

**INTRINSYC SOFTWARE INTERNATIONAL INC.**

Equity Research | Technology

Ticker

Recommendation

12-month Target

Please see important disclosures at the end of this document

**TSX:ICS**  
\$0.75

**SPEC. BUY**  
(unchanged)

**\$1.75**  
(unchanged)

**Q3-2007 Earnings Review**

July 12, 2007

**Market Data**

52-week High-Low	\$0.89-\$0.335
Shares Outstanding	
– Basic	119.4 million
– Fully diluted	150.3 million
Market Capitalization	\$89.6 million
Cash and Securities <sup>1</sup>	\$21.4 million
Total Debt <sup>1</sup>	\$0.0 million
Fiscal Year End	August 31
Major shareholders	Insiders: 1%
	Institutions: 6%

<sup>1</sup>As at May 31, 2007

**Financial Data**

(000, except EPS)	FY06A	FY07E	FY08E
Revenue	\$18,658	\$19,770	\$26,180
<i>Prior Estimate</i>		\$20,700	\$27,886
Gross Margin	39.3%	49.7%	57.8%
<i>Prior Estimate</i>		46.6%	54.8%
Net Income	(\$16,393)	(\$13,949)	(\$1,606)
<i>Prior Estimate</i>		(\$15,176)	(\$11,530)
EPS – fully diluted	(\$0.24)	(\$0.16)	(\$0.02)
<i>Prior Estimate</i>		(\$0.18)	(\$0.14)

**Investor Risk Tolerance Scale**



**Company Description**

**Intrinsyc Software International Inc.** is a mobility software and services company. The Company's principal business units are the Customer Programs group and the Mobile Products Group. The Customer Programs team develops mobility solutions for a variety of operating systems. The Mobile Products Group is charged with bringing Soleus and other forward-looking opportunities to market.

**Event**

Intrinsyc Software International Inc. ("Intrinsyc" or the "Company") released its Q3-07 (May 31, 2007) results yesterday, Wednesday, July 11, 2007, after market close.

**Highlights**

**Revenue.** The Company reported revenue of \$5.1 million for the quarter, in line with our expectations. This represents a 16% increase over Q3-06, and flat sequentially. The engineering services/consulting business generated the majority of the revenue in the quarter, increasing 25% over this time last year. Hardware revenue declined from 6% of total revenues in Q2-07 to 2% of revenues in this quarter. Software revenue accounted for 10% of revenue versus 9% last quarter, representing a 14% increase year-over-year.

**Gross Margin.** Consolidated gross margin was higher than we expected, at 52% versus our estimate of 47%. The Company stated that gross margin was positively impacted by the increase in revenue and effective execution of contracts.

**R&D.** The Company spent \$3.0 million on R&D in the quarter versus \$3.3 million last quarter. Most of the R&D is attributed to the Company's *Soleus* product. The decrease in R&D spending is due mainly to a slight shifting of the Company's focus from R&D of *Soleus* to the selling and marketing of *Soleus*. Going forward the Company will continue to focus on the basic *Soleus* platform with a view to expanding the addressable market. The Company expects to release an updated version of *Soleus 1.0*, named *Soleus 1.1*, later this summer.

**Net Loss.** The Company reported a net loss of \$4.4 million (\$0.05 per share), lower than our estimate of a loss of \$4.7 million (\$0.05 per share), but equal on a per share basis.

**Balance Sheet.** The Company reported \$21.4 million in cash at the end of the quarter and virtually no debt. The Company raised \$18.7 million during the quarter through a public offering of 33 million common shares. Subsequent to quarter end, the Company received additional net proceeds of \$1.7 million from the partial exercise of the public offering over-allotment option.

**Investment Conclusion**

**We continue to recommend Intrinsyc as a SPECULATIVE BUY with a 12-month target of \$1.75.**

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**Q3 in Detail**

Table 1 shows a comparison of results reported by the Company for the third quarter compared to our expectations.

