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At the Opening
October 30, 2008

Intrinsyc Software Inc.^{1,7}

BUY

ICS C\$0.15

Target: C\$0.85

What's Changed

	New	Old
Recommendation	nc	BUY
Target	nc	C\$0.85
Revenue 2008E (mm)	nc	\$27.1
Revenue 2009E (mm)	nc	\$42.4
EPS 2008E	nc	(\$0.14)
EPS 2009E	nc	(\$0.07)

Share Data

Shares – mm (basic/f.d.)	161.9/161.9
52-week high/low	C\$1.30/C\$0.115
Market capitalization (mm)	\$19
Enterprise value (mm)	(\$2)
Cash (mm)	\$21.5
Total projected return	486%

Financial Data

YE Dec. 31	07A	08E	09E
Revenue (mm)	\$17.6	\$27.1	\$42.4
P/S	1.1x	0.7x	0.5x
EPS	(\$0.16)	(\$0.14)	(\$0.07)
P/E	nm	nm	nm
EBITDA (mm)	(\$13.5)	(\$19.3)	(\$8.1)
EV/EBITDA	nm	nm	nm

Note: All figures in US\$ unless otherwise stated.

Note: Proforma post Destinator acquisition.

Note: F07 has Aug YE; all others reflect Dec YE

October shaping as planned

- This month, we've seen ICS get its first win through SiRF (previously announced unnamed silicon vendor), a new distributor agreement in India for Destinator, and the commercial launch of Motorola's first PNDs using Destinator
- We still expect 3 more design wins before year-end, the commercial launch of the Quanta device, and the availability of the Mio Moov 380 in Europe
- No changes to estimates, recommendation, and target

OCTOBER SHAPING AS PLANNED

As October comes to an end, the month has so far shaped out as expected with Intrinsyc announcing a design win through SiRF (the previously announced unnamed silicon vendor), and most recently the commercial launch of Motorola's first line of personal navigation devices (PNDs). In addition, the company announced a distribution agreement with SatNav Technologies, whereby SatNav will distribute the Destinator software for Symbian-based mobile phones in India.

Motorola launches first line of PNDs using Destinator

Yesterday, Intrinsyc confirmed our speculation that Motorola is the customer that signed a new software licensing agreement (SLA) last month for a new series of PNDs. Motorola announced the launch of its first line-up of PNDs (the MOTONAV TN20 and TN30 shown in Exhibit 1). The TN20 will be priced at \$200 and the TN30 will be priced at \$300 – prices that we believe will put them in the high-volume segment of the market, which is positive for Intrinsyc as they will earn a royalty fee on a per unit basis. In addition, the devices will be available exclusively at RadioShack, and is expected to be heavily promoted with a TV ad campaign. We are pleased that these products have been released in time for the holiday season, in particular well-before the key American Thanksgiving weekend (the most important weekend of the year for retailers). More importantly, we believe this win has strategic value to Intrinsyc beyond just royalties.

Prepared by GMP Securities L.P.

See important disclosures at end of this report.

October 30, 2008

Although Intrinsic has had a historical relationship with Motorola from its engineering services business (e.g., software integration of Motorola Q) it did not yet have a relationship with Motorola in the mobile software side of the business until now. With the acquisition of Destinator, Intrinsic's mobile software segment now has a direct relationship with Motorola first through the A1600 MING device (Exhibit 1), and now, with Motorola's new PNDs. The A1600 MING device recently started shipping in the Chinese market and is the best-selling smartphone in its price range. Motorola's new PNDs are available now through Radio Shack in North America. If Motorola finds success with these PNDs, we believe the manufacturer may consider looking at Soleus Transit (Soleus + Destinator), which is expected to be available in Q4/08, for a future device. In our opinion, this would be a natural progression since Motorola is already seeing success with the A1600 MING. Adding to this possibility, Motorola is looking to decrease the number of OS platforms it uses for handset devices in an effort to improve operating margins. Android, Windows Mobile (for the Motorola Q), and P2K (Motorola's own platform) are believed to be the focus platforms but given that Windows Mobile is also based on the same Windows CE kernel on which Soleus is built, we believe that it is possible that Motorola could look to Soleus for lower-end devices to give them the flexibility to customize the look and feel of Windows-based devices (recall, Windows Mobile is not very customizable).

