

**Intrinsyc Software Int'l Inc. (ICS-T, \$0.38)**

Wednesday, August 13, 2008

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Rating: **SECTOR OUTPERFORM**  
 Target Price: **\$1.50**  
 Return: **295%**  
 YTD Performance: **-59%**  
 Risk Profile: **SPECULATIVE**

**Q.** The 2H/08 should deliver the catalysts: (1) royalty revenue from shipping handsets; (2) a few more SLAs; and (3) the accretive benefits from the Destinator acquisition.

**Q2/08 Inline; Soleus™ Royalties to Begin in 2H/08**

**Event:** Intrinsyc Software reports Q2/08 financial results.

**Impact - Neutral:** Financial results were inline with expectations (\$5.6M in revs; and EPS of -\$0.03); Company in talks with several potential software license agreement (SLA) customers, when will they announce one?

- **Forecasts** – Adjusted, we expect Q3/08 revenues of US\$8.0M (from US\$8.2M, cons: US\$8.1M), EBITDA of -US\$5.5M (from -US\$6.7M, cons: -US\$5.8M), and EPS of -US\$0.03 (from -US\$0.05, cons: -US\$0.03). For FY2008, we expect revenues of US\$27.6M (from US\$28.2M, cons: US\$28.0M), EBITDA of -US\$17.6M (from -US\$20.3M, cons: -US\$19.0M), and EPS of -US\$0.11 (from -US\$0.16, cons: -US\$0.12).
- **Target Price, Ratings** – Unchanged, SECTOR OUTPERFORM rating and \$1.50 target.

**Issues:**

- **Potential Software License Agreements (SLAs)**  
 Company in talks with multiple customers; Soleus™ interest remains strong and driven by Asia.
- **Several Devices Positioned to Ship**  
 With several announced products positioned to ship, we expect Soleus™ royalties to begin ramping during the 2H/08 (back-end loaded).
- **Destinator Integration Driving Towards “Soleus™ Transit” Product**  
 Integration of Destinator’s GPS technology with the Soleus™ OS results in a higher-margin full-featured OS – and a larger market penetration!

**Valuation:** From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Mobility Software Universe based on our CY2009/CY2010 estimates (EV/Sales: '09: 1.0x versus 2.6x, '10: 0.7x versus 2.1x). Our DCF-based target of \$1.50 yields a CY2010 valuation of 3.8x EV/Sales.

**Catalysts:** 1) *Software License Agreements* – Soleus™ contracts, notably a tier-one manufacturer, should improve revenue visibility; 2) *Royalty Generation* – We expect Soleus™ royalties to begin in Q3/08; 3) *Product Visibility* – Soleus™ product reviews will increase visibility and drive future signings (min. of one/qtr).

**Investment Brief:** Soleus™ is a comprehensive software platform (based on Windows CE), whose modular architecture speeds up the development process, provides a reusable platform, allows a higher degree of customization, and lowers the manufacturer’s bill of materials (BOM)

Forecast Risk	High
Financial Risk	High
Valuation Risk	High
52-Week High / Low	\$1.30/\$0.38
Dividend / Yield	0.00%
Shares O/S	162M (basic) / 191M (F/D)
Market Capitalization	\$61.5M
Daily Volume	320K

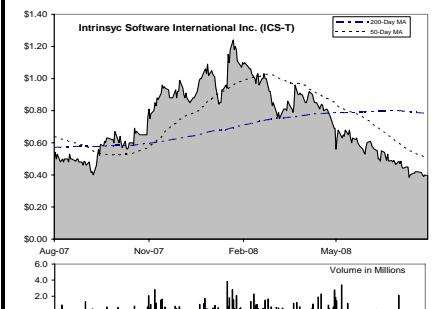
Financial Forecasts				
CY Est.	2007A	2008E	2009E	2010E
Revenues (\$mlns)	21.2	27.6	50.1	70.1
EBITDA (\$mlns)	(15.0)	(17.6)	(4.1)	12.6
EPS (FD) (\$)	(0.14)	(0.11)	(0.03)	0.06
CFPS (FD) (\$)	(0.13)	(0.08)	0.01	0.07

