

Intrinsyc Software International Inc. (ICS-T, \$1.05)

Tuesday, January 8, 2008

Ralph Garcea, MBA, P. Eng (416-507-2609, rgarcea@haywood.com)
 Kristian Bauer (416-507-2786, kbauer@haywood.com)

Rating: **SECTOR OUTPERFORM**
 Target Price: **(+\$0.25) \$1.50**
 Return: **42.9%**
 YTD Performance: **14.13%**
 Risk Profile: **SPECULATIVE**

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

MSI 5608 - The First Soleus™ Based Phone Unveiled

Event: Intrinsyc announces first Soleus™ based phone, the MSI 5608.

Impact - Positive: Royalties are on their way as Micro-Star International (MSI) releases the MSI 5608 in China, Europe, the Middle East, and Africa (EMEA) for Q2/08.

- **Forecasts** – Bullish outlook and stub-quarter adjustment yields new FY2008 estimates of revenue \$27 M, EBITDA (\$10.8) M, net income (\$11.4) M and EPS of (\$0.09).
- **Target Price, Ratings** – With better visibility on the first shipments of Soleus handsets, we are increasing our target price to \$1.50 (from \$1.25).

Issues:

- **Better Visibility on Royalties**
 Q2/08 product release provides better visibility on software sales. The product features top-quality hardware, and a cutting-edge interface.
- **MSI – One of the World’s Largest Hardware Manufacturers**
 World leader in hardware, top 5 in motherboard manufacturing. This is MSI’s first mobile phone as part of a new product expansion strategy.
- **Market Presence, Global Delivery**
 MSI releasing product in China and EMEA in Q2/08 – world’s quickest growing handset markets.

Valuation: From a valuation perspective, Intrinsyc is trading comparably to the Haywood global software universe based on our CY2008 target estimates (EV/Sales: 3.2x versus 3.6x). Our new DCF-based target of \$1.50 yields a CY2009 valuation of 3.2x EV/Sales.

Catalysts: 1) *Software License Agreements* – Continued signing of license agreements will maintain momentum; 2) *Product Realization* – Sales of phones running on Soleus™, and positive reviews provide drivers for future sales

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.*

Forecast Risk **High**
 Financial Risk **High**
 Valuation Risk **High**
 52-Week High / Low 1.05/0.39
 Dividend / Yield 0.00%
 Shares O/S 119.6 M (basic) / 122.2 M (F/D)
 Market Capitalization 125.6 M
 Daily Volume 0.38

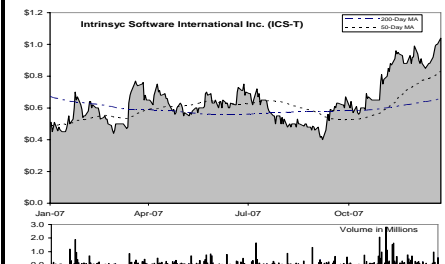
Financial Forecasts			
CY Est.	2007A	2008E	2009E
Revenues (\$mlns)	21.2	27.0	52.1
EBITDA (\$mlns)	(15.0)	(10.8)	(2.5)
EPS (FD) (\$)	(0.14)	(0.09)	(0.03)
CFPS (FD) (\$)	(0.13)	(0.09)	0.00

Valuation			
	2007A	2008E	2009E
P/E	NM	NM	NM
EV/SALES	4.6x	4.1x	2.1x
EV/EBITDA	NM	NM	NM
DCF		\$1.45	\$1.42

Company Profile - 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 - Increased \$0.25 Jan. 8, 2007

Price Performance



Source: Bloomberg



Intrinsyc Software International Inc.	Ticker Shares O/S (M)	ICS-T 122.2	Price Market Cap. (\$M):	\$1.05 \$126	Rating: Sector Outperform Target: \$1.50
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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.

