

Intrinsyc Software Int'l Inc. (ICS-T, \$0.63)

Wednesday, May 21, 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: **\$1.50**
 Return: **138%**
 YTD Performance: **-32%**
 Risk Profile: **SPECULATIVE**

α The potential acquisition brings product synergies for the Soleus operating system, and contractual opportunities with tier-one mobile handset manufacturers.

Intrinsyc Acquisition - GPS and Navigation Software

Event: Intrinsyc announced their intention to acquire assets from Destinator Technologies.

Impact - Positive: The potential acquisition will expand on existing products, increase margins, and include contracts with tier-one handset manufacturers.

- **Forecasts, Target Price, Ratings** – Unchanged, SECTOR OUTPERFORM rating and \$1.50 target.

Issues:

- **Patents, Software, & Development Centres to be Acquired by Intrinsyc**
 Destinator carve-out acquisition will include 17 patents and patent applications, GPS and navigation software, and two development centres (Israel and China).
- **Potential Deal is Contingent on an Auction Process, Est. Cost of ~\$16M**
 The deal depends on an auction where Intrinsyc will bid ~\$16M in cash and stock, we give the probability of this auction closing at 95%+.
- **Positioned to Increase Contract Synergies, Margins and Open Tier-One Doors for Intrinsyc**
 Contracts gained include Motorola, MSI, ASUSTeK, and LG Electronics, new product gross margins are expected to be ~75%, with revenue of ~\$10M.

Valuation: From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Software Universe based on our CY2009 estimates (EV/Sales: 1.6x versus 2.6x). The situation should remedy itself throughout 2008 as the Company's customers start shipping Soleus-based devices. Our DCF-based target of \$1.50 yields a CY2009 valuation of 3.8x EV/Sales. In order to be conservative, we will not account for the acquisition's potential increase of financial numbers until the acquisition closes.

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 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 / \$0.39**
 Dividend / Yield **0.00%**
 Shares O/S **150.9M (basic) / 180.0M (F/D)**
 Market Capitalization **\$95.1M**
 Daily Volume **570K**

Financial Forecasts			
CY Est.	2007A	2008E	2009E
Revenues (\$mlns)	18.2	27.4	51.8
EBITDA (\$mlns)	(16.6)	(10.7)	(2.9)
EPS (FD) (\$)	(0.16)	(0.08)	(0.03)
CFPS (FD) (\$)	-	(0.08)	0.00

Valuation			
	2007A	2008E	2009E
P/E	NM	NM	NM
EV/SALES	2.8x	3.1x	1.6x
EV/EBITDA	NM	NM	NM
DCF	\$ 1.32	\$1.53	\$1.64

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.

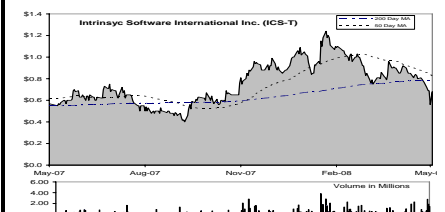
Company CEO - Glenda M. Dorchak

Revisions, Date of Record

Rating - Unchanged.

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

Price Performance



Source: Bloomberg



Intrinsyc Software International Inc. Ticker: **Shares O/S (M)** ICS-T: **180.0** Price: **\$0.63** Market Cap. (\$M): **\$95** Rating: **Sector Outperform** 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.