Valuation				
	2007A	2008E	2009E	2010E
P/E	NM	NM	NM	6.7x
EV/SALES	1.3x	1.9x	1.0x	0.7x
EV/EBITDA	NM	NM	NM	4.1x
DCF		\$1.37	\$1.44	\$1.55

**Company Profile** - [www.intrinsyc.com](http://www.intrinsyc.com)  
 Intrinsyc is a leader in software and services that enable next-generation handheld and embedded products, including mobile handsets, smart phones and converged devices. Intrinsyc is a Microsoft Windows Embedded Gold Partner, the 2007 Windows Embedded Excellence Award winner for System Integrator, and a Symbian Platinum Partner.  
**Company CEO** - Glenda M. Dorchak

**Revisions, Date of Record**  
 Rating - Unchanged.  
 Target - up from \$1.25, Jan 8, 2008.

**Price Performance**



Source: Bloomberg



**Intrinsyc Software International Inc.** Ticker: **Shares O/S (M)** ICS-T: **191.0** Price: **\$0.38** Rating: **Sector Outperform**  
**Market Cap. (\$M): \$62** Target: **\$1.50**

Alpha: Product delivery in Taiwan, China and EMEA will provide positive synergy and momentum to future licensing deals.

**Investment Highlights**

**Company Description** - Intrinsyc is a leader in software and services that enable next-generation handheld and embedded products, including mobile handsets, smart phones and converged devices.

**Investment Brief** - The company's mobile software products, engineering services, and years of expertise help OEMs, service providers, and silicon providers deliver compelling wireless products with faster time-to-market and improved development cost. Intrinsyc is a Microsoft Windows Embedded Gold Partner, the 2007 Windows Embedded Excellence Award winner for System Integrator, and a Symbian Platinum Partner.

**Catalysts** - Continued design wins, two have been announced so far, should drive royalty revs.

**Risks** - Handset mfrs and OEMs decide not to go with Windows CE platform; slow shipments delay royalty stream.

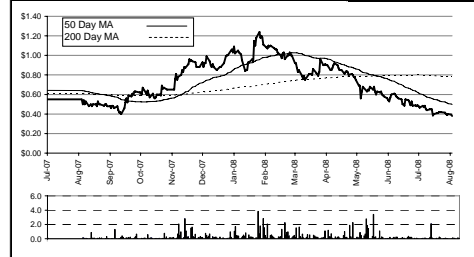
**Recent Financings:**

Equity Offering Feb 2008 - 28.6M @ \$1.05  
 Past Equity Offering May 2007 - 33.3M @ \$0.60

