

Intrinsyc Software Int'l Inc. (ICS-T, \$0.69)

Wednesday, May 14, 2008

Rating: **SECTOR OUTPERFORM**
 Target Price: **\$1.50**
 Return: **117%**
 YTD Performance: **-25%**
 Risk Profile: **SPECULATIVE**

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Q1/08 shows positive momentum in Services; but the real question revolves around M&A: who and when?

Q1/08 Driven by Services; Soleus Royalties to Come

Event: Intrinsyc reported their Q1/08 financial results.

Impact - Slightly Positive: Financial results above consensus; services revenue and gross margins continue to drive business momentum. Soleus SLA loss will have minimal impact, as customer is focusing attention on two existing Soleus SLA's.

- **Forecasts** – Modest Adjustments; FY2008 revenues of \$27.4M (from \$27.0M), EBITDA of -\$10.7M (from -\$10.8M), and EPS of -\$0.08 (from -\$0.09). FY2009 revenues of \$51.8M (from \$52.1M), EBITDA of -\$2.9M (from -\$2.5M), and EPS of -\$0.03 (unchanged).
- **Target Price, Ratings** – Unchanged, SECTOR OUTPERFORM rating and \$1.50 target.

Issues:

- **Financial Results Beat Consensus; Restructured Client SLA**
 Intrinsyc demonstrated strong top-line growth beating consensus (rev: \$5.6M vs HW: \$4.8M, cons: \$4.7M). The discontinuance of a design win will have minimal impact because the customer is refocusing their attention on two existing Soleus-based products under their SLA – this should compensate from a revenue perspective.
- **Real Question: Who is Intrinsyc Buying and when do they pull the Trigger?**
 With \$35.2M in cash, the Company is positioned to grow inorganically, the real question is: who and when?

Valuation: From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Software Universe based on our CY2009 estimates (EV/Sales: 1.8x 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.

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 \$104.1M
 Daily Volume 490K

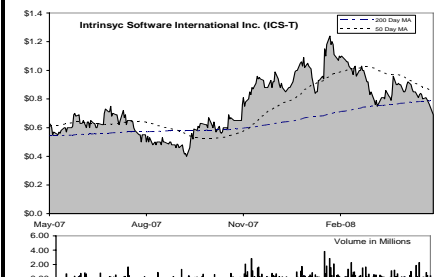
Financial Forecasts			
CY Est.	2007A	2008E	2009E
Revenues (\$mlns)	18.2	27.4	51.8
EBITDA (\$mlns)	(16.6)	(10.7)	(2.9)
EPS (FD) (\$)	(0.16)	(0.08)	(0.03)
CFPS (FD) (\$)	-	(0.08)	0.00

Valuation			
	2007A	2008E	2009E
P/E	NM	NM	NM
EV/SALES	3.2x	3.5x	1.8x
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: **\$0.69** Market Cap. (\$M): **\$104** 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.

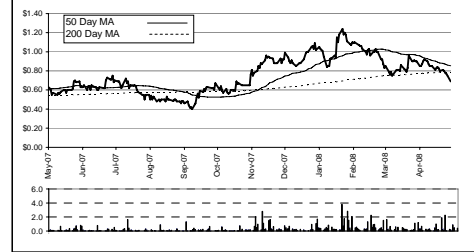
Recent Financings:

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	2009E	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	23.2	47.3	57.2	5.1	4.3	4.7	4.9	5.4
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)	(0.3)	7.8	(3.7)	(4.0)	(2.7)	(3.6)	(3.8)
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)	(0.00)	(0.00)	0.05	(0.04)	(0.04)	(0.03)	(0.03)	(0.03)
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. (\$)	-	-	(0.07)	0.02	0.08	-	-	(0.02)	(0.02)	(0.03)
3 months ago.	-	-	-	-	-	-	-	(0.02)	-	-

*All consensus numbers are from Capital IQ

Valuation Metrics

	2006	2007	2008	2009
EV/EBITDA - Current	NM	NM	NM	NM
Est. EV/EBITDA - Target				
EV/SALES - Current	1.9x	NM	3.5x	1.8x
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