Exhibit 1. Motorola Destinator devices – A1600 MING (left), MOTONAV TN20 (center), MOTONAV TN30 (right)



Source: Motorola

Intrinsic is now collecting royalties from its first design win through SiRF

Intrinsic announced that Shanghai RagenTek, a GSM/GPRS and smartphone solution provider, produced a converged connected PND (essentially a PND with telephony and smartphone-like features) dubbed "Cronos". Cronos uses the Intrinsic/SiRF reference platform, where Intrinsic's Soleus platform is integrated with SiRF's (the previously unnamed silicon win) chipset. Recall, we have high expectations for Intrinsic's two silicon wins to-date as they greatly extend Intrinsic's market reach with the potential to yield high shipment volumes spread across numerous customers. While it is still early to tell, our sense is that Cronos will be a lower-volume opportunity, but the important point is that Intrinsic is now generating royalty revenues for this device and we believe it is a good sign of progress. We will look for indications of success with this device, which would demonstrate the viability of both the reference platform as well as Soleus itself, which should help the company to build momentum and win new deals.



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New distribution agreement with SatNav Technologies in India

Intrinsyc also announced that SatNav Technologies, a navigation systems pioneer and an existing Destinator customer, will distribute Destinator for various Symbian OS mobile phones in India. SatNav previously distributed Destinator for PNDs based on a Windows OS; this new agreement allows SatNav to distribute Destinator as part of its SatGuide solution for Symbian devices as well. As part of the arrangement, SatNav will be a reseller of Destinator software.

SatGuide allows users to add navigation capability to phones that do not already have this capability. Handset manufacturers such as Nokia (now owner of Symbian), Samsung, Sony Ericsson, and Motorola rely on the Symbian OS to power its smartphones, and now SatNav can target SatGuide to these OEMs. We note that Nokia is the market leader in India with about 70% of the market but we believe that given how sensitive the Indian market is to price, most of the phones are not based on the Symbian OS. According to SatNav, there are only about 19 mm Symbian OS phones in India (out of 315.3 mm wireless users), of which the company believes it can penetrate 7%. Still, this represents a sizeable opportunity for Intrinsyc. Although Intrinsyc has not disclosed royalty fees, if we assume an average fee of \$4 per unit, the Symbian thread of SatNav's distribution agreement could yield up to \$5.3 mm in royalty fees for Intrinsyc.

Indian and Chinese wireless markets: It's been clear for a while now that Intrinsyc is actively pursuing opportunities in the Asia/Pacific region and now India with the acquisition of the Destinator assets. Both are rapidly growing markets with the Chinese mobile market roughly twice the size of the Indian market based on the number of subscribers as shown in Exhibit 2. Still, to put the figures into perspective, India, with 315.3 mm subscribers as of the end of September 2008, has more subscribers than the population of the U.S. The Indian market is also growing at a faster rate (3.3% vs. 1.3% in China) and surpassed China in June 2008 in terms of the number of monthly subscriber additions. Yet, the penetration in India still sits at only 26% of the population (vs. 46% in China). Despite India's impressive wireless growth, much of the growth is still in 2G let alone 3G according to Ceragon Networks' latest quarterly update, which makes the prospects for growth in this market even more compelling. Lastly, in terms of demographics, 67% of the population is less than 34 years old and 7 mm people are added to the 20-34 age-group per year, which represents a large and growing sweet spot for cell phones.

Exhibit 2. Recent mobile subscriber statistics for India and China

	May	June	July	August	September
Indian mobile subscribers (mm)	277.92	286.86	296.08	305.24	315.30
<i>Growth q/q (mm)</i>	<i>8.62</i>	<i>8.94</i>	<i>9.22</i>	<i>9.16</i>	<i>10.06</i>
<i>Growth q/q (%)</i>	<i>N/A</i>	<i>3.2%</i>	<i>3.2%</i>	<i>3.1%</i>	<i>3.3%</i>
Chinese mobile subscribers	592.40	601.00	608.60	616.00	624.00
<i>Growth q/q (mm)</i>	<i>N/A</i>	<i>8.60</i>	<i>7.60</i>	<i>7.40</i>	<i>8.00</i>
<i>Growth q/q (%)</i>	<i>N/A</i>	<i>1.5%</i>	<i>1.3%</i>	<i>1.2%</i>	<i>1.3%</i>