**Management:**

Glenda Dorchak, Chairman & CEO; George Reznik, CFO; Randy Kath, CTO

**Intrinsyc Software International Inc. - Chart**



**Financial Forecasts**

FY-end Dec-31	Annual					Quarterly				
	2007A	2008E	2009E	2010E	2011E	Q1/2008A	Q2/2008A	Q3/2008E	Q4/2008E	Q1/2009E
<b>Revenues (\$mlns)</b>	18.2	27.6	50.1	70.1	86.1	5.6	5.6	8.0	8.5	9.7
Rev. Growth %		52%	81%	40%	23%		0%	43%	7%	13%
<b>Consensus Revenue Est. (\$mlns)</b>	19.8	28.0	56.0	65.5		4.9	5.4	8.1	9.1	10.4
3 months ago.	20	23	48	57	73	5	5	5	6	8
<b>EBITDA (\$mlns)</b>	(16.6)	(17.6)	(4.1)	12.6	18.6	(3.7)	(3.9)	(5.5)	(4.6)	(2.9)
EBITDA Growth %		-6%	77%	405%	48%		-5%	-42%	16%	37%
<b>Consensus EBITDA Est. (\$mlns)</b>	(14.2)	(19.0)	(10.1)	1.2		(3.6)	(4.4)	(5.8)	(4.8)	(4.1)
3 months ago.	(14.2)	(14.4)	(0.3)	7.8	15.1	(3.6)	(4.4)	(5.8)	(4.8)	(4.1)
<b>EPS (FD) (\$)</b>	(0.16)	(0.11)	(0.03)	0.06	0.09	(0.03)	(0.03)	(0.03)	(0.03)	(0.02)
EPS Growth %		30%	71%	282%	60%		4%	-12%	11%	37%
<b>Consensus EPS Est. (\$)</b>	(0.17)	(0.12)	(0.04)	0.01		(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
3 months ago.	(0.17)	(0.10)	(0.00)	0.05		(0.03)	(0.03)	(0.03)	(0.02)	(0.01)
<b>CFPS (FD) (\$)</b>	(0.15)	(0.08)	0.01	0.07	0.12	(0.04)	(0.01)	(0.01)	(0.02)	(0.02)
CFPS Growth %		-48%	111%	740%	75%		60%	16%	-68%	18%
<b>Consensus CFPS Est. (\$)</b>	-	(0.08)	0.07			(0.02)	(0.01)	(0.02)	-	-
3 months ago.	-	(0.07)	0.02	0.08		(0.02)	-	-	-	-

\*All consensus numbers are from Capital IQ

**Valuation Metrics**

	2006	2007	2008	2009
<b>EV/EBITDA - Current</b>	NM	NM	NM	NM
<b>Est. EV/EBITDA - Target</b>				21.0x
<b>EV/SALES - Current</b>	1.9x	NM	1.9x	1.0x
<b>Est. EV/SALES - Target</b>			9.6x	5.3x
<b>DCF Target</b>		\$1.37	\$1.44	\$1.55

**Analyst Ratings: Capital IQ**

	Potential Upside
<b>Average Target</b>	\$1.16
<b>Median Target</b>	\$1.25
<b>Sector Outperform</b>	5
<b>Sector Perform</b>	0
<b>Sector Underperform</b>	0
<b># of Analysts</b>	5

\*Source: Capital IQ, Bloomberg

**Comparables**

Comparables	Stock Price		Pot.	EV/Sales			EBITDA Margin		P/E		EV/EBITDA	
	Today	Target		2008	2009	2010	2008	2009	2008	2009	2008	2009
Intrinsyc Software International Inc.	0.38	1.50	295%	1.9x	1.0x	0.7x	-64%	-8%	NM	NM	NM	NM
Esmertec AG	9.99	10.00	0%	4.4x	3.4x	3.0x	9%	13%	NM	NM	NM	25.9x
Access Company, Ltd.	178,000	436,250	145%	1.5x	1.3x	1.1x	6%	9%	NM	37.8x	24.9x	14.6x
Opera Software ASA	23.00	25.19	10%	5.0x	3.6x	2.8x	12%	18%	NM	33.0x	NM	20.6x
BSQUARE Corp.	4.00	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Smith Micro Software Inc.	7.74	10.83	40%	2.1x	1.8x	1.6x	18%	22%	13.4x	10.0x	11.6x	8.2x
Infrared Inc.	17,100	25,000	46%	4.8x	3.7x	3.0x	30%	39%	20.8x	11.8x	15.6x	9.4x
Acrodea Inc.	163,000	425,000	161%	2.6x	1.7x	1.2x	28%	32%	31.4x	12.7x	9.1x	5.2x
<b>Average</b>				<b>3.4x</b>	<b>2.6x</b>	<b>2.1x</b>	<b>17%</b>	<b>22%</b>	<b>21.9x</b>	<b>21.1x</b>	<b>15.3x</b>	<b>14.0x</b>

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**Historical Valuation Parameters**

