

Intrinsyc Software International Inc. (ICS-T, \$0.75)

Monday, March 24, 2008

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Rating: **SECTOR OUTPERFORM**
 Target Price: **\$1.50**
 Return: **100%**
 YTD Performance: **-14%**
 Risk Profile: **SPECULATIVE**

Q With the stub quarter out of the way, look for Soleus royalties to begin in Q2/08. We also expect further software license agreement (SLAs) announcements in the near-term.

Stub Quarter a bit Light; Growth Story Intact

Event: Intrinsyc reported their stub financial quarter, Sep – Dec 2007.

Impact - Positive/Neutral: Financial results were below consensus but the growth story remains strong.

- **Forecasts** – We expect FY2008E revenues of \$25.9M (from \$27.0M), EBITDA of -\$11.9M (from -\$10.8M), and EPS of -\$0.08 (from -\$0.08).
- **Target Price, Ratings** – Unchanged, SECTOR OUTPERFORM and a blended DCF-based target of \$1.50.

Issues:

- **Stub financials below forecasts, minimal impact**
 Revenues, EBITDA, and EPS numbers are below our forecasts; higher operating expenses and one-time charges contribute to the loss.
- **Expect Soleus™ royalties to begin in Q2/08**
 Micro-Star MSI 5608 in trial phase; expect Soleus™ royalties to begin during Q2/08.
- **High possibility of near-term tier-one license agreements**
 Expect a tier-one Japanese partnership announcement by April-end. Possibility of future contracts arising from existing license agreements.

Valuation: From a valuation perspective, Intrinsyc is trading at a discount to the Haywood global software universe based on our CY2009 target estimates (EV/Sales: 1.6x versus 2.2x). The situation should remedy itself throughout 2008 as the Company's customers start shipping devices with the Soleus platform integrated. Our DCF-based target of \$1.50 yields a CY2009 valuation of 3.2x EV/Sales.

Catalysts: 1) *Software License Agreements* – Soleus™ contracts, notably a tier-one manufacturer, should increase revenue visibility and expectations; 2) *Royalty Generation* – We expect Soleus™ royalties to begin in Q2/08; 3) *Product Visibility* – Soleus™ product reviews will increase visibility and drive future signings (min. of 1/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/\$0.39**
 Dividend / Yield **0.00%**
 Shares O/S **151 (basic) / 154 (F/D)**
 Market Capitalization **\$113.3M**
 Daily Volume **620K**

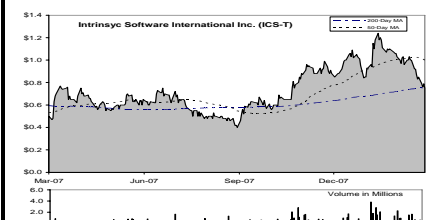
Financial Forecasts (US\$)			
CY Est.	2007A	2008E	2009E
Revenues (\$mlns)	21.2	25.9	50.5
EBITDA (\$mlns)	(15.0)	(11.9)	0.4
EPS (FD) (\$)	(0.14)	(0.08)	0.00
CFPS (FD) (\$)	(0.13)	(0.07)	0.02

Valuation (US\$)			
	2007A	2008E	2009E
P/E	NM	NM	NM
EV/SALES	3.5x	3.2x	1.6x
EV/EBITDA	NM	NM	NM
DCF	\$ 1.17	\$1.36	\$1.55

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 - up from \$1.25, Jan 8, 2008.

Price Performance



Source: Bloomberg



Intrinsyc Software International Inc. Ticker: **ICST** Price: **\$0.75** Rating: **Sector Outperform**
Shares O/S (M) **153.6** **Market Cap. (\$M): \$113** **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, five 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.

