

Intrinsyc Software International Inc.

ICS : TSX : C\$0.70

SPECULATIVE BUY

Target: C\$1.75

Peter Misek 1.416.869.7920
 peter.misek@canaccordadams.com
 Sameet Kanade 1.416.869.7294
 sameet.kanade@canaccordadams.com

COMPANY STATISTICS:

52-week Range: \$0.34-0.78
 Avg. Daily Vol. (000): 193.7
 Market Capitalization (M): \$81.5
 Shares Out. (M) basic: 116.4
 Shares Out. (M) fd: 116.4

EARNINGS SUMMARY:

FYE Aug	2005A	2006A	2007E	2008E	2009E
Revenue (M):	17.5	18.7	20.6	29.7	69.1
EV/Sales:	3.2x	3.0x	2.8x	1.9x	0.8x
EPS:	(0.11)	(0.24)	(0.18)	(0.10)	0.09
P/E:	NM	NM	NM	NM	7.5x

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:

Intrinsyc Software is a mobility software and services company, based in Vancouver, BC. The company's technologies and services enable companies to identify and create solutions to make mobile devices connect and work. Intrinsyc creates and licenses mobile and embedded software products to OEMs, as well as a suite of server-based interoperability solutions. Additionally, the company provides engineering services to support these products.

All amounts in C\$ unless otherwise noted.

Technology -- Software and Services Q3/F07 PREVIEW

Event

Intrinsyc will report results for the quarter ended May 2007 on July 11, 2007. We expect the company to report relatively flat results on a sequential basis. Our Q3 revenue and EPS estimates are C\$5.0 million and (C\$0.04), respectively.

Impact

Neutral. Recently, the company announced a couple of design wins and we look forward to receiving clarity from management pertaining to the schedule for converting these wins into material and recurring revenue streams. Further, we look forward to management's guidance on the pipeline and timeline for achieving operating profitability.

Action

We believe that recent Soleus design wins lend further support to our view that Intrinsyc is making solid progress positioning itself in the high-growth mobile OS market. The core management team, comprised of seasoned professionals from Microsoft and Intel, adds credibility to the company's efforts to win key contracts with large OEMs and ODMs, in our opinion. Overall, we believe that Intrinsyc offers good stability with its engineering business and solid upside with the Soleus platform. Hence, we reiterate our SPECULATIVE BUY recommendation and C\$1.75 target price, based on our DCF analysis.

Valuation

Intrinsyc trades at a discount to peers on an F2008 EV/sales basis, trading at 1.6 times, well below the industry average of 3.9 times. We believe the company should be trading at higher multiples than the peer average due to its impressive growth potential in F2008 and beyond.

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6 July 2007

Conference call details

Intrinsyc will release Q3 on Wednesday, July 11, 2007 after market close. The conference call will be held at 5:00pm ET, and can be accessed in North America at 1.866.782.8903, and internationally at 1.647.426.1845. The call can also be accessed via the Internet at www.intrinsyc.com/investors.

Q3/F07 preview

Intrinsyc will report Q3/F07 results, for the quarter ended May 2007 on July 11, 2007. We expect the company to report relatively flat results on a sequential basis. Our Q3 revenue and EPS estimates are C\$5.0 million and (C\$0.04), respectively. Our estimates include expectations for continued investment in R&D and S&M expenses towards further development and marketing of the Soleus software platform.

Recently, the company announced a couple of design wins and we look forward to receiving additional clarity from management pertaining to their expectations and schedule for converting these wins into material and recurring revenue streams. Further, we look forward to management's guidance on the pipeline and timeline for achieving operating profitability.

Figure 1: Q3/F07 Preview

(C\$M)	CA Q3/F07E	Q2/F07A	Q3/F06A	% Change Q/Q	% Change Y/Y
Revenue	5.0	5.0	4.4	-0.6%	14.1%
Gross Profit	2.4	2.5	1.5	-3.1%	55.5%
% of Revenue	48.0%	49.3%	35.2%		
Total Op Ex	6.2	6.8	5.7	-9.9%	8.1%
% of Revenue	122.9%	135.7%	129.7%		
EBITDA	(3.6)	(4.1)	(3.9)	-13.8%	-9.2%
% of Revenue	NM	NM	NM		
GAAP Net Income	(3.8)	(4.2)	(4.7)	-10.6%	-19.3%
% of Revenue	NM	NM			
GAAP EPS - basic	(0.04)	(0.05)	(0.06)	-17.3%	-32.9%
GAAP EPS - diluted	(0.04)	(0.05)	(0.06)	-17.3%	-32.9%

Source: Canaccord Adams estimates, Company reports

Recent announcements

- Intrinsyc announced that it signed an agreement to license the Soleus software platform to a Taiwanese ODM. The ODM has licensed Soleus for the development of its combination GPS and MDTV device with mobile phone capabilities. We believe this is the company's second major design win. One significant aspect of the agreement is that Intrinsyc's licensee appears to already have a customer agreement to deploy the device. This, in our view, reduces some of the market acceptance risk that could impact the company's long-term revenue potential, which is a function of per unit royalties. Although no timing details were announced, we expect Intrinsyc to recognize some upfront development revenue (in the range of C\$100,000-250,000), followed by per unit royalties of perhaps C\$3.00-5.00, commencing in 9-12 months.