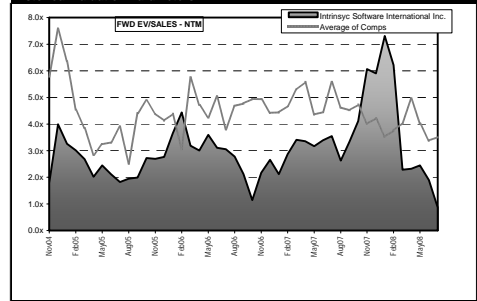
3-Yr Avg.	EV/EBITDA		P/CF		EBITDA Growth		EPS Growth		Sales Growth		Returns %	
	NTM	TTM	2008	2009	2008	2009	2008	2009	2008	2009	Last 3mtd	YTD
Intrinsyc Software International Inc.	NM	NM	NM	NM	6%	-77%	30%	71%	52%	81%	-45%	-59%
Esmertec AG	NM	NM	NM	NM	189%	100%	89%	119%	26%	30%	14%	-9%
Access Company, Ltd.	26.3x	24.2x	32.9x	26.5x	-32%	71%	102%	NM	8%	17%	-42%	-65%
Opera Software ASA	NM	NM	NM	NM	28.8x	NM	99%	NM	45%	37%	49%	78%
BSQUARE Corp.	NM	1.9x	NM	NM	NM	NM	NM	NM	NM	NM	-21%	-41%
Smith Micro Software Inc.	14.1x	NM	NM	NM	149%	42%	NM	34%	37%	19%	-6%	-9%
Infrared Inc.	14.0x	NM	17.0x	10.4x	42%	67%	51%	76%	36%	30%	-6%	7%
Acrodea Inc.	26.1x	23.1x	13.4x	7.5x	NM	75%	NM	148%	NM	55%	-60%	-52%
<b>Average</b>	<b>20.1x</b>	<b>16.4x</b>	<b>21.1x</b>	<b>20.5x</b>	<b>87%</b>	<b>76%</b>	<b>80%</b>	<b>94%</b>	<b>30%</b>	<b>31%</b>	<b>-10%</b>	<b>-13%</b>

\*All consensus numbers are from Capital IQ

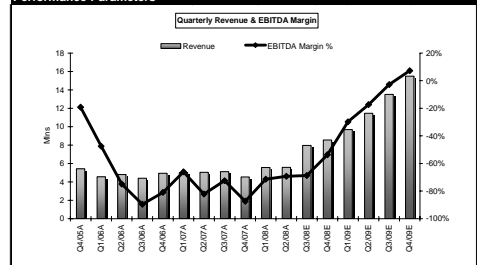
**Key Statistics**

<b>Price / Target / Return</b>	\$0.38	\$1.50	294.7%
<b>52wk Hi / Lo</b>	\$1.30	\$0.38	
<b>Shares O/S (mlns)</b>			
Basic / F.D.		161.9	191.0
Float			150.0
<b>Cash Burn / Dividend Yield</b>		1.2	0.0%
<b>Short Interest / as % of Float</b>		0.0	0.0%
<b>Daily Volume (3-Mth. Avg. mlns)</b>			0.32
<b>Market Cap. / Enterprise Value (mlns)</b>		61.5	40.1
<b>Cash / Debt (mlns)</b>		21.5	0.0
<b>Cash / Shr &amp; Net Cash / Shr</b>		\$0.13	\$0.13
<b>Tang. Book Value / Share</b>			\$0.25
<b>Company CEO / Website</b>	Glenda M. Dorchak		www.intrinsyc.com
<b>Top Holders:</b>	1) Carmin Asset Management Limited 4.5%		
	2) IG Investment Management, Ltd. 2.6%		
	3) Gruber & McBaine Capital Management, LLC 1.1%		
<b>Ownership:</b>			
Management Control (Proxy)	1.7 M		1.0%