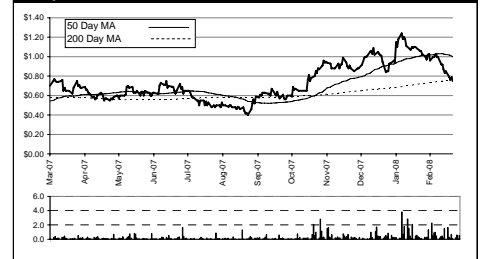
Recent Financings:

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

Management:

Glenda Dorchak, Chairman & CEO; David Fischer, CFO; Randy Kath, CTO

Intrinsyc Software International Inc. - Chart



Financial Forecasts

FY-end Dec-31	Annual					Quarterly				
	2006A	2007A	2008E	2009E	2010E	Q3/2007A	Q4/2007A	Stub Q	Q2/2008E	Q3/2008E
Revenues (\$mlns)	18.7	19.7	25.9	50.5	63.0	5.1	4.5	5.2	4.8	6.1
Rev. Growth %	6%	31%	95%	25%			-11%		6%	27%
Consensus Revenue Est. (\$mlns)	0.0	19.5	25.9	56.0	59.4	5.1	4.3	4.7	4.9	5.0
3 months ago.	-	19.5	-	-	-	5.1	4.3	-	5.3	5.9
EBITDA (\$mlns)	(13.7)	(15.1)	(11.9)	0.4	11.2	(3.6)	(3.8)	(6.0)	(2.7)	(3.2)
EBITDA Growth %	11%	-22%	-103%	3038%			5%		-29%	20%
Consensus EBITDA Est. (\$mlns)	-	(14.2)	(15.7)	(0.9)	8.2	(3.7)	(4.0)	(2.7)	(4.3)	(4.4)
3 months ago.	-	(14.2)	-	-	-	(3.7)	(4.0)	-	-	-
EPS (FD) (\$)	(0.24)	(0.18)	(0.08)	0.00	0.08	(0.05)	(0.03)	(0.06)	(0.02)	(0.03)
EPS Growth %	-26%	-56%	-103%	2723%			-31%		-33%	19%
Consensus EPS Est. (\$)	-	(0.17)	(0.10)	0.04	0.04	(0.04)	(0.04)	(0.03)	(0.03)	(0.03)
3 months ago.	-	(0.17)	-	-	-	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
CFPS (FD) (\$)	(0.19)	(0.15)	(0.07)	0.02	0.08	(0.03)	(0.03)	(0.06)	(0.02)	(0.03)
CFPS Growth %	-20%	-51%	-132%	248%			-7%		-24%	28%
Consensus CFPS Est. (\$)	-	-	-	-	-	-	-	(0.02)	(0.03)	(0.03)
3 months ago.	-	-	-	-	-	-	-	-	-	-

*All consensus numbers are from Capital IQ

Key Statistics

Price / Target / Return	\$0.75	\$1.50	100.0%
52wk Hi / Lo	\$1.30	\$0.39	
Shares O/S (mlns)			
Basic / F.D.	151	154	
Float			118.8
Dividend Yield			0.0%
Short Interest / as % of Float	0.0		0.0%
Daily Volume (3-Mth. Avg. mlns)			0.62
Market Cap. / Enterprise Value (mlns)	113.3		70.1
Cash / Debt (mlns)	42.0		0.0
Net Cash / Share			\$0.28
Tang. Book Value / Share			\$0.17
Company CEO / Website	Glenda M. Dorchak		www.intrinsyc.com
Top Holders:			
1) IG Investment Management Ltd			2.7%
2) Sprout Asset Management			2.6%
3) Gruber & McBaine Cap.			2.1%
Ownership:			
Management Control (Proxy)	1.7 M		1.1%

*Source: CapitalIQ, Bloomberg

Valuation Metrics

	2006	2007	2008	2009
EV/EBITDA - Current	NM	NM	NM	NM
Est. EV/EBITDA - Target				
EV/SALES - Current	1.9x	4.6x	3.2x	1.6x
Est. EV/SALES - Target			7.7x	3.9x
Current, 1-Year, 2-Year				
DCF Target	\$1.17	\$1.36	\$1.55	