6 July 2007

- Intrinsic announced the receipt of correspondence from Industry Canada's Industrial Technology Office (also known as TPC) indicating that certain amounts claimed by the company have been disallowed and a repayment of approximately C\$900,000 will be requested. The company is in the process of determining avenues for an appeal.
- Intrinsic announced that Andrew Morden, CFO, submitted his resignation effective July 22, 2007. Note that we do not view this event as a red flag, as this does not affect the dynamics of the core management team.

Outlook and recommendation

We believe that recent Soleus design wins lend further support to our view that Intrinsic is making solid progress positioning itself in the high growth mobile OS market. The core management team, comprised of seasoned professionals previously with Microsoft and Intel, adds credibility to the company's efforts to win key contracts with large OEMs and ODMs, in our opinion. Overall, we believe that Intrinsic offers good stability with its engineering business and solid upside with the Soleus platform. Hence, we reiterate our SPECULATIVE BUY recommendation and C\$1.75 target price, based on our DCF analysis.

Valuation

Intrinsic trades at a discount to peers on an F2008 EV/sales basis, trading at 1.6 times, well below the industry average of 3.9 times. We believe the company should be trading at higher multiples than the peer average due to its impressive growth potential in F2008 and beyond.

Figure 2: Comparables

			Price	Revenue			EPS			EV/Sales		P/E	
				F2007E	F2008E	Growth	F2007E	F2008E	Growth	F2007E	F2008E	F2007E	F2008E
Access	4813	:TSE	361,000	34,757	39,195	13%	(30,075)	3,024	-110%	4.1	3.6	NM	119.4
Aplix	3727	:TSE	153,000	6,174	6,756	9%	(76,011)	6,137	-108%	2.5	2.3	NM	24.9
Trolltech	TROLL	:OS	11.00	240.9	340.1	41%	(0.67)	(0.19)	NM	2.2	1.6	NM	NM
Call Genie	GNE.	:V	\$2.28	2.3	19.0	NM	(0.08)	0.08	NM	NM	9.0	NM	NM
Red Hat	RHT	:N	\$21.60	488.0	608.0	25%	0.66	0.83	26%	7.9	6.4	32.7	26.0
Research In Motion	RIMM	:Q	\$216.19	4,786.4	7,015.0	47%	5.18	7.59	47%	8.3	5.6	41.7	28.5
Wind River	WIND	:Q	\$10.74	328	371	13%	0.32	0.51	59%	2.5	2.2	33.6	21.1
Zamano	ZMNO	:L	30.63	20	25	23%	0.04	0.05	18%	1.1	0.9	11.7	9.9
Zi Corp.	ZICA	:Q	\$1.24	12	15	24%	(0.09)	(0.01)	NM	4.5	3.6	NM	NM
Average						24%			-11%	4.1	3.9	29.9	38.3
Median						24%			22%	3.3	3.6	33.1	25.5
Intrinsic	ICS.	:T	\$0.70	21	36	67%	(0.16)	(0.07)	129%	2.7	1.6	NM	NM
Intrinsic	ICS.	:T	\$1.75	21	36	67%	(0.16)	(0.07)	129%	8.4	5.0	NM	NM

Source: Company reports, Bloomberg, Thomson ONE, Canaccord Adams

Investment risks

The main risks to our outlook include the competitive environment intensifying, design wins take longer than expected to close, design wins to not translate into material revenue due to failed device launches, ESG division revenue erosion, and key management leaving the firm. Other risks include litigation, adverse F/X trends, slower-than-expected growth in the mobile device market, faster-than-expected ASP erosion at handset OEM/ODMs pressuring Intrinsic's ASPs down significantly, and broader macroeconomic forces impacting the market.

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Site Visit: An analyst has visited Intrinsyc's material operations in Vancouver, BC, Canada. No payment or reimbursement was received from the issuer for the related travel costs.

Distribution of Ratings:

Global Stock Ratings
(as of 1 June 2007)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	320	58.1%	39.7%
Speculative Buy	67	12.2%	73.1%
Hold	139	25.2%	33.1%
Sell	25	4.5%	4.0%
	551	100.0%	

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BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
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Company	Disclosure
Intrinsyc Software International Inc.	1A, 2, 3, 7

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