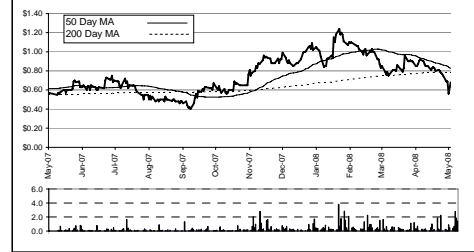
Recent Financings:

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

Management:

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

Intrinsyc Software International Inc. - Chart



Financial Forecasts

FY-End Dec-31	Annual				Quarterly					
	2006A	2007A	2008E	2010E	Q3/2007A	Q4/2007A	Q1/2008A	Q2/2008E	Q3/2008E	
Revenues (\$mlns)	19.7	18.2	27.4	51.8	64.4	5.1	4.5	5.6	6.2	6.8
Rev. Growth %		-8%	50%	89%	24%		-11%	22%	12%	9%
Consensus Revenue Est. (\$mlns)	nmf	19.5	23.7	45.2	56.4	5.1	4.3	5.4	5.8	5.8
3 months ago.	-	20	-	-	-	5	4	5	-	-
EBITDA (\$mlns)	(15.1)	(16.6)	(10.7)	(2.9)	8.4	(3.6)	(3.8)	(3.7)	(2.8)	(3.1)
EBITDA Growth %		10%	-36%	-73%	-390%		5%	-3%	-23%	8%
Consensus EBITDA Est. (\$mlns)	-	(14.2)	(14.4)	(3.9)	6.0	(3.7)	(4.0)	(3.7)	(3.7)	(3.5)
3 months ago.	-	(14.2)	-	-	-	(3.7)	(4.0)	(2.7)	-	-
EPS (FD) (\$)	(0.18)	(0.16)	(0.08)	(0.03)	0.06	(0.05)	(0.03)	(0.03)	(0.02)	(0.02)
EPS Growth %		-14%	-46%	-69%	-332%		-31%	-16%	-23%	6%
Consensus EPS Est. (\$)	-	(0.17)	(0.04)	0.04	0.04	(0.04)	(0.04)	(0.03)	(0.03)	(0.02)
3 months ago.	-	(0.17)	-	-	-	(0.04)	(0.04)	(0.03)	-	-
CFPS (FD) (\$)	-	-	(0.08)	0.00	0.07	(0.03)	(0.03)	(0.04)	(0.01)	(0.02)
CFPS Growth %		nmf	nmf	-104%	2135%		-7%	37%	-73%	125%
Consensus CFPS Est. (\$)	-	-	(0.08)	-	0.07	-	-	(0.01)	(0.02)	-
3 months ago.	-	-	-	-	-	-	-	(0.02)	-	-

*All consensus numbers are from Capital IQ

Key Statistics

Price / Target / Return	\$0.63	\$1.50	138.1%
52wk Hi / Lo		\$1.30	\$0.39
Shares O/S (mlns)			180.0
Basic / F.D.		150.9	
Float			147.2
Dividend Yield			0.0%
Short Interest / as % of Float		0.0	0.0%
Daily Volume (3-Mth. Avg. mlns)			0.57
Market Cap. / Enterprise Value (mlns)	95.1		59.8
Cash / Debt (mlns)		35.2	0.0
Net Cash / Share			\$0.23
Tang. Book Value / Share			\$0.17
Company CEO / Website	Glenda M. Dorchak		www.intrinsyc.com
Top Holders:			
1) Camlin Asset Management Limited			3.8%
2) IG Investment Management, Ltd.			2.8%
3) Gruber & McBaine Capital Management, LLC			1.5%
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	NM	3.1x	1.6x
Est. EV/SALES - Target			7.2x	3.8x
Current, 1-Year, 2-Year				
DCF Target		\$1.32	\$1.53	\$1.64

Analyst Ratings: Capital IQ	Potential Upside
Average Target	\$1.23
Median Target	\$1.25
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.	0.63	1.50	138%	3.1x	1.6x	1.2x	-39%	-6%	NM	NM	NM	NM
Research In Motion Ltd.	138.60	155.41	12%	8.3x	6.0x	5.1x	31%	30%	38.6x	27.7x	26.4x	19.9x
Access Company, Ltd.	300,000	398,333	33%	3.2x	2.8x	2.3x	6%	9%	NM	NM	NM	29.4x
Opera Software ASA	16.10	17.44	8%	3.4x	2.5x	2.0x	12%	18%	47.7x	24.5x	27.9x	13.7x
BSQUARE Corp.	4.90	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Smith Micro Software Inc.	8.05	13.44	67%	1.6x	1.3x	NM	16%	22%	12.5x	9.8x	9.6x	5.9x
Infracore Inc.	16,700	35,000	110%	4.3x	NM	NM	36%	NM	16.3x	NM	11.8x	NM
Palm, Inc.	5.72	5.90	3%	0.7x	0.6x	NM	0%	4%	NM	NM	NM	14.1x
Average				3.6x	2.6x	3.1x	17%	17%	28.8x	20.7x	18.9x	16.6x