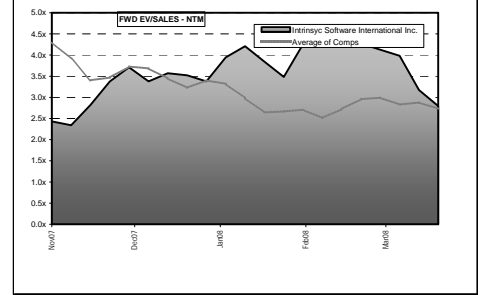
Analyst Ratings: Capital IQ

Average Target	\$1.55	107%
Median Target	\$1.50	100%
Sector Outperform	5	
Sector Perform	0	
Sector Underperform	0	
# of Analysts	5	

Comparables	Stock Price		Pot. Return	EV/Sales			EBITDA Margin		P/E		EV/EBITDA	
	Today	Target		2008	2009	2010	2008	2009	2008	2009	2008	2009
Intrinsyc Software International Inc.	0.75	1.50	100%	3.2x	1.6x	1.1x	-46%	1%	NM	NM	NM	NM
Research In Motion Ltd.	104.94	139.18	33%	6.9x	5.1x	4.4x	32%	30%	33.2x	24.4x	21.2x	17.3x
Access Company, Ltd.	275.000	685.000	149%	2.9x	2.6x	2.0x	11%	10%	NM	NM	25.8x	26.3x
Opera Software ASA	14.10	17.31	23%	2.8x	2.0x	1.7x	12%	18%	40.9x	20.8x	23.1x	11.2x
BSQUARE Corp.	3.80	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Smith Micro Software Inc.	5.79	12.83	122%	0.9x	0.8x	NM	17%	20%	9.2x	6.9x	5.3x	3.8x
Infracore Inc.	13.700	35.000	155%	3.4x	NM	NM	36%	NM	13.4x	NM	9.4x	NM
Palm, Inc.	4.72	6.27	33%	0.6x	0.5x	NM	0%	6%	NM	36.9x	NM	8.5x
Average				2.9x	2.2x	2.7x	18%	17%	24.2x	22.3x	17.0x	13.4x

*All consensus numbers are from Capital IQ

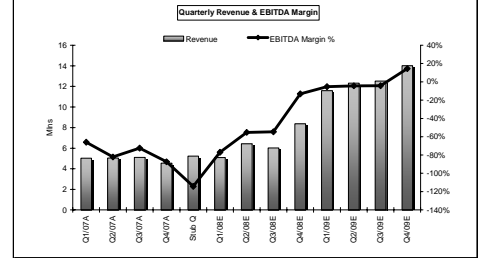
Historical Valuation Parameters



Historical Valuation Parameters	EV/EBITDA		P/CF		EBITDA Growth		EPS Growth		Sales Growth		Returns %	
	3-Yr Avg.	NTM	TTM	2008	2009	2008	2009	2008	2009	2008	2009	Last 3m/1 YTD
Intrinsyc Software International Inc.	NM	NM	NM	NM	-22%	-103%	56%	103%	31%	95%	-18%	79%
Research In Motion Ltd.	18.9x	27.4x	27.5x	20.8x	72%	23%	69%	36%	65%	34%	-2%	16%
Access Company, Ltd.	18.0x	6.7x	30.8x	NM	NM	-2%	4%	102%	18%	12%	-49%	-13%
Opera Software ASA	NM	NM	NM	NM	106%	NM	96%	105%	37%	9%	-1%	-1%
BSQUARE Corp.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-40%	-38%
Smith Micro Software Inc.	17.9x	29.4x	NM	NM	145%	39%	NM	32%	36%	23%	-24%	-65%
Infracore Inc.	13.7x	NM	10.8x	NM	NM	NM	NM	NM	142%	NM	-3%	-36%
Palm, Inc.	NM	11.3x	NM	NM	NM	NM	NM	144%	-12%	20%	-23%	-70%
Average	17.1x	18.7x	25.5x	19.0x	108%	41%	36%	82%	59%	25%	-19%	-30%

