

INTRINSYC SOFTWARE INTERNATIONAL INC.

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TSX: ICS **\$0.75**

Recommendation: **SPECULATIVE BUY**

12-Month Target: **\$1.75**

Dennis dos Santos, MBA, P. Eng.
(416) 644-8124 ddossantos@northernsi.com

Cellon Signs *Soleus* MOU

Event:

- Cellon International has signed a Memorandum of Understanding (MOU) to evaluate Intrinsyc's *Soleus* for use in mobile phone designs for the feature phone segment.

Highlights:

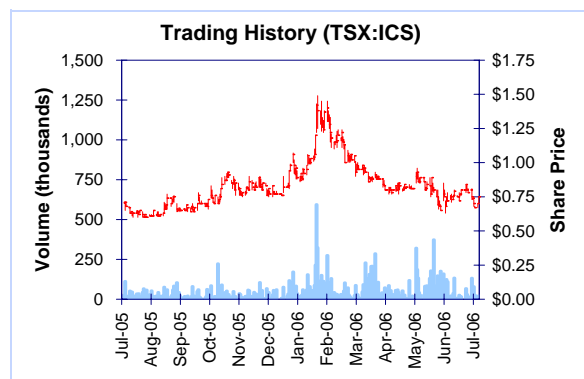
- Cellon International provides fully outsourced solutions for handset OEMs and retailers worldwide. Customers have shipped more than 30 million handsets based on Cellon designs. The company has 800 employees and is based in Taiwan. Cellon designs have been sold under labels such as Siemens, Amoi, Royal Philips Electronics and UTStarcom.
- Like the recently announced deal with Gin wave (June 30), Cellon will explore the possibility of developing handsets based on Intrinsyc's *Soleus* platform for sales to handset manufacturers and network operators worldwide. Cellon will evaluate potential costs savings and reduced developments.
- The *Soleus* camp now includes three partners: Wistron (a licensee), Ginwave (at MOU stage) and now Cellon. These new signings are indicative of growing industry interest in the *Soleus* platform.
- While this is not as significant as signing a licensee, MOU's such as this can lead to license agreements. We expect Intrinsyc will continue to sign up licensees, with our model accounting for 1 customer in fiscal 2006 (already in place with the Wistron announcement) and an additional 3 licensees in fiscal 2007.

Investment Conclusion:

- Soleus*, which has yet to contribute revenue, will be the main growth driver for the Company and the catalyst for the shares going forward. We believe that moderate success in obtaining design-ins for *Soleus* could cause the share price to more than double. **We continue to recommend Intrinsyc as a SPECULATIVE BUY with a 12-month price target of \$1.75.**

52-week High-Low	\$1.49-\$0.60
Shares outstanding	
- Basic	83.0 million
- Fully diluted	106.0 million
Market capitalization	\$62.2 million
Fiscal Year End	August 31
Major shareholders	Management & Insiders: 5%

(millions, except EPS)	2005A	2006E	2007E	2008E
Revenue	\$17,539	\$19,989	\$28,870	\$47,824
Gross Margin	\$8,458	\$7,894	\$14,435	\$28,695
Gross Margin	48%	39%	50%	60%
EBITDA	(\$3,809)	(\$11,577)	(\$9,715)	(\$1,401)
Net Income	(\$4,980)	(\$13,819)	(\$11,640)	(\$3,002)
EPS (basic)	(\$0.09)	(\$0.21)	(\$0.14)	(\$0.04)
EPS (FD)	(\$0.08)	(\$0.18)	(\$0.11)	(\$0.03)



Source: Bloomberg

Company Description

Intrinsyc Software International, Inc. is a mobility software and services company. The Company's principal business units are Mobile Software Products (MSP) and Mobile and Embedded Solutions (MES). The MSP group is responsible for the development of the *Soleus* feature phone operating system and the MES group provides systems integration services to handset manufacturers.

Investment Opinion Definition

STRONG BUY:	NSI expects the share price to appreciate 30% or more over the next 12 months.
BUY:	NSI expects the share price to appreciate 10% to 30% over the next 12 months.
HOLD:	NSI expects the share price to appreciate 10% or less over the next 12 months.
SELL:	NSI expects the share price to have a negative rate of return over the next 12 months.
SPECULATIVE BUY:	NSI expects the share price to appreciate substantially over the next 12 months, but with a high level of inherent risk.

Note: Percentages are approximate and ratings are at the analyst's discretion.

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