**Table 1: Income Statement Summary**

INCOME STATEMENT	Q3 2007E	Q3 2007A	Variance to model	Q2 2007A	% change Q/Q	Q3 2006A	% change Y/Y
<b>Revenue</b>	\$ 4,978	\$ 5,112	2.7%	\$ 5,036	1.5%	\$ 4,389	16.5%
Cost of sales	2,665	2,464	-7.5%	2,554	-3.5%	2,843	-13.3%
Gross margin	46.5%	51.8%		49.3%		35.2%	
Administration	1,425	1,416	-0.7%	1,411	0.3%	1,212	16.8%
Marketing and sales	1,731	1,734	0.2%	1,697	2.2%	900	92.7%
Research and development	3,367	2,953	-12.3%	3,302	-10.6%	2,991	-1.3%
<b>EBITDA</b>	(4,559)	(3,704)	-18.8%	(4,139)	-10.5%	(3,931)	-5.8%
<b>Net earnings (loss)</b>	(\$4,702)	(\$4,383)	-6.8%	(\$4,247)	3.2%	(\$4,705)	-6.8%
Earnings (loss) per share	(\$0.05)	(\$0.05)		(\$0.05)		(\$0.06)	
<b>Cash Flow Statement</b>							
Cash from Earnings	(\$4,500)	(\$4,117)	-8.5%	(\$3,852)	6.9%	(\$4,059)	1.4%
<b>Changes in Non-Cash Working Capital</b>							
A/R	(165)	983		997		148	
Net Change in non-cash working capital	1,258	1,434		817		675	
<b>Operating Cash Flow</b>	(\$3,242)	(\$2,683)	-17.2%	(\$3,034)	-11.6%	(\$3,384)	-20.7%

Source: Company Reports, NSI Estimates

Overall, the Company's Q3-07 results are in line with our expectations. The Company continues to push forward with its strategic focus on wireless services. During this quarter, the Company established a permanent office in Taipei and obtained its first design win for *Soleus* with a leading handset and personal navigation device OEM. Subsequent to the end of the quarter, the Company announced an additional design win with a leading Taiwanese original device manufacturer (ODM) for the development of its first combination GPS and Mobile Digital Television (MDTV) device with mobile phone capabilities.

The Company also reported that it has taken steps to close down parts of its legacy business. This includes winding down the hardware business. The effect of this was seen in this quarter's hardware revenue number which accounted for 2% of total revenue versus 6% in Q2-07. The Company also stated that it expects this wind down of the hardware business to have slight negative impact on Q4-07 revenues as its strategic business, including *Soleus*, ramps up. We have adjusted our forecasts to reflect this impact. As a result, our FY07 revenue estimate declined from \$20.7 million to \$19.8 million and our FY08 revenue estimate declined from \$27.9 million to \$26.2 million. However, because of improved margins in the Company's strategic business, our FY07 gross margin estimate increased from 46.6% to 49.7% and our FY08 gross margin estimate increased from 54.8% to 57.8%; our net loss went from \$15.2 million (\$0.18 per fully diluted share) to \$13.9 million (\$0.16 per fully diluted share) in FY07 and from \$11.5 million (\$0.14 per share) to \$1.6 million (\$0.02) in FY08.

Moving forward, the Company believes that two key trends will be the key drivers for the adoption of its *Soleus* product. The first trend is the move towards connectivity in handheld devices. As consumers look toward reducing the number of devices they carry, they will look towards devices that will allow them to combine, for example, their mobile phone with GPS and an MP3 player. The second trend is the emergence of high bandwidth wireless networks.

The Company stated during the earnings conference call that they have 30 prospects identified. They have defined prospects as potential customers. Of the 30 prospects, they have established contact with over half of them and are at varying stages of negotiation with these prospects. These prospects fall in to two main categories: handheld devices manufacturers and manufacturers of multimedia handsets.

The Company gave no further guidance of the types or size of the prospects nor did they give an indication of what stage in the negotiation process these prospects are at. The Company did state that it takes approximately 3 to 6 months from initial contact to the signing of a licensing agreement and a further 12 to 18 months to realize revenue. We expect to hear announcements of additional design wins in the next few quarters and see the impact of these design wins beginning in FY08.

### **Conclusion**

Intrinsyc continues to make progress as it transitions itself into a global provider of software platforms for wireless device manufacturers. We believe the Company is poised to make a breakthrough in the coming months. The two design wins the Company has obtained for its *Soleus* product indicate to us that Intrinsyc has the ability to commercialize the product. We look forward to announcements of more design wins and we expect to see the financial impact of the design wins in FY08 and FY09. **We continue to recommend Intrinsyc as a SPECULATIVE BUY with a 12-month target of \$1.75.**