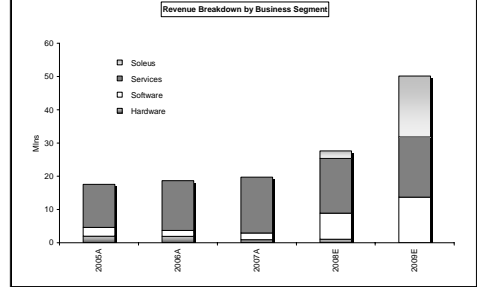
**Historical Valuation Parameters**



**Performance Parameters**



**Revenue Breakdown by Business Segment**



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 Kristian Bauer (416-507-2786, kbauer@haywood.com)

Source: Haywood Securities





## Investment Thesis

Intrinsyc Software operates primarily as two businesses: the wireless systems engineering group, and the mobility software business that has been responsible for the development of Soleus, a consumer software product for wireless and handheld devices since 2004.

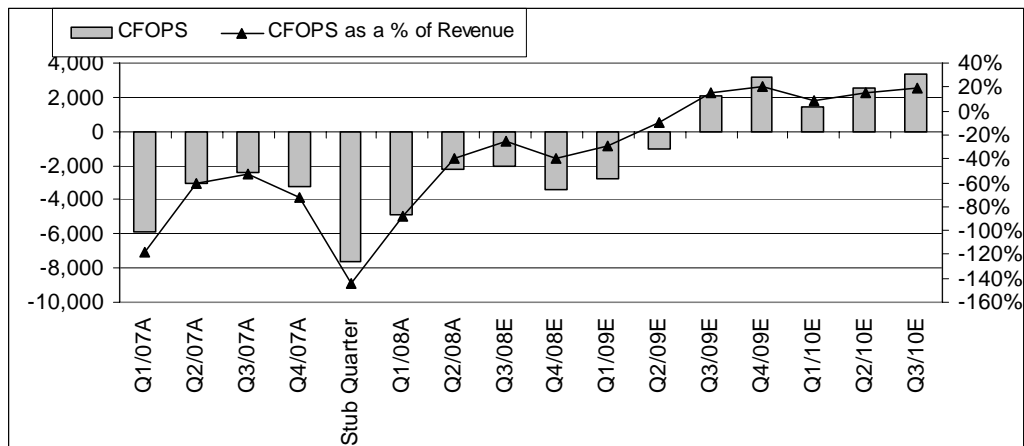
Soleus is a comprehensive software platform (based on Windows CE) and includes a high-level operating system (HLOS), an application suite, a pre-certified telephony stack, and sophisticated user interface-generation tools. Soleus' modular architecture speeds up the development process, provides a reusable platform, allows a higher degree of customization, and lowers the manufacturer's bill of materials. Within the mobile phone market, feature phones (Intrinsyc's target segment) have evolved as the biggest segment, and in 2006, contributed approximately 60% of the global sales (587 million units). We expect feature phones to continue to be 60% to 65% of global shipments going forward.

## Q2/08 Inline; Soleus™ Royalties to Begin in 2H/08

On August 12<sup>th</sup>, 2008 Intrinsyc Software released their Q2/08 financial results; the financial results were inline with expectations (\$5.6M in revs; and EPS of -\$0.03). We believe the most important takeaways from the conference call were: (1) the update on future software license agreements (SLAs); (2) the Company has several mobile products that should be released in the 2H/08 and lead to Soleus™ royalty revenue; and (3) the integration of Destinator's GPS product and Soleus™ is progressing well, introducing "Soleus™ Transit".

Financially, we expect Q3/08 revenues of US\$8.0M (from US\$8.2M, cons: US\$8.1M), EBITDA of -US\$5.5 (from -US\$6.7M, cons: -US\$5.8M), and EPS of -US\$0.03 (from -US\$0.05, cons: -US\$0.03). For FY2008, we expect revenues of US\$27.6M (from US\$28.2M, cons: US\$28.0M), EBITDA of -US\$17.6M (from -US\$20.3M, cons: -US\$19.0M), and EPS of -US\$0.11 (from -US\$0.16, cons: -US\$0.12). For FY2010, we expect revenues of US\$70.1M (from US\$79.0M), EBITDA of US\$12.6 (from US\$14.8M), and EPS of US\$0.06 (from \$0.09). The Company maintains a strong balance sheet with US\$21.5M in cash & equiv and no debt. We do not expect Intrinsyc Software to need cash before they reach the operational cash flow positive stage in Q3/09 (EPS positive in Q4/09).