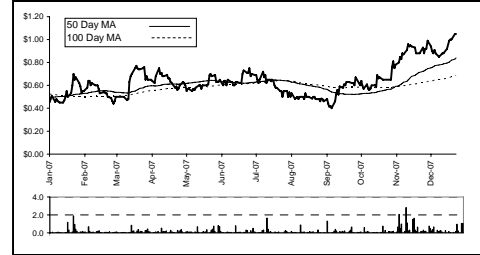
Catalysts - Continued design wins, two have been announced so far, should drive royalty revs.

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

Recent Financings:

Equity Offering May 2007 - 33.3M @ \$0.60
Past Equity Offering March 2006 - 24.2M @ \$0.90

Intrinsyc Software International Inc. - Chart



Financial Forecasts	Annual					Quarterly				
	2006A	2007A	2008E	2009E	2010E	Q3/2007A	Q4/2007A	Q1/2008E	Q2/2008E	Q3/2008E
Revenues (\$mlns)	18.7	19.7	27.0	52.1	64.9	5.1	4.5	4.8	6.1	6.3
Rev. Growth %	6%	37%	93%	24%	24%	-11%	6%	27%	3%	3%
Consensus Revenue Est. (\$mlns)	0.0	19.5	25.3	47.5	64.8	5.1	4.3	4.6	5.3	5.9
3 months ago.	20	25	46	54	-	5	4	5	5	6
EBITDA (\$mlns)	-13.7	-15.1	-10.8	-2.5	8.0	-3.6	-3.8	-2.7	-3.2	-3.3
EBITDA Growth %	11%	-28%	-77%	-426%	-	5%	-29%	20%	3%	-
Consensus EBITDA Est. (\$mlns)	0.0	-14.2	-12.6	-5.9	8.0	-3.7	-4.0	0.0	0.0	0.0
3 months ago.	(14.7)	(15.3)	(6.9)	3.7	-	(3.7)	(4.5)	(3.9)	(3.9)	(3.7)
EPS (FD) (\$)	-0.24	-0.18	-0.09	-0.03	0.06	-0.05	-0.03	(0.02)	(0.03)	(0.03)
EPS Growth %	-	-26%	-48%	-70%	-307%	-	-31%	-33%	19%	2%
Consensus EPS Est. (\$)	0.0	(0.17)	(0.12)	(0.03)	0.06	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
3 months ago.	(0.18)	(0.12)	(0.03)	0.02	-	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
CFPS (FD) (\$)	-	-	-0.09	0.00	0.07	-0.03	-0.03	(0.02)	(0.03)	(0.03)
CFPS Growth %	-	n/m	n/m	-103%	2834%	-	-7%	-24%	28%	7%
Consensus CFPS Est. (\$)	-	-	-	-	-	-	-	-	-	-
3 months ago.	-	-	-	-	-	-	-	-	-	-

*All consensus numbers are from Capital IQ

Valuation Metrics	2006	2007	2008	2009
EV/EBITDA - Current	NM	NM	NM	NM
Est. EV/EBITDA - Target	NM	NM	NM	NM
EV/SALES - Current	2.5x	1.9x	4.1x	2.1x
Est. EV/SALES - Target	-	-	6.2x	3.2x
Current, 1-Year, 2-Year	-	-	-	-
DCF Target	\$1.45	\$1.42	\$1.62	-

Analyst Ratings: Capital IQ	Potential Upside
Average Target	\$1.28 21%
Median Target	\$1.20 14%
Sector Outperform	4
Sector Perform	0
Sector Underperform	0
# of Analysts	4

