

INTRINSYC SOFTWARE INTERNATIONAL INC.

Equity Research | Technology

Ticker

Recommendation

12-month Target

Please see important disclosures at the end of this document

TSX:ICS
\$0.58

SPEC. BUY
(unchanged)

\$1.75
(unchanged)

Fiscal Q1-2007 Review

January 12, 2007

Soleus Is Launched, Is Customer Acceptance On The Horizon?

Market Data

52-week High-Low	\$1.49 - \$0.335
Shares Outstanding	
– Basic	83.0 million
– Fully diluted	108.2 million
Market Capitalization	\$48.1 million
Cash and Securities ¹	\$9.2 million
Total Debt ¹	\$0.0 million
Fiscal Year End	August 31
Major shareholders	Insiders: 1%
	Institutions: 6%

Financial Data

(000, except EPS)	FY06A	FY07E	FY08E
Revenue	\$18,658	\$20,700	\$27,886
Gross Margin	39.3%	46.6%	54.8%
Net Income	(\$16,393)	(\$15,176)	(\$11,530)
EPS – fully diluted	(\$0.24)	(\$0.18)	(\$0.14)

¹As at Nov 30, 2006

Investor Risk Tolerance Scale



Company Description

Intrinsyc Software International Inc. is a mobility software and services company. The Company's principal business units are the Customer Programs group and the Mobile Products Group. The Customer Programs team develops mobility solutions for a variety of operating systems. The Mobile Products Group is charged with bringing Soleus and other forward-looking opportunities to market.

Event

Intrinsyc Software International Inc. ("Intrinsyc" or the "Company") released its fiscal Q1-07 (November 30, 2006) results yesterday before market open.

Highlights

Revenue for the quarter was \$5.1 million, in line with our expectation. The company has stated that it will continue to grow the engineering services/consulting revenue along with ramping up sales of its *Soleus* product.

Consolidated Gross Margin was pleasantly higher than we were anticipating, at 46.1% versus our estimate of 39%. We were expecting lower margins from the consulting group, but it appears that a low margin contract that was signed in the spring of 2006 has ended, thus leading to higher margins.

Net Loss for the quarter was \$4.26 million or \$0.05 per share lower, than our estimate of a loss of \$4.89 million or \$0.06 per share. The Company spent less on R&D and more on Sales and Marketing, mainly due to the *Soleus* project. The Company has stated that it will continue to ramp up spending on R&D as revenues increase.

Cash – Intrinsyc experienced significant cash burn this quarter, mainly due to a temporary increase in accounts receivable, as well as the early repayment of an \$8 million convertible debenture. The Company lost \$5.9 million from cash flow from operations, and burned through \$13.3 million in cash overall for the quarter. The Company has \$9.2 million in cash on hand and given its current burn rate, we anticipate that it will do a financing in the 2nd half of calendar 2007.

Investment Conclusion

We continue to recommend Intrinsyc as a SPECULATIVE BUY with a 12-month target of \$1.75. The Company's *Soleus* project fills a clear need in the cell-phone handset market, and we expect that it will gain market traction in 2007.

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Table 1: Income Statement Summary

INCOME STATEMENT	Q1 2007E	Q1 2007A	Variance to model	Q4 2006A	% change Q/Q	Q1 2006A	% change Y/Y
Revenue	\$ 5,138	\$ 5,021	-2.3%	\$ 4,924	2.0%	\$ 4,978	0.9%
Cost of sales	3,133	2,705	-13.7%	2,625	3.0%	2,665	1.5%
<i>Gross margin</i>	<i>39.0%</i>	46.1%		46.7%		46.5%	
Administration	1,284	1,124	-12.5%	1,447	-22.3%	1,147	-2.0%
Marketing and sales	939	1,333	42.0%	866	53.9%	1,386	-3.9%
Research and development	3,849	2,976	-22.7%	3,676	-19.0%	3,097	-3.9%
EBITDA	(4,431)	(3,316)	-25.2%	(3,985)	-16.8%	(3,640)	-8.9%
Net earnings (loss)	(\$4,896)	(\$4,259)	-13.0%	(\$4,430)	-3.9%	(\$3,752)	13.5%
Earnings (loss) per share	(\$0.06)	(\$0.05)		(\$0.05)		(\$0.05)	
Cash Flow Statement							
Cash from Earnings	(\$4,460)	(\$3,685)	-17.4%	(\$3,888)	-5.2%	(\$3,568)	3.3%
Changes in Non-Cash Working Capital							
A/R	(492)	(1,189)		(204)		132	
Net Change in non-cash working capital	(220)	(2,231)		64		124	
Operating Cash Flow	(\$4,680)	(\$5,916)	26.4%	(\$3,824)	54.7%	(\$3,443)	71.8%

Source: Company Reports, NSI Estimates

Review Continued:

Soleus – We should begin to see revenue coming in with the first shipment of *Soleus v1.0* in the 2nd half of calendar 2007. The Company is targeting OEM's and Branded ODM's (original design manufacture), customers who can install *Soleus* and ship units directly to consumers. Intrinsyc will also be showcasing the *Soleus* brand at the upcoming **3GSM World Congress** in Barcelona (Feb 12-15, 2007), the cell phone industry's most important annual conference. The Company will be able to fully demonstrate its product in actual handsets given that version 1.0 as been released. This should lead to new partners being signed up for initial testing, and eventually, shipments of *Soleus* in handsets.

Engineering Services – the Company announced that it signed a new engagement with a top-tier handset manufacturer. This bodes well for possible higher margin revenue, as the group takes on more challenging projects, allowing the Company to charge more for its services.

Expense Management – With Glenda Dochak having assumed the CEO role, cost control and more focused spending have become priorities for the Company. As a result, R&D growth has been moderated, and Admin expense reduced. With *Soleus* now “in the market”, marketing expenses will naturally climb with the increased sales push.

Working Capital – The Company used \$2.2 million in working capital in the quarter, a good part of which was to support a significant customer of the Services business. Those funds should re-enter the cash account as the project is delivered. In general, cash flows on Services engagements can be erratic due the staggered milestone and product acceptance payments.

Conclusion

All in, we feel the quarter was very much in line with our view that the Company's core business is a steady performer. The *Soleus* division will prove its worth over the next 6-8 quarters.