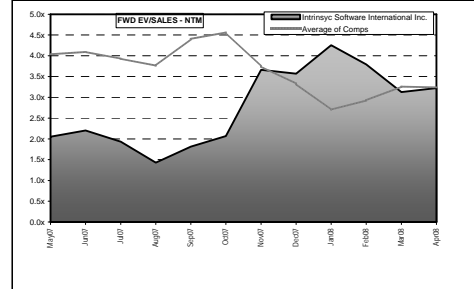
	Potential Upside
Average Target	\$1.52
Median Target	\$1.50
Sector Outperform	4
Sector Perform	1
Sector Underperform	0
# of Analysts	5

Key Statistics

Price / Target / Return	\$0.69	\$1.50	117.4%
52wk Hi / Lo		\$1.30	\$0.39
Shares O/S (mlns)			
Basic / F.O.		150.9	180.0
Float			147.2
Dividend Yield			0.0%
Short Interest / as % of Float		0.0	0.0%
Daily Volume (3-Mth. Avg. mlns)			0.49
Market Cap. / Enterprise Value (mlns)	104.1		68.9
Cash / Debt (mlns)			35.2
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			3.1%
2) IG Investment Management, Ltd.			2.2%
3) Gruber & McBaine Capital Management, LLC			2.1%
Ownership:			
Management Control (Proxy)		1.7 M	1.1%

*Source: Capital IQ, Bloomberg

Historical Valuation Parameters



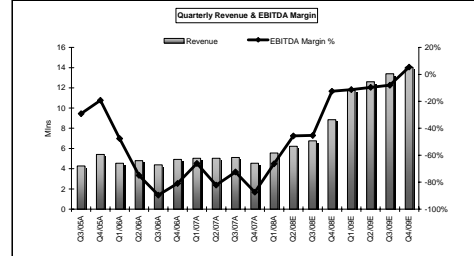
Comparables	Stock Price		Pot. Return	EV/Sales			EBITDA Margin		P/E		EV/EBITDA	
	Today	Target		2008	2009	2010	2008	2009	2008	2009	2008	2009
Intrinsyc Software International Inc.	0.69	1.50	117%	3.5x	1.8x	1.3x	-39%	-6%	NM	NM	NM	NM
Research In Motion Ltd.	140.84	150.85	7%	8.4x	6.1x	5.5x	31%	30%	40.7x	29.6x	26.8x	20.2x
Access Company, Ltd.	308,000	398,333	29%	3.3x	2.9x	2.4x	6%	9%	NM	NM	NM	NM
Opera Software ASA	15.40	17.44	13%	3.2x	2.3x	1.9x	12%	18%	45.6x	23.4x	26.3x	12.9x
BSQUARE Corp.	5.09	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Smith Micro Software Inc.	8.24	13.44	63%	1.6x	1.3x	NM	16%	22%	12.8x	10.1x	10.0x	6.1x
Infracore Inc.	18,100	35,000	93%	4.7x	NM	NM	36%	NM	17.7x	NM	12.9x	NM
Palm, Inc.	5.94	5.90	-1%	0.7x	0.6x	NM	0%	4%	NM	NM	NM	14.5x
Average				3.6x	2.6x	3.3x	17%	17%	29.2x	21.0x	19.0x	13.4x

