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INTRINSYC SOFTWARE (ICS-T, \$0.65)

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F4Q07 Results In-Line; Soleus Remains On Track

Stock Price	\$0.65
= Stock Rating	OUTPERFORM 2
= 6-12 Month Target	\$1.15
Dividend Yield	N/A
Target Total Return	77%
Market Capitalization (mln)	\$78

	<u>EPS</u>	<u>P/E</u>
08/06A	-\$0.24	n.m.
= 08/07E	-\$0.18	n.m.
= 08/08E	-\$0.13	n.m.

Enterprise Value (\$mln) \$58

	<u>Sales</u>	<u>EV/S</u>
08/06A	\$18.7	3.1x
= 08/07E	\$19.7	2.9x
= 08/08E	\$22.7	2.6x

• **F4Q07 results in-line with expectations.** F4Q07 revenue of \$4.5M declined 11% q/q and 8% y/y due to a transition period as Intrinsyc ramps up its engineering services with new opportunities, offset by the timing of new engagements and declining legacy sales. Gross margin was 49.1%, and FD EPS loss was (\$0.03). The results compare to our estimates, which matched consensus of \$4.3M in revenue and FD EPS of (\$0.04).

• **Positive Changes.** Intrinsyc intends to close its U.K. engineering operations before the end of 2007 to improve utilization. Intrinsyc estimates a restructuring charge of \$0.8M, and annual operating cost savings of \$2M. Services provided by the U.K. office will be transitioned to Vancouver and Taiwan. Additionally, Intrinsyc announced that it will change its reporting currency to US\$ (from C\$) in which it does most of its business, and that it plans to change its fiscal year end to a calendar year (instead of Aug. 31). The company is in the process of getting TSX approval for the year-end change. The outcome will be a 4 month transition period stub from Sept. 1/07 to Dec. 31/07 to be reported in Mar/08.

• **Google/Android platform.** Earlier this week, Google announced partnerships with 34 companies (including NVIDIA, Intel, TI, Marvell, Qualcomm, Motorola, Samsung, T-Mobile, Sprint, Skype, LG, HTC, KDDI, DoCoMo and China Mobile) to create an open-source, Linux-based mobile OS, called Android. Android will be available to OEMs free of charge (the OS will be ad-supported, like Google's other applications, and the first devices are expected in C2H08). It is still too early to determine the potential impact to Intrinsyc. So far, Intrinsyc has not been adversely impacted in their discussions with potential Soleus customers. That said, we believe that it is prudent to monitor the progress of Android and the traction that it receives from the market, as we believe it could be a valid competitor to Soleus longer term.

• **Soleus remains on track.** Soleus has 3 design wins with two customers, and Intrinsyc is still targeting 1 design win/qtr. The company has several customers in advanced stages of discussions, and the pipeline has ~30 unique potential customers. Version 1.01 was released in Aug/07 and featured broader language support, which is important given the focus on customers in Asia-Pacific. Future versions of the platform are likely to focus on 3G technology and an enhanced user interface. Intrinsyc has added an incremental go-to-market channel through silicon vendors that are interested in bundling it with their mobile chipset solutions, and we expect a design win to be forthcoming.

• **Our outlook.** For the 4-mth stub (Sept-Dec), we expect revenues of \$5.5M and EPS loss of (\$0.03). For F2008 and F2009, we expect revenues of \$40.2M and \$58.6M, respectively, and EPS of (\$0.04) and \$0.05.

• **Maintaining OUTPERFORM rating and \$1.15 target price.** Intrinsyc remains a developing story, but one with promise given the huge addressable market and the value proposition that the Soleus platform offers. We remain encouraged by the solid pipeline of opportunities for Soleus. Armed with a solid management team with a focus on growth, we believe Intrinsyc will continue to execute through additional design wins and the start of royalty revenues in F2008, which will be positive catalysts for the stock.

All figures in C\$ unless otherwise noted.

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Strong Buy 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.

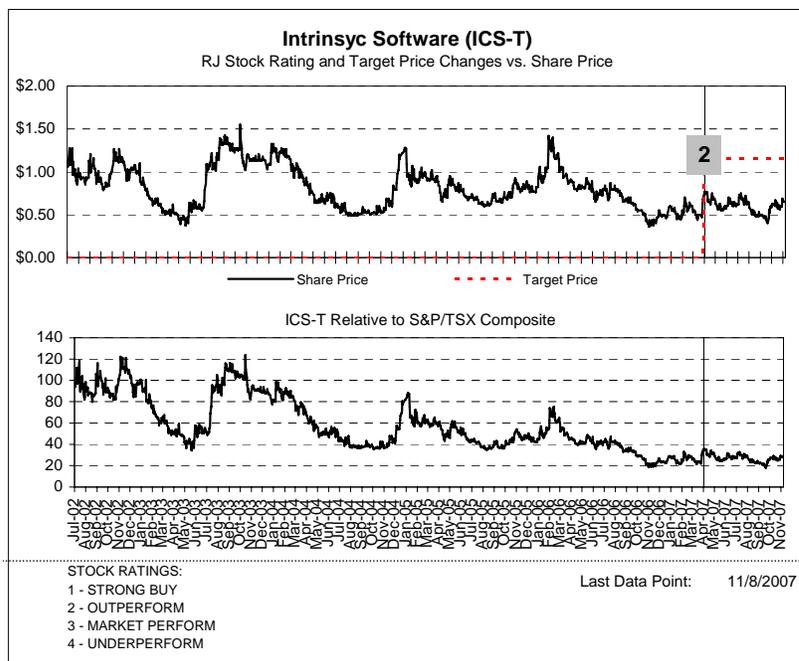
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