Comparables	Stock Price		Pot.	EV/Sales			EBITDA Margin		P/E		EV/EBITDA	
	Today	Target		2007	2008	2009	2007	2008	2007	2008	2007	2008
Intrinsyc Software International Inc.	1.05	1.50	43%	1.9x	4.1x	2.1x	-56%	-40%	NM	NM	NM	NM
Research In Motion Ltd.	99.83	142.06	42%	6.8x	5.0x	4.4x	32%	29%	33.0x	24.1x	21.5x	17.2x
LM Ericsson Telephone Co.	13.91	21.20	56%	1.1x	1.1x	1.0x	19%	17%	10.2x	10.4x	5.9x	6.2x
Enghouse Systems Ltd.	7.25	8.33	16%	1.5x	1.4x	0.0x	26%	25%	27.7x	22.3x	5.8x	5.7x
Immersive Media Corp.	1.60	3.17	98%	0.0x	0.0x	0.0x	-10%	11%	0.0x	0.0x	0.0x	0.0x
Digital Dispatch Systems Inc.	2.89	2.50	-13%	1.3x	0.8x	0.0x	0%	2%	18.7x	280.0x	0.0x	37.1x
AirIQ Inc.	0.09	0.17	86%	0.5x	0.6x	0.0x	-14%	-1%	NM	NM	NM	NM
Palm, Inc.	5.68	6.21	9%	0.7x	0.6x	0.6x	0%	4%	NM	137.2x	153.2x	13.9x
Average	-	-	-	2.0x	1.6x	2.0x	8%	13%	22.4x	94.8x	46.6x	16.0x

*All consensus numbers are from Capital IQ

Historical Valuation Parameters	EV/EBITDA		P/CF		EBITDA Growth		EPS Growth		Sales Growth		Returns %	
	3-Yr Avg.	NTM	TTM	2007	2008	2007	2008	2007	2008	2007	2008	Last 3mtl
Intrinsyc Software International Inc.	-3.9x	-8.0x	NM	NM	-28%	-77%	48%	70%	37%	93%	69%	48%
Research In Motion Ltd.	19.4x	28.0x	28.5x	20.7x	87%	67%	134%	68%	90%	64%	-14%	43%
LM Ericsson Telephone Co.	8.7x	9.9x	8.0x	8.6x	-5%	2%	8%	-15%	17%	5%	-47%	-50%
Enghouse Systems Ltd.	7.2x	7.1x	NM	NM	35%	-20%	31%	-28%	11%	-6%	-6%	-8%
Immersive Media Corp.	-23.6x	-14.0x	-21.3x	NM	-8%	59%	14%	48%	NM	NM	-20%	-63%
Digital Dispatch Systems Inc.	8.3x	-4.2x	-57.8x	41.3x	-39%	-100%	15%	-21%	-13%	-7%	-8%	23%
AirIQ Inc.	-22.1x	-10.7x	-3.0x	9.0x	57%	-113%	52%	33%	1%	-34%	-51%	-14%
Palm, Inc.	8.6x	11.1x	151.3x	NM	-74%	-80%	-81%	-279%	-1%	-12%	-64%	-66%
Average	10.4x	14.0x	62.6x	19.9x	8%	6%	25%	14%	17%	2%	-30%	-19%