*All consensus numbers are from Capital IQ

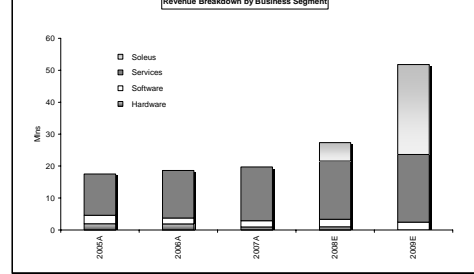
Historical Valuation Parameters	EV/EBITDA		P/CF		EBITDA Growth		EPS Growth		Sales Growth		Returns %	
	3-Yr Avg.	NTM	TTM	2008	2009	2008	2009	2008	2009	2008	2009	Last 3m/1 YTD
Intrinsyc Software International Inc.	NM	NM	NM	NM	-36%	-73%	46%	69%	50%	89%	-36%	-25%
Research In Motion Ltd.	20.5x	NM	36.6x	26.9x	85%	33%	85%	38%	83%	39%	54%	24%
Access Company, Ltd.	22.8x	NM	45.8x	-32%	71%	102%	NM	4%	14%	-5%	-40%	
Opera Software ASA	NM	NM	35.5x	20.1x	202%	103%	208%	95%	38%	36%	18%	19%
BSQUARE Corp.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-3%	-25%
Smith Micro Software Inc.	19.6x	NM	NM	NM	120%	63%	NM	27%	38%	20%	7%	-3%
Infracore Inc.	13.6x	NM	14.2x	NM	82%	NM	88%	NM	46%	NM	51%	13%
Palm, Inc.	NM	NM	NM	NM	NM	NM	NM	100%	-8%	15%	-5%	-6%
Average	19.1x	NM	28.8x	30.9x	91%	67%	121%	65%	33%	25%	17%	-2%

*All consensus numbers are from Capital IQ

Performance Parameters



Revenue Breakdown by Business Segment



Intrinsyc Software					
Discounted Cash Flow Analysis (FY-End Dec. US\$)	2007	2008	2009	2010	2011
Modelled Units Shipped	125,000	1550,000	7,500,000	10,000,000	11,250,000
Revenue (\$)	9,705,794	27,377,061	51,763,756	64,441,606	74,262,316
Revenue growth	6%	39%	89%	24%	15%
EBITDA (\$)	(14,455,074)	(1,070,365)	(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)	(1,739,814)	(3,459,074)	7,698,674	14,352,371
NOPAT [EBIT * (1 - effective tax rate)]	(15,565,689)	(1,814,792)	(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)	2,124,192	(64,520)	(439,710)
Terminal Value		269,314,965	269,314,965	269,314,965	
Equity Value		237,486,809	275,680,499	295,108,669	
DCF Value		132	153	164	

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

Source: Haywood Securities

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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.

Q1/08 Driven by Services; Soleus Royalties to Come

On May 13th 2008 Intrinsyc reported their Q1/08 financial results; we believe the numbers are positive. This is the first proper quarter since the Company moved to a December year-end and U.S.-dollar reporting. The Company demonstrated that their services business segment has continued to grow revenues, but leaves the most critical question unanswered: Acquisition?

Intrinsyc demonstrated strong revenue growth above consensus expectations. Q1/08 revenue was \$5.6M, beating our estimates of \$4.8M and consensus estimates of: \$4.7M. As a result we adjust our estimates as follows: FY2008 revenues of \$27.4M (from \$27.0M), EBITDA of -\$10.7M (from -\$10.8M), and EPS of -\$0.08 (from -\$0.09); FY2009 revenues of \$51.8M (from \$52.1M), EBITDA of -\$2.9M (from -\$2.5M), and EPS of -\$0.03 (unchanged).

The discontinuance of a design win will have minimal impact because the customer is refocusing their attention on two existing Soleus-based products under their SLA – this should compensate from a revenue perspective.