*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	2008	2009	2008	2009	2008	2009	2008	2009	Last 3m	YTD
Intrinsyc Software International Inc.	NM	NM	NM	NM	-36%	-73%	46%	69%	50%	89%	-41%	-32%	
Research In Motion Ltd.	20.5x	NM	35.7x	25.5x	84%	33%	92%	39%	83%	39%	49%	22%	
Access Company, Ltd.	22.8x	NM	44.6x	-32%	71%	102%	103%	208%	95%	38%	36%	20%	25%
Opera Software ASA	NM	NM	37.1x	21.0x	202%	103%	208%	95%	38%	36%	20%	25%	
BSQUARE Corp.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-9%	-28%	
Smith Micro Software Inc.	19.9x	NM	NM	NM	120%	63%	NM	27%	38%	20%	9%	-5%	
Infracore Inc.	13.6x	NM	13.1x	NM	82%	NM	88%	NM	46%	NM	10%	5%	
Palm, Inc.	NM	NM	NM	NM	NM	NM	NM	100%	-8%	15%	-13%	-10%	
Average	19.2x	NM	28.7x	30.4x	91%	67%	122%	65%	34%	25%	6%	-5%	

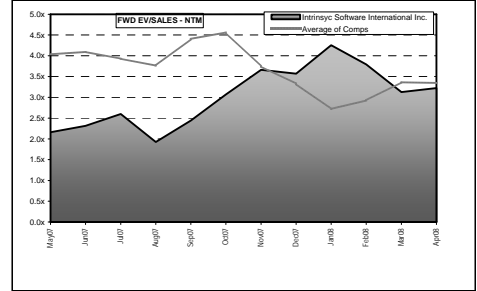
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Intrinsyc Software					
Discounted Cash Flow Analysis (FY-End Dec, US\$)	2007	2008	2009	2010	2011
Modelled Units Shipped	125,000	150,000	7,500,000	10,000,000	11,250,000
Revenue (\$)	9,705,794	27,377,061	5,0763,756	64,441,606	74,262,316
Revenue growth	6%	39%	89%	24%	15%
EBITDA (\$)	(14,455,074)	(10,703,351)	(2,881,660)	8,353,426	15,058,481
EBITDA Margin	-73%	-39%	-6%	13%	20%
Amortization (\$)	821,282	669,449	577,414	654,752	706,110
EBIT (\$)	(15,276,356)	(11,372,799)	(3,459,074)	7,698,674	14,352,371
NOPAT [EBIT * (1 - effective tax rate)]	(15,565,689)	(11,477,702)	(3,459,074)	7,698,674	14,352,371
Plus Amortization (\$)	821,282	669,449	577,414	654,752	706,110
Less Capital Expenditures (\$)	(575,046)	(682,879)	(828,220)	(773,299)	(891,148)
Capital Intensity	0	0	0	0	0
Net Working Capital Changes	471,143	(659,396)	3,429,236	(1,359,564)	(439,170)
Terminal Value		269,314,965	269,314,965	269,314,965	
Equity Value		237,856,932	276,094,009	295,506,551	
DCF Value		132	153	164	

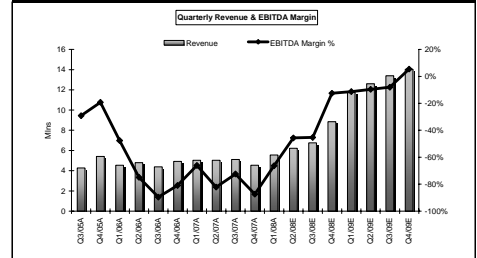
Source: Haywood Securities Inc., Company Reports, Target, Return and Forecasts are Consensus Based Using Capital IQ.