*All consensus numbers are from Capital IQ

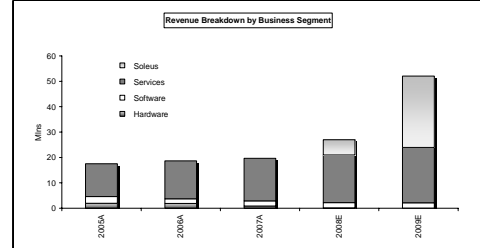
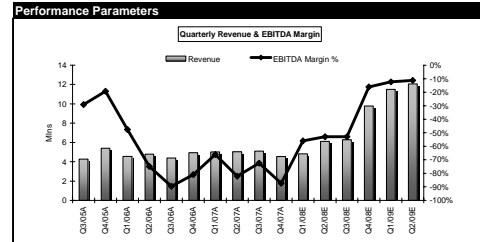
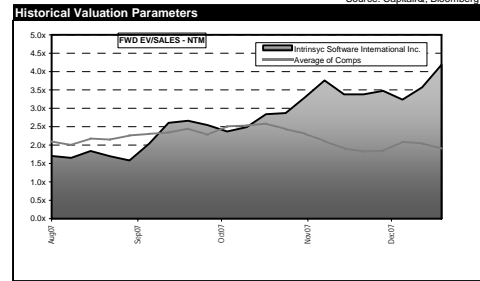
Discounted Cash Flow Analysis	Intrinsyc Software (FY Aug)				
	2007	2008	2009	2010	2011
Revenue (\$)	6,530,652	26,987,392	52,100,239	64,851,597	73,410,914
Revenue growth	-3%	93%	37%	24%	13%
EBITDA (\$)	(3,657,165)	(10,818,674)	(2,454,040)	8,002,968	11,205,585
EBITDA Margin	-56%	-40%	-5%	12%	15%
Amortization (\$)	271,139	640,469	548,118	636,595	692,615
EBIT (\$)	(3,928,304)	(11,459,142)	(3,002,159)	7,366,373	10,512,970
NOPAT [EBIT * (1 - effective tax rate)]	(3,928,304)	(11,459,142)	(3,002,159)	7,366,373	10,512,970
Plus Amortization (\$)	271,139	640,469	548,118	636,595	692,615
Less Capital Expenditures (\$)	(130,613)	(539,748)	(833,604)	(778,219)	(880,931)
Capital Intensity	0	0	0	0	0
Net Working Capital Changes	54,084	(779,095)	2,537,105	379,048	(98,938)
Terminal Value		206,348,642	206,348,642	206,348,642	
Equity Value		172,945,131	197,595,055	215,015,895	
DCF Value		1.42	1.62	1.80	

Source: Haywood Securities Inc., Company Reports, Target, Return and Forecasts are Consensus Based Using Capital IQ.

Source: Haywood Securities

Key Statistics	Price / Target / Return	\$1.05	\$1.50	42.9%
52wk Hi / Lo	\$1.05	\$0.39	-	-
Shares O/S (mlns)	-	-	119.6	122.2
Basic / F.D.	-	-	-	118.8
Float	-	-	0.0	0.0%
Dividend Yield	-	-	0.0	0.0%
Short Interest / % of Float	-	-	0.0	0.0%
Daily Volume (3-Mth. Avg. mins)	-	-	0.0	0.39
Market Cap. / Enterprise Value (mlns)	125.6	118.8	118.8	#VALUE!
Cash / Debt (mlns)	19.6	-	-	0.0
Net Cash / Share	-	-	-	\$0.21
Tang. Book Value / Share	-	-	-	\$0.17
Company CEO / Website	Glenda M. Dorchak	-	-	www.intrinsyc.com
Top Holders:	-	-	-	-
1) Gruber & McBain Cap.	-	-	-	4.2%
2) IG Investment Management Ltd	-	-	-	3.4%
3) Sprott Asset Management	-	-	-	3.2%
Ownership:	-	-	-	-
Management Control (Proxy)	1.7 M	1.4%	-	-

*Source: CapitalIQ, Bloomberg



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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.

The First Soleus™ based Phone is Realized – The MSI 5608

Intrinsyc Software International, along with Taiwan-based Micro-Star International (MSI), announced the release of the MSI 5608 – the world's first Soleus™ based Smartphone. Intrinsyc originally signed the licensing agreement with MSI in June of 2007 and will begin to benefit from the product release during Q2/08.

The MSI 5608 will contain top-of-the-line technology. Specifically a Samsung 6400 533-667 MHz processor, multiple HDTV formats including T-DMB, DVB-H, ISDVT, and high-speed wireless capabilities (EDGE/HSDPA/WiMAX). It will be one of the first integrated GPS and DTV phones, contain a touch-activated 2.8" video screen, and have Bluetooth v2.0 and WLAN 802.11b/g connectivity. The phone will have multimedia capability to stream video and TV live, along with mp3's. Furthermore, it will contain the standard email, internet browsing, MMS, and 2MP camera.