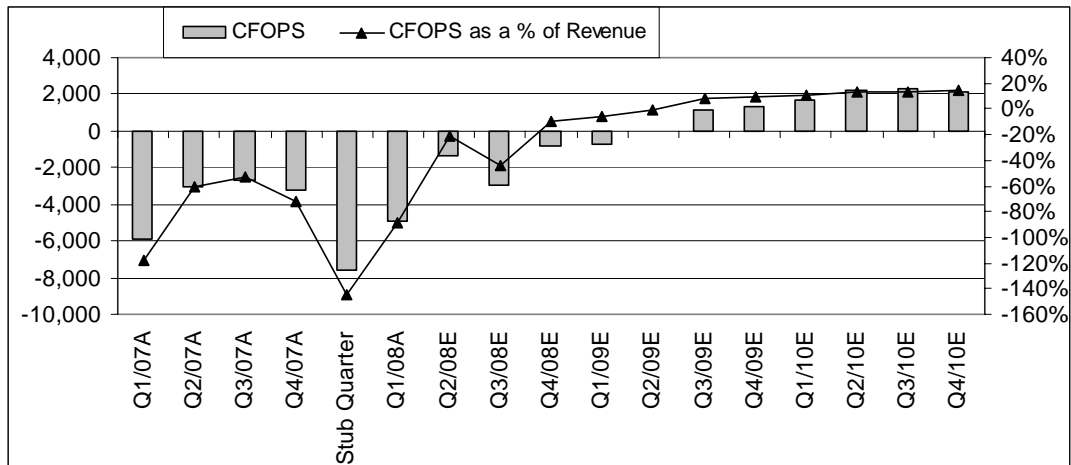
Intrinsyc is sitting on \$35.2M in cash from the most recent financing. A growth catalyst would be an accretive acquisition – the question is: Who and when?

Overall, we believe that the quarter demonstrates positive momentum in the Services business, and we believe that investors should focus on the catalysts that will drive Intrinsyc (and Soleus) to the next level: Tier 1 SLA's, M&A, and the start of Soleus royalties.





Intrinsyc's CFOPS and CFOPS as a % of Revenue



Source: Capital IQ, Haywood Estimates

Valuation

From a valuation perspective, Intrinsyc is trading at a discount to the Haywood Global Software Universe based on our CY2009 estimates (EV/Sales: 1.8x 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.

Haywood 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	Ticker	Curr	13-May	Target	Return	Low	High	(US\$m)	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	10.81	18.92	75%	110%	53%	514	-2%	-11%	-9%	-30%	-41%	49	76	-4%	NMF	NMF	NMF	9.4	6.0	NMF	NMF	217	0.22	0.35
Constellation Software Inc.	TSX:CSU	NR	CAD	25.43	30.22	19%	113%	91%	539	2%	8%	12%	8%	1%	303	347	9%	5%	12.7	11.1	1.8	1.5	10.7	9.6	1,200	0.25	0.29
Points International Ltd.	TSX:PTS	NR	CAD	2.04	3.90	91%	196%	47%	245	4%	16%	-14%	-26%	-50%	73	102	0%	-2%	NMF	37.1	3.2	2.3	NMF	NMF	76	0.97	1.34
Corel Corporation	TSX:CRE	NR	CAD	10.85	13.70	26%	155%	71%	277	0%	0%	-3%	27%	12%	271	282	NMF	NMF	6.9	6.1	1.5	1.4	6.3	5.8	1,110	0.24	0.25
Intermap Technologies Corp.	TSX:IMP	NR	CAD	6.50	10.72	65%	138%	57%	300	2%	10%	10%	-7%	-38%	34	43	2%	-14%	NMF	NMF	7.2	5.8	NMF	NMF	613	0.06	0.07
Logibec Groupe Informatique Ltee	TSX:LGI	NR	CAD	18.89	27.73	47%	111%	84%	186	3%	7%	5%	-8%	-15%	71	NA	NMF	NMF	19.3	NMF	2.8	NMF	7.6	NMF	430	0.17	NA
Gemcom Software International	TSX:GCM	SO	CAD	2.98	3.25	9%	208%	97%	160	1%	10%	19%	19%	26%	59	67	5%	4%	21.3	17.5	2.4	2.1	9.8	9.0	118	0.50	0.57
20-20 Technologies Inc.	TSX:TWT	NR	CAD	5.50	7.63	39%	105%	74%	104	0%	-4%	-4%	-15%	-15%	89	NA	NMF	NMF	21.8	NMF	0.7	NMF	6.0	NMF	669	0.13	NA
Intrinsyc Software International	TSX:ICS	SO	CAD	0.69	1.50	117%	177%	53%	104	0%	-14%	-23%	-37%	-25%	23	47	NMF	-7%	NMF	NMF	3.6	1.8	NMF	NMF	174	0.13	0.27
Matricon Inc.	TSX:MTK	NR	CAD	4.00	4.48	12%	195%	100%	122	1%	3%	3%	7%	67%	83	NA	NMF	NMF	13.8	NMF	1.2	NMF	7.6	NMF	530	0.16	NA
MKS Inc.	TSX:MTX	NR	CAD	1.76	1.99	13%	171%	90%	90	-3%	1%	3%	41%	28%	60	NA	7%	NMF	29.3	NMF	1.3	NMF	12.5	NMF	306	0.20	NA
Belzberg Technologies Inc.	TSX:BLZ	NR	CAD	4.79	NA	NA	113%	65%	71	4%	8%	1%	-6%	-11%	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	-1%	-4%	0%	-15%	-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	0.31	0.79	154%	141%	56%	28	0%	5%	-2%	-21%	-6%	24	NA	NMF	NMF	11.3	NMF	0.6	NMF	4.0	NMF	NM	NA	NA
Brainhunter Inc.	TSX:BH	NR	CAD	0.39	NA	NA	100%	47%	17	-3%	-5%	-22%	-24%	-15%	NA	NA	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	250	NA	NA
iseemedia Inc.	CDNX:IEE	NR	CAD	0.28	1.20	329%	130%	30%	14	0%	8%	-19%	-7%	-44%	NA	NA	NMF	NMF	NMF	NMF	NMF	NMF	NMF	NMF	37	NA	NA
SXC Health Solutions, Corp.	SXCI	NR	USD	16.88	18.84	12%	171%	60%	402	0%	1%	26%	9%	16%	175	465	NMF	NMF	29.2	22.4	1.8	0.7	10.5	6.4	429	0.41	1.08
Mean									1%	2%	-1%	-5%	-8%	41%	53%	3%	-2%	18.4x	18.8x	2.8x	2.5x	8.3x	7.2x	417	0.29	0.53	
Median									0%	3%	0%	-7%	-15%	27%	39%	2%	-1%	19.3x	18.0x	1.8x	1.8x	7.6x	6.4x	306	0.21	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.								
TSX:ICS	Intrinsyc Software		X		X				
TSXV:IMC	Immersive Media Corp.		X		X				