Source: Telecom Regulatory Authority of India, Ministry of Industry and Information Technology China



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WHAT WE EXPECT FOR THE REMAINDER OF 2008

Three additional Soleus design wins

During the last business update, management reiterated their confidence in its ability to close three additional Soleus design wins by year-end (in addition to the Samsung LSI win in January 2008). We believe the company is in later stage discussions with multiple potential Soleus customers, and expect announcements to be forthcoming. It is our hope that one of these announcements will be a high-volume win as it would highlight Soleus' capabilities and build momentum for future design wins (and royalty fees).

Commercial launch of the Quanta device

The Quanta device, which we believe is Polymer Vision's RADIUS based on our separate due diligence, experienced a minor slip in launch date (we initially expected this device to launch in September) and it is now expected to launch sometime this month or in November for distribution initially in Europe. Again, we believe it is important for this product to launch in time for the holiday spending season, and in our view, earlier is better than later as it would provide more time to promote product awareness and drive up demand for both holiday gift-giving and for use during holiday travel. eReaders are useful to travellers since they eliminate the need to carry a vast numbers of books or other reading materials. We believe its rollable form factor makes this device more attractive than current versions from Sony or Kindle. Based on the RADIUS website, content specifically formatted for RADIUS like free eBooks and RSS feeds will be available for free through Content World, but users will also have the option to pay for content like newspapers and eBooks by downloading through a PC or over-the-air transfer directly to RADIUS.

Availability of the Mio Moov 380 in Europe

The Mio Moov 380 is already available in Taiwan and management expects this device to be available in Europe by the end of the year. Given the time of year, we believe it is in Mitac's interest to make the device available earlier rather than later to take advantage of the holiday season. We note that Intrinsic did not press release the availability of the Mio Moov 380 in Taiwan, so we may not be made immediately aware of its availability in Europe when it gets released in that market. However, we have not seen evidence of availability as of yet, and will continue to monitor this on our own initiative.

Release of Soleus Transit

Soleus Transit, which combines Soleus with support for the Destinator software, is expected to be available sometime in the current quarter. Soleus Transit is designed specifically to support connected PNDs, which offers new capabilities such as updating points of interest over-the-air, viewing live traffic information, and conducting local searches. With an integrated telephony stack, Soleus Transit will allow converged features such as emergency and roadside assistance calling, auto-dialing a searched business, navigating to a contact's address, or sending a location via SMS. This development demonstrates the synergies made possible with the Destinator acquisition, and represents a prelude to the different implementations that will be made available with the forthcoming Soleus 2.0 architecture.

Remember the MSI 5608?

The MSI 5608 was the first working prototype using Intrinsic's Soleus platform. The device was in field trials since March and was expected to ship in time for the Beijing Olympics given that the product featured mobile television capability. However, the device has yet to launch and it is not clear to us what the product's future holds at this point. We believe that by year-end, we could receive an update on this device, be it that its launch has been scheduled for a later date, or that it has been shelved.

Summary

We expect lots of news flow in the near future that should act as catalysts for the stock.

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NO CHANGES TO ESTIMATES AND RECOMMENDATION

October has shaped out as expected with lots to look forward to. That said, we believe Intrinsic remains a highly speculative stock, particularly in the current market environment. The company needs to execute on signing new design wins as promised and launching the awaited new Soleus devices to demonstrate the viability and potential success of Soleus. If the company continues to see delays in ramping up meaningful Soleus volumes, the company may face balance sheet risk given that the company is still burning cash and access to capital is challenging in these markets. At this time, we leave our estimates, recommendation, and target price unchanged. We have a BUY rating and \$0.85 target price on Intrinsic, which is derived by using a sum-of-the-parts method valuing the different businesses using a target multiple of 3.0x to value Soleus, a 1.0x multiple for engineering services, and 2.0x multiple for Destinator. On a consolidated basis, this implies a target C2009 P/S multiple of 2.7x.



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BUY. These stocks will have 15% or greater (small cap) or 10% or greater (large cap) total return potential.

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