Source: Haywood Securities

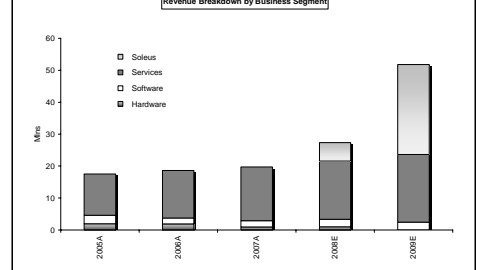
Historical Valuation Parameters



Performance Parameters



Revenue Breakdown by Business Segment



Ralph Garcea, MBA, P.ENG (416-507-2609, rgarcea@haywood.com)
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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.

Intrinsyc Acquisition – GPS and Navigation Software

Pre-market May 20th, 2008 Intrinsyc Software announced their intention to acquire assets from Destinator Technologies. The Company believes that the assets will provide profitable operations, synergies and contract opportunities worthy of the purchase price.

Destinator Technologies is a GPS and mobile navigation company in financial distress; Intrinsyc plans to purchase certain assets through an auction process. The proposed purchase price is C\$8.5M in cash and 11M shares (at \$0.68 as of the May 16th closing price), totalling ~C\$16M in value. This will increase the shares outstanding to 161.9M from 150.9M (~7% dilution). Intrinsyc's break-fee is 3% of the purchase price and the reimbursement of specific transaction-related expenses.

Intrinsyc has done significant due diligence before announcing their intention to purchase Destinator Technologies. We believe that the financial distress does not represent a significant issue to Intrinsyc should the deal close. As a result, we believe that the deal has about a 95% chance of succeeding. The contract is contingent on Intrinsyc retaining a certain number of employees, contracts and customers of Destinator.

Motorola MOTO Ming and MOTO ROKR E6



Source: www.motorola.com





The assets to be purchased include 17 patents and patent applications, the GPS and mobile navigation software, and two development centres located in Israel and China. The acquisition of the GPS/navigation mobile software provides several opportunities for Intrinsyc. Existing Destinator software and services revenue will likely be added to Intrinsyc's financials along with the synergies gained from integrating the GPS/navigation capability into the Soleus™ 2.0 software package. The deal should come with contracts from Motorola, MSI, ASUSTeK, and LG Electronics. With Motorola, Destinator collaborated on several mobile products (including MOTO Ming and MOTO ROKR E6) that are at the beginning of their royalty cycle, and MSI is an existing customer of Intrinsyc for the Soleus™ OS. This deal provides contract opportunities previously unavailable.

The acquisition is expected to bring ~\$10M in annual revenues to Intrinsyc from acquired software and services. Destinator Technologies has annual revenues north of \$25M, but Intrinsyc is focusing on the high margin (~75% gross margin) GPS/navigation software and services portion. The future revenue will be obtained through the legacy business of selling GPS/navigation software to Symbian/Linux/etc devices, and through the integration of the software with the Soleus™ OS. Based on these estimates, we see the deal being done at ~1.6x revenue and should be reflected on Intrinsyc's Q3/08 financial results.

In our opinion, the acquisition creates a strategic opportunity for Intrinsyc to grow their business on multiple fronts. We believe that the technology, contracts and contacts will enable Intrinsyc to continue their market penetration and sign more SLAs. We reiterate our SECTOR OUTPERFORM and \$1.50 target.