### Cash Flow from Operations



Source: Haywood Estimates, Company Data





Company management indicated that the interest in Soleus™ has never been stronger; despite the industry interest, the Company has not released a SLA since early in 2008. We expect to see a SLA in the near future, and we expect to see royalty revenues starting in Q3/08. There are several Soleus™- and Destinator-based products that should likely hit the market in the 2H/08, which will benefit Intrinsyc from a top-line and marketing perspective. We remain confident that Soleus™ will find its niche in the mobile OS space.

**Soleus™ and Destinator Powered Handheld Devices**



Source: Company Data

As the Destinator integration progresses, we believe that the accretive synergies from the acquisition will be realized. A mobile smartphone with and without GPS will cater to different markets and have different price-points. Furthermore, existing contracts from Destinator can be leveraged for possible Soleus™ contracts. One of the new developments is “Soleus™ Transit” - the integration of the existing Soleus™ OS with the Destinator GPS system. We estimate that this integration has the potential to add US\$1.50-2.00 in royalties per unit shipped.

We remain positive on Intrinsyc’s potential. The Company is financially well-positioned; operating in the mobile handset market; and has a fundamentally solid product. We believe that the stock is heavily discounted at the \$0.38 level and reiterate our **SECTOR OUTPERFORM rating** and **\$1.50 target**.

**Valuation**

From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Mobility Software Universe based on our CY2009/CY2010 estimates (EV/Sales: '09: 1.0x versus 2.6x, '10: 0.7x versus 2.1x). Our DCF-based target of \$1.50 yields a CY2010 valuation of 3.8x EV/Sales.





Haywood Global Software Comparables

Table with columns: CANADA TECHNOLOGY, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount, Cash per Share. Includes companies like Constellation Software Inc., Absolute Software Corporation, etc.

Table with columns: CANADA TECHNOLOGY, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount, Cash per Share. Includes companies like Research In Motion Ltd., Nortel Networks Corp., etc.

Table with columns: INTERNET, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount, Cash per Share. Includes companies like Google Inc., eBay Inc., Yahoo! Inc., etc.

Table with columns: GLOBAL SOFTWARE, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount, Cash per Share. Includes companies like Microsoft Corporation, Oracle Corp., SAP AG, etc.

Table with columns: GLOBAL WIRELESS EQPT, Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators (Return %), Revenue (USD), 180-day % chg, P/E, EV/Sales, EV/EBITDA, REV/Headcount, Cash per Share. Includes companies like Nokia Corp., Research In Motion Ltd., etc.

Source: Haywood Estimates, Capital IQ





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- n/a

## Rating Structure

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*Each company within analyst's universe, or group of companies covered, is assigned a rating to represent how the analyst feels the stock will perform in comparison with the other companies, in that specific sector, over the upcoming 12 month period.*

**SECTOR OUTPERFORM** – Haywood's top rating category. The analyst believes that the security will outperform its sector. Furthermore, the shares are forecast to provide attractive returns measured against alternative investments when considering risk profiles. The rating carries a minimum total return threshold of 15% for equities and 12% for trusts. The rating applies to companies that have tangible underlying assets that give a measure of support to the market valuation. The rating category considers both the absolute and relative values in assigning the highest rating on the security.

**SECTOR PERFORM** – The analyst believes that the security will trade with tight correlation to its underlying sector. Furthermore, the target price (together with any anticipated distributions) is at or above the market price, and forecast risk-adjusted returns are attractive relative to alternative investments.





**SECTOR UNDERPERFORM** – Investors are advised to sell the security or hold alternative securities within the sector. Stocks in this category are expected to underperform relative to their sector. The category also represents stocks with unattractive forecast returns relative to alternative investments.

