view of this story as we expect sustainable multiple expansion once royalty revenues commence and the company transitions to a higher mix of high margin software revenues and positive earnings.

Valuation and Recommendation

We maintain our BUY recommendation and a $2.00 target price. On the back of positive feedback from customers and partners, favourable industry trends and tangible signs of execution on strategy **we are maintaining our Buy rating and $2.00 target**. On an EV/Sales basis, ICS trades at 2.2× consensus F2009 estimates, essentially inline with its peers but well below industry leaders.

Our $2.00 target equates to 4.8x F09 revenues on an EV/Sales basis, which is comparable to high growth software companies and industry leaders like RIM. We note the company is undergoing a fundamental transformation as it transitions to a software company (see initiating report for details) and it is hard to accurately predict the company's growth trajectory, revenue mix and margins. However, design wins with leading ODM's/OEM's and especially silicon vendors give us comfort our projections are achievable and the implied growth warrants a premium multiple.

We believe that, given ICS' strong management team, pending catalysts and potential for upside to expectations our premium valuation is justified.

Risks to Outlook

Success Contingent on Soleus Design Wins: At present, ICS has six Soleus wins to its credit. The majority of the Company's eggs lie in the Soleus basket. As such, the Mobile Products Group is heavily reliant upon future wins and the shape of the feature phone segment. Though ICS has a healthy pipeline of potential licensees, future demand for the software is uncertain. Sales cycles have historically been lengthy and have fallen into the six to nine month range. Delays are a regular occurrence as customers ponder the expenditure and proceed with due diligence. Given the significant investment in R&D, it is critical for Soleus to generate revenue from design wins in a timely manner.

Technological Change: The software industry is constantly evolving. As such, ICS will have to improve existing products and develop new features in response. In a changing marketplace, there is no guarantee that the Company will be able to accomplish this in a timely fashion or at all. As well, there is no assurance that ICS will be able to compete with a competitor's improved technology which can potentially render its products obsolete.

The Emergence of the Smartphone: The sentiment that smartphones will continue to impact feature phone sales is widely held. It is therefore increasingly important for ICS to establish a stronghold on the HLOS market in order to solidify its position as the trend evolves. Conversely, there is also a possibility for players such as Symbian and Microsoft to move downstream and penetrate the feature phone space, potentially compromising ICS's market position.

Royalty Revenues: The company's transition to a software vendor depends on the level of royalty revenues and the pace at which these revenues accelerate. This depends on handset and electronic device shipments from ODM/OEM and silicon partners and timing of these shipments could impact the rate of royalty revenue increases.

Customer Concentration. This was an issue when the company was a pure services company with the top three customers accounting for over 40% of revenues. As Soleus related revenues ramps this percentage should decrease.

Please note there is a discrepancy in our Initiating Reporting Report dated February 8th, 2008 between estimates in the attached model in Appendices and summary box on front page. The estimates reflected in the model are the correct one.

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3. The analyst has visited the issuers Vancouver Head Office. No payment or reimbursement was received from the issuer for the associated travel costs.

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