Valuation

From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Software Universe based on our CY2009 estimates (EV/Sales: 1.6x versus 2.6x). The situation should remedy itself throughout 2008 as the Company's customers start shipping Soleus-based devices. Our DCF-based target of \$1.50 yields a CY2009 valuation of 3.8x EV/Sales. In order to be conservative, we will not account for the acquisition's potential increase of financial numbers until the acquisition closes.

Haywood Small Cap Canadian Software Comparables

CANADA TECHNOLOGY		Trdg	Local Price	Pot.	% of 52 week	Mkt. Cap.	Market Indicators (Return %)					Revenue (USD)		180-day % chg		P/E		EV/Sales		EV/EBITDA		REV/Headcount						
Small Cap - Software/Services		Cur	20-May	Target	Return	Low	High	1-day	7-day	30-day	90-day	YTD	CY08E	CY09E	CY08E	CY09E	CY08E	CY09E	CY08E	CY09E	CY08E	CY09E	HC	CY08E	CY09E			
Absolute Software Corporation	TSX:ABT	NR	CAD	11.59	18.92	63%	118%	57%	554	-1%	7%	-5%	-22%	-37%	49	77	-4%	NMF	NMF	NMF	6.5	NMF	NMF	217	0.23	0.35		
Constellation Software Inc.	TSX:CSU	NR	CAD	26.24	30.22	15%	117%	94%	559	2%	3%	15%	8%	4%	303	347	9%	5%	13.1	11.5	1.9	1.6	11.2	10.0	1,200	0.25	0.29	
Points International Ltd.	TSX:PTS	NR	CAD	1.89	3.90	106%	167%	44%	228	-2%	-7%	-12%	-34%	-54%	74	103	0%	-2%	NMF	34.4	2.9	2.1	NMF	NMF	76	0.97	1.35	
Corel Corporation	TSX:CRE	NR	CAD	10.85	13.70	26%	155%	71%	278	0%	0%	0%	13%	12%	273	284	NMF	NMF	6.9	6.1	1.5	1.4	6.3	5.8	1,110	0.25	0.26	
Logibec Groupe Informatique Corp.	TSX:IMP	NR	CAD	6.04	10.72	77%	128%	53%	280	-1%	-7%	4%	-21%	-42%	35	43	2%	-14%	NMF	NMF	6.6	5.3	NMF	NMF	613	0.06	0.07	
Logibec Groupe Informatique Ltee	TSX:LGI	NR	CAD	19.92	27.85	40%	117%	89%	197	1%	5%	10%	-3%	-10%	73	NA	NMF	NMF	20.7	NMF	2.9	NMF	7.6	NMF	430	0.17	NA	
Gemcom Software International	TSX:GCM	SP	CAD	2.99	3.25	9%	206%	98%	162	0%	0%	9%	8%	27%	59	67	5%	4%	21.4	17.6	2.4	2.1	9.9	9.0	118	0.50	0.57	
20-20 Technologies Inc.	TSX:TW2	NR	CAD	5.70	7.63	34%	110%	77%	108	0%	4%	-7%	-12%	-12%	90	NA	NMF	NMF	22.6	NMF	0.7	NMF	6.3	NMF	669	0.13	NA	
Intrinsyc Software International	TSX:ICS	SO	CAD	0.63	1.50	138%	162%	48%	96	-7%	-9%	-32%	-41%	-32%	24	45	NMF	-15%	NMF	NMF	3.2	1.7	NMF	NMF	174	0.14	0.26	
Matricon Inc.	TSX:MTK	NR	CAD	4.04	4.48	11%	197%	96%	124	-4%	1%	2%	4%	68%	83	NA	NMF	NMF	14.0	NMF	1.3	NMF	7.7	NMF	530	0.16	NA	
MKS Inc.	TSX:MKX	NR	CAD	1.72	1.99	16%	167%	88%	89	-2%	-2%	-2%	41%	26%	63	NA	12%	NMF	21.6	NMF	1.2	NMF	9.5	NMF	306	0.21	NA	
Beitzberg Technologies Inc.	TSX:BLZ	NR	CAD	4.75	NA	NA	112%	64%	71	0%	-1%	4%	-5%	-12%	NA	NA	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	95	NA	NA	
Immersive Media Corp.	CDNX:IMC	UR	CAD	1.15	UR	NA	128%	20%	43	3%	0%	10%	-23%	-27%	14	21	2%	0%	NMF	18.4	1.5	1.0	NMF	5.2	NM	NA	NA	
Grey Island Systems International	CDNX:GIS	NR	CAD	0.30	0.79	163%	136%	55%	27	0%	-3%	2%	-18%	-9%	24	NA	NMF	NMF	10.9	NMF	0.6	NMF	3.7	NMF	NM	NA	NA	
Brainhunter Inc.	TSX:BH	NR	CAD	0.36	NA	NA	109%	43%	16	0%	-8%	-16%	-22%	-22%	NA	NA	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	250	NA	NA	
isemedia Inc.	CDNX:IEE	NR	CAD	0.24	1.20	400%	112%	26%	12	0%	-14%	-25%	-47%	-52%	NA	NA	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	37	NA	NA	
SXC Health Solutions, Corp.	SXCI	NR	USD	16.38	19.59	20%	166%	58%	390	0%	-3%	13%	6%	13%	566	830	NMF	NMF	29.2	20.9	0.5	0.4	8.6	6.2	429	1.32	1.94	
Mean											-1%	-2%	-2%	-10%	-9%	72%	38%	4%	-4%	17.8x	18.1x	2.1x	2.4x	7.9x	7.2x	417	0.36	0.64
Median											0%	-1%	2%	-12%	-12%	27%	39%	2%	-1%	20.7x	18.0x	1.5x	1.7x	7.7x	6.2x	306	0.22	0.32