*The above ratings are determined by the analyst at the time of publication. On occasion, total returns may fall outside of the ranges due to market price movements and/or short term volatility. At the discretion of Haywood’s Management, these deviations may be permitted after careful consideration*

**Other Ratings**

**TENDER** – The analyst is recommending that investors tender to a specific offering for the company’s stock.

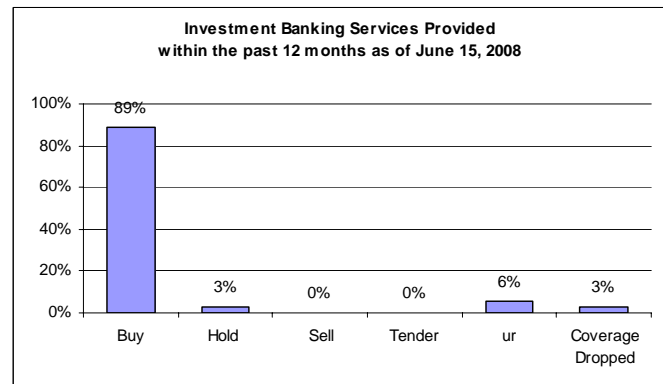
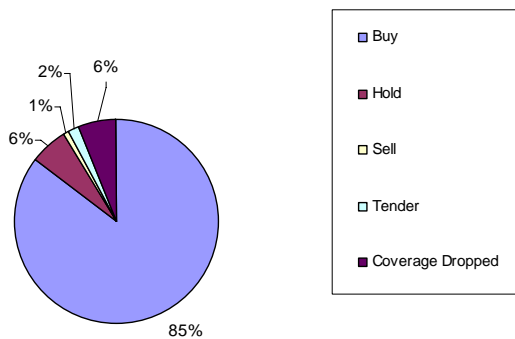
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**UNDER REVIEW** – Placing a stock Under Review does not revise the current rating or recommendation of the analyst. A stock will be placed Under Review when the relevant company has a significant material event with further information pending or to be announced. An analyst will place a stock Under Review while he/she awaits sufficient information to re-evaluation the company’s financial situation.

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Rating Distribution March 15, 2008 - June 15, 2008



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**Risk Profile Parameters**

**SPECULATIVE:** – Investment for risk accounts only. Companies within this category carry greater financial and/or execution risk. All junior/venture companies that carry great financial and/or liquidity risk will be tagged “SPECULATIVE”. A stock indicating a SPECULATIVE risk is determined from sector specific criteria outlined below listed below.





## Risk Profile Parameters – Technology/Special Situations

**Forecast Risk:** *High* – Haywood forecasts are below guidance. The Company has a history of missing targets and/or Haywood expects guidance to be lowered. Sales are minimally visible. *Moderate* – Haywood forecasts are generally in line with guidance and sales are moderately visible. The Company has a history of meeting or exceeding guidance. *Low* – Haywood forecasts exceed guidance. The Company has a history of meeting or exceeding guidance and its sales are highly visible.

**Financial Risk:** *High* – The business plan is not fully funded but requires debt and/or equity financing. This categorization does not necessarily predict whether the additional funds will be raised. Inventory turnover is low, cash flow is weak, and assets are below par. *Moderate* – The business plan is fully funded. Inventory turnover and cash flow are moderate, and assets are reasonably liquid. The Company's debt is rated below investment grade. *Low* – The Company is fully funded with investment grade debt, high inventory turnover, high cash flow, and superior assets.

**Valuation Risk:** *High* – The current valuation is at the high end of historic levels and/or at a premium to peers. Where applicable, the DCF valuation is not more than 10% above the current equity valuation. *Moderate* – The current valuation is within historic ranges and generally consistent with peers. Where applicable, the DCF valuation exceeds the current capitalization by more than 10%. *Low* – The current valuation is at the low end of historic ranges and at a discount to peer valuations. Where applicable, the DCF valuation exceeds the current capitalization by more than 20%.

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