*All consensus numbers are from Capital IQ

Performance Parameters

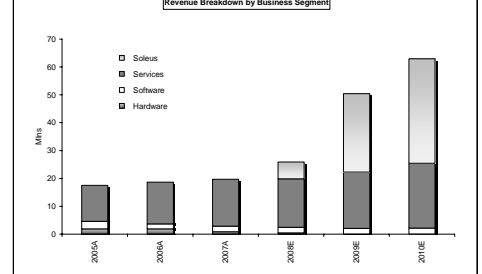


Intrinsyc Software					
Discounted Cash Flow Analysis (FY-End Dec, US\$)	2007	2008	2009	2010	2011
Modeled Units Shipped	125,000	160,437	750,000	1,000,000	1,250,000
Revenue (\$)	19,705,794	25,896,448	50,455,471	62,969,931	71,257,305
Revenue growth	6%	31%	95%	25%	3%
EBITDA (\$)	(14,455,074)	(11,856,311)	357,093	1,203,196	1,742,955
EBITDA Margin	-73%	-46%	1%	1%	2%
Amortization (\$)	82,182	626,370	532,268	617,467	672,498
EBIT (\$)	(15,276,356)	(12,482,681)	(175,175)	585,729	1,070,456
NOPAT [EBIT * (1 - effective tax rate)]	(15,565,689)	(12,482,681)	(175,175)	585,729	1,070,456
Plus Amortization (\$)	82,182	626,370	532,268	617,467	672,498
Less Capital Expenditures (\$)	(575,046)	(517,329)	(807,288)	(755,639)	(855,088)
Capital Intensity	0	0	0	0	0
Net Working Capital Changes	471,143	(464,031)	1835,229	(442,154)	(200,029)
Terminal Value		200,84,071	200,84,071	200,84,071	
Equity Value		177,636,129	207,376,432	236,856,012	
DCF Value		17	136	155	

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

Source: Haywood Securities

Revenue Breakdown by Business Segment



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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 (BOM). 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.

Stub Quarter a bit Light; Growth Story Intact

Intrinsyc Software reported their stub-quarter financial results, releasing their Sep – Dec 2007 numbers. The financial numbers were below our expectations, but the growth story remains strong. The company incurred lower revenues and higher losses than forecasted, but remains on-time for future deliverables, specifically the Soleus™ royalties that we expect to see in Q2/08. In the near-term, we expect: (1) a tier-one Japanese partnership announcement by April-end; and (2) further software license agreement (SLAs) announcements (min. of 1/qtr).

Financially, Intrinsyc reported revenues of \$5.2M (HW: \$6.5M, cons: \$4.72M), EBITDA of (\$6.0M) (HW: -\$3.7M, cons: -\$2.7M), and reported EPS of (\$0.06) (HW: -\$0.03, cons: -\$0.03). Operating expenses were higher than expected, coming in at \$7.9M (HW: \$6.9M), and the company incurred a one-time hit of \$0.7M of restructuring fees from the closure of their UK office and the opening of their Taipei office.

We estimate revenues of \$25.9M for 2008 and \$50.5M for 2009; EBITDA of (\$11.9M) for 2008 and \$0.4M for 2009; EPS of (\$0.08) for 2008 and (\$0.00) for 2009. We believe our estimates are conservative, assuming one Soleus™ signing per quarter. Another tier-one Soleus™ signing can easily drive revenues beyond our forecasted levels.

With the closing of the latest financing, the company has approx. \$40M in cash and is debt free. This is more than enough cash to sustain their run-rate and complete an acquisition. An ideal take-out candidate will have complementary synergies from operations and provide an opportunity for Intrinsyc to “extract more value from the stack”.