Source: Capital IQ, Haywood Estimates





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Ticker	Company	1	2	3	4	5	6	7	8
TSX:GCM	Gemcom Software Int'l Inc.								
TSXV:IMC	Immersive Media Corp.		X		X				
TSX:ICS	Intrinsyc Software	X	X		X				

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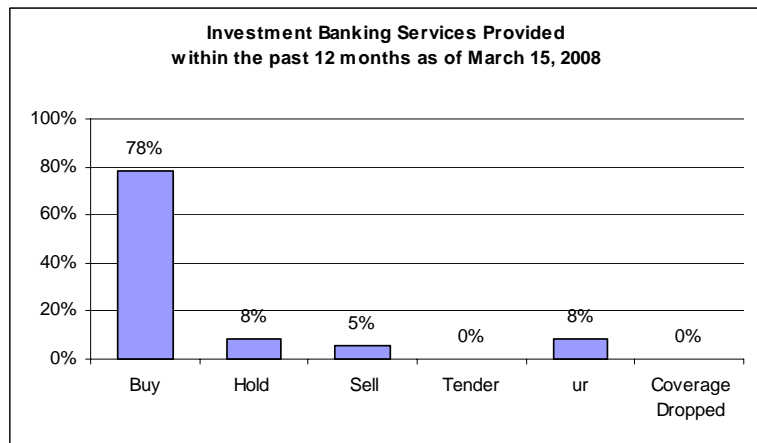
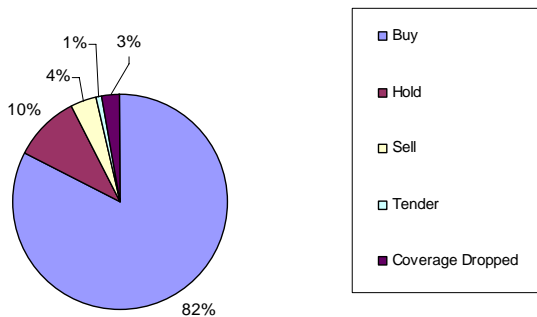
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Rating Distribution December 15, 2007 - March 15, 2008



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