



THE WAKE UP CALL

Software, Electronic Commerce

March 28, 2002

INTRINSYC SOFTWARE INC. (ICS \$2.20, TSE)

Recommendation: **2-BUY (unchanged)**
 12-Month Target: **\$3.60 (unchanged)**

Farhan H. Syed, CFA (416) 864-3689; fsyed@yorkton.com
 Joshua Eisen, Associate; jeisen@yorkton.com

Previous Day's Volume	64,700
12-Month High-Low	\$3.34- \$1.12
Shares Outstanding	38.3 million
Market Capitalization	\$84 million
Float	36.4 million
Float Value	\$80 million
Index Member	None
Full Report Issued	November 2000

Q2 Results Lower than Forecast; Expect Positive Momentum Going Forward

EVENT: Intrinsyc Software (Intrinsyc) reported its second quarter-ended February 28, 2002 results. The company generated revenue of \$3.4 million versus the previous quarter revenue of \$3.1 million. The company incurred a loss of \$0.02 per share versus a Q1/F02 loss per share of \$0.01. Our forecasts had called for \$3.8 million in revenue and flat earnings per share of (\$0.00). We recognize that both the company and our forecasts overestimated the pace of recovery and sales deferrals from the previous quarter. The gross margin was also down slightly sequentially; however, management continued to hold expenses down. We expect both to rise as conditions improve. At quarter-end, the company held approximately \$23.4 million in cash and equivalents. Selected results are summarized below.

Intrinsyc Software Inc. Selected summary Period-ended February 28, 2002 000s, except per share information									
	Q2/F2002	Q1/F2002	Q2/F2001	Difference		YTD-6 months			
	2/28/01	11/30/01	2/28/01	Q1/F2002	Q2/F2001	2/28/02	2/28/01	Difference	
Revenues	\$ 3,428	\$ 3,148	\$ 2,058	9%	67%	\$ 6,575	\$ 3,710	77%	
Gross margin	59%	64%	42%	-9%	41%	61%	36%	73%	
Expenses									
Marketing and sales	1,040	843	1,021	23%	2%	1,884	1,782	6%	
Administration	346	417	712	-17%	-51%	763	1,410	-46%	
Research and development (net)	909	906	604	0%	51%	1,815	1,123	62%	
Earnings/(loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.04)			\$ (0.03)	\$ (0.09)		

COMMENT: Although below our forecast revenue, results were up sequentially and year over year. Days sales outstanding spiked up from 52 to 95 days. Although this is reason for caution, particularly in the current environment of heightened sensitivities, we believe management is on top of the situation. Given its small revenue base and the nature of its business, we have seen spikes in Intrinsyc's DSOs previously only to observe more normal levels subsequently. Management indicated that over \$600,000 had been collected after the end of the quarter and that DSOs will drop in the coming quarter, given that corporate targets are in the 45-day range.

We expect improved results from Intrinsyc over the next six months based on market factors and investments the company is making in people and products. From a macro perspective, we believe that the connected device and pervasive computing markets are accelerating across enterprises in a variety of verticals, including healthcare, industrial automation and telematics. Companies seeking to provide device and network level connectivity for consumers or enterprises 6 to 24 months from now must act in the 3- to 12-month timeframe. Companies that provide solutions that accelerate time-to-market will be in demand and Intrinsyc is among the leaders with proven solutions.

At the company level, we believe we are already witnessing the evolution of the above macro phenomena. Intrinsyc has announced over \$6.5 million in contracts in the past month. Furthermore, on its conference call, management indicated it expects to deliver \$9 million to \$11 million in revenue over the next six months from its backlog. We believe that Intrinsyc is also selectively adding resources to key areas such as sales support and business development, which we will witness the benefits of in F2003. These include a new group focused on telematics, personnel support for its Japanese channel,

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the addition of the Avnet Applied Computing as a channel, the introduction of its Ja.NET product and a focus on Web services, as well as other initiatives.

CONCLUSION: We are maintaining our revenue forecast of \$16.5 million for the current year while expanding our loss per share forecast to (\$0.02) from \$0.00. We are lowering our F2003 revenue forecast from \$27 million to \$26.2 million to allow for some unevenness in Intrinsyc's revenue stream while maintaining our earnings forecast of \$0.10 per share. We are maintaining our 2-Buy Recommendation and \$3.60 target on Intrinsyc.

	Year-end August 31			
	2000	2001	2002E	2003E
Revenue (mm)	\$3.0	\$10.9	\$16.5	\$26.2
Growth		263%	51%	59%
Price / revenue			4.9x	3.2x
Earnings (loss) per share	(\$0.16)	(\$0.12)	(\$0.02)	\$0.10
P/E				22x

Intrinsyc develops and markets advanced networking software for embedded devices and enterprise development software.

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