Our expectations remain unchanged for the Soleus™ royalty timeline. We believe that Intrinsyc will begin collecting royalties during Q2/08 from the MSI 5608; the other handset that should generate royalties is undisclosed, but we believe it is the MIO handheld. Intrinsyc should release details of a tier-one Japanese partnership by April-end, and we believe that existing contracts can be leveraged for future software agreements. Overall, Intrinsyc missed our estimates for the quarter, but the growth story is intact with improving revenue visibility. We maintain our Sector OUTPERFORM rating, and a \$1.50 target price.





Valuation

From a valuation perspective, Intrinsyc is trading at a discount to the Haywood global software universe based on our CY2009 target estimates (EV/Sales: 1.6x versus 2.2x). The situation should remedy itself throughout 2008 as the Company's customer starts shipping devices with the Soleus platform integrated. Our DCF-based target of \$1.50 yields a CY2009 valuation of 3.2x EV/Sales.

Haywood Global Software Comparables

Table with columns: CANADA TECHNOLOGY, GLOBAL SOFTWARE, CANADA TECHNOLOGY, GLOBAL WIRELESS EQPT. Includes sub-headers for Ticker, Trdg Curr, Local Price, Pot. Return, % of 52 week, Mkt. Cap., Market Indicators, Revenue, P/E, EV/Sales, EV/EBITDA, REV/Headcount.

Source: Capital IQ, Haywood Estimates





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TSX:GCM	Gemcom Software Int'l Inc.								
TSX:GIB.A	CGI Group Inc.	X							
TSX:SW	Sierra Wireless Inc.	X							

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

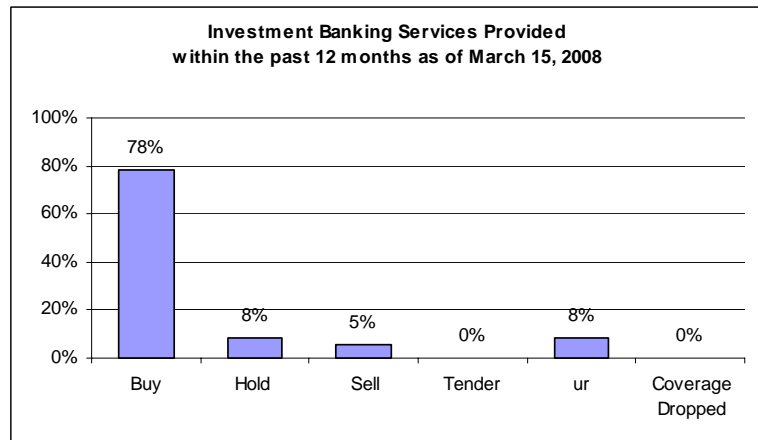
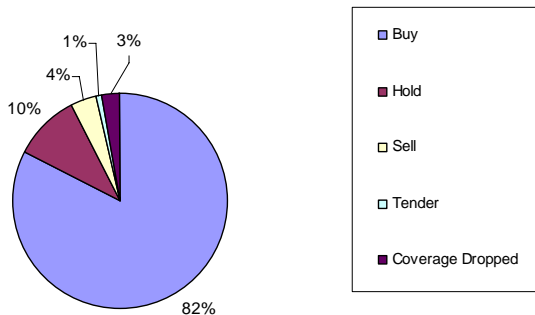
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Rating Distribution December 15, 2007 - March 15, 2008



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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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Changes in the rates of exchange between currencies may cause the value of your investment to fluctuate.

If you are a UK resident private customer and you propose to do business with Haywood Securities Inc, please take note of the following:

Any investment services undertaken on your behalf by Haywood Securities Inc are not covered by the rules and regulations made for the protection of private investors in the UK. This means that you will not have the benefit of rights designed to protect investors under the Financial Services and Markets Act 2000 and under the rules of the Financial Services Authority (“FSA”). In particular, you will not benefit from the following UK protections:





- (a) the right to claim through the UK's Financial Services Compensation Scheme for losses resulting in the unlikely event of our default;
- (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.