Micro-Star International (MSI) (TSEC:2377) is one of the world's largest hardware manufacturers, and ranks in the top 5 for motherboard manufacturing (Taiwan's largest). MSI is pushing forth with new products within existing penetrated markets and the MSI 5608 is their first mobile product. During FY2006 MSI had revenues of TWD\$80,745 M, EBITDA of TWD\$2,055.5 M, and net income of TWD\$1,247.1 M; yielding EPS (FD) of TWD \$1.40.

MSI's strong global presence allows for a broad product offering during Q2/2008. They will release the product in China and Europe, Middle East and Africa (EMEA). These markets are some of the world's quickest growing and, in certain cases, some of the most adapt. This product release should provide strong momentum synergy with Intrinsyc's Taiwanese sales office for future licensing agreements.

Our stub-quarter adjustment for Intrinsyc's fiscal-year adjustment yields the following FY2008 and FY2009 financials: revenues of \$27 M and \$52 M; EBITDA at (\$10.8) M and (\$2.5) M; net income of (\$11.4) M and (\$3.4) M; and EPS of (\$0.09) and (\$0.03) respectively.





Valuation

From a valuation perspective, Intrinsyc is trading comparably to the Haywood global software universe based on our CY2008 target estimates (EV/Sales: 3.2x versus 3.6x). Our new DCF-based target of \$1.50 yields a CY2009 valuation of 3.2x EV/Sales.

Haywood Canadian Software Comps

Table with columns: CANADA TECHNOLOGY, Ticker, Rating, Trdg, Price, Consensus, Pot., % of 52 week, Mkt. Cap., Revenue (US\$m), EPS (US\$), P/E, EV/Sales, EV/EBITDA. Includes companies like Absolute Software Corp., Constellation Software Inc., etc.

Source: Capital IQ, Haywood Estimates

Haywood Global Software Comps

Table with columns: GLOBAL SOFTWARE, Ticker, Rating, Trdg, Price, Consensus, Pot., % of 52 week, Mkt. Cap., Revenue (US\$m), EPS (US\$), P/E, EV/Sales, EV/EBITDA. Includes companies like Microsoft Corporation, Oracle Corp., SAP AG, etc.

Source: Capital IQ, Haywood Estimates





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- n/a

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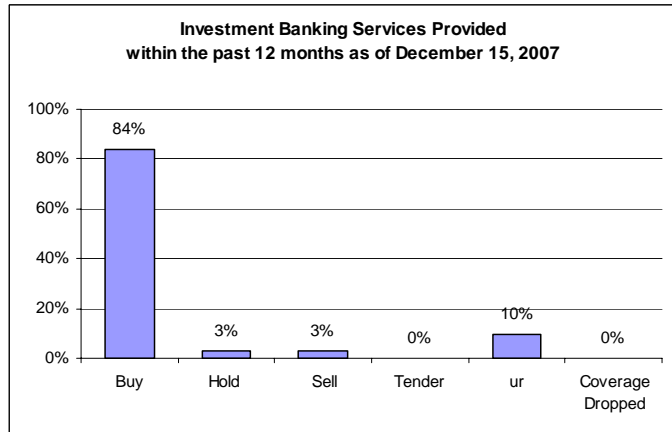
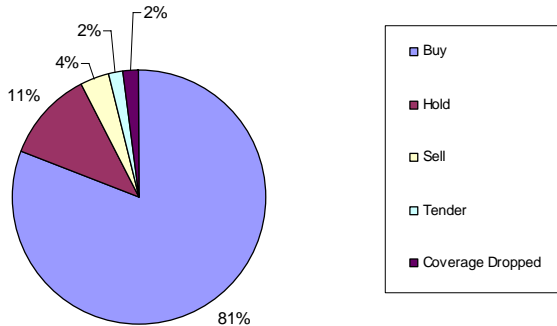




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(b) in the event of a dispute, access to the UK’s Financial Ombudsman Service;

(c) protection of money held on your behalf under the FSA’s Client Money Rules.