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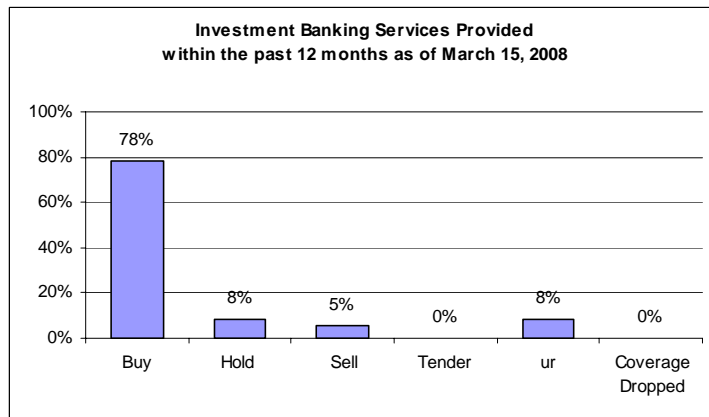
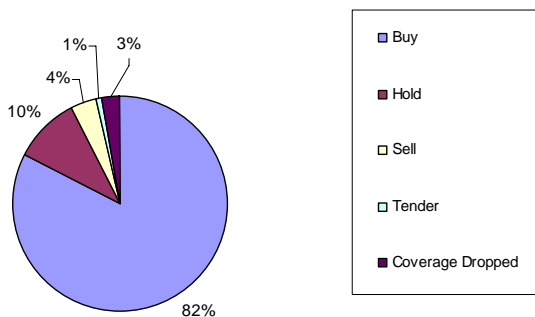
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Rating Distribution December 15, 2007 - March 15, 2008



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