



# Intrinsyc Software International Inc.

(ICS-T C\$0.69)

## Good Revenue Growth But a Long Way From Breakeven

### Financial Summary (all figures in US\$ unless otherwise noted)

(end-Dec)	Revenue (\$m)	Price/Revenue (x)	EPS (\$)	P/E (x)
FY07	19.7	5.4	(\$0.18)	NA
FY08e	21.3	5.0	(\$0.10)	NA
FY09e	34.5	3.1	(\$0.04)	NA
FY10e	55.0	1.9	\$0.05	13.9

- Intrinsyc announced Q1 results of \$5.6m and a loss of \$3.8m or \$0.03 per share.
- The company continues to show good revenue growth as its new Soleus software gains traction but showed little improvement in its pursuit of profitability.
- We are cutting our target price from C\$2.00 to C\$1.00.

### Improving Q1 Results

Last night, Intrinsyc reported Q1 revenues of \$5.6m and an EPS loss of \$0.03. We were looking for \$4.5m and an EPS loss of \$0.02. The top line was better than expected and the business continues to evolve but losses remain high and there is currently no visibility to any specific timeline for profitability.

The vast majority of the Company's revenues came from its wireless design consulting business, which added a new contract with Symbian. The new Soleus business did well growing to \$0.5m on early licensing and royalty revenues. Further growth in royalty revenues from Soleus are expected in Q2 but major wins like Samsung will not scale until 2009. Generally, the Company appears to be on track with our earlier assumptions and we are essentially maintaining our forecasts going forward. We are modelling \$21m in revenues (from \$20m) with EPS of (\$0.10) (unchanged) for FY08, \$35m and (\$0.04) for FY09 (unchanged) and \$55m and \$0.05 for FY10 (unchanged).

Overall, the top line results are pretty good and the outlook for new Soleus wins appears on track. Unfortunately, in a tougher economic environment, the high operating losses are less appealing and make it harder to justify the high valuation multiples implicit in this stock. The stock has tracked down sharply since the last financing and without new design wins the stock could remain low on the lack of visibility to profitability. We are maintaining our Buy rating but have lowered our target price of C\$1.00 from C\$2.00 based on 3x FY10 sales (from 5x previously).

Stock Rating:

**Buy**

12-month target **↓C\$1.00**  
Potential ROR 44.9%

#### Company Profile

Sector Wireless  
Ticker ICS-T

Shares O/S (m) 151.0  
Free Float (m) 150.0  
Mkt cap (C\$m) 104  
Mkt float (C\$m) 103  
Free float (%) 99.4%  
Next event Q2 Results August 2008

#### Key Metrics

Cash/sh (\$) 0.23  
Book Value/sh (\$) 0.35  
Debt (\$ m) Nil

#### Analyst

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#### Sales

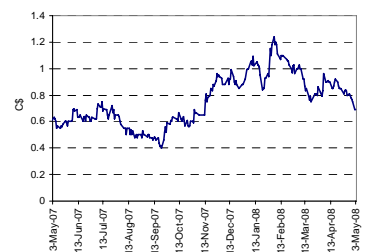
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#### ICS 1-Year Stock Chart



05/14/08 Target lowered (\$1.00)  
02/08/08 Initiating target price (\$2.00)

Source: Bloomberg



### Q1 Results- *Better Than Last Quarter But Not Yet Good Enough*

The Q1 results saw significant year over year and sequential growth, although losses remain high at the company as it continues to chase new business. The following table highlights the changes over the last quarter and over the same quarter a year ago:

**Figure 1: Quarterly Summary**

	Q1/F2008	Q4*/F2007	Q1/F2007	% Change	
				Q4*/F2007	Q1/F2007
	(4 months)				
Revenue (US\$)	5,556	5,221	4,317	6.4%	28.7%
Gross Margin (%)	45.7%	36.4%	49.3%	9.2%	-3.6%
Operating Expense	6,196	7,871	5,494	-21.3%	12.8%
Operating Income	(3,660)	(5,969)	(3,368)	NMF	NMF
Net Income	(3,837)	(7,294)	(3,640)	NMF	NMF
EPS - basic **	(\$0.03)	(\$0.06)	(\$0.04)	NMF	NMF

Source: Company, Paradigm Capital

On the balance sheet cash was up sharply thanks to the large \$30m financing recently completed by the company, pushing cash to \$35.2m or \$0.23 per share (up from \$12m last quarter). Receivables were up sharply as well to \$5.5m, while payables remained flat, which helped the cash burn from operations increase to \$4.9m in the quarter. For the quarter the total negative cashflow was \$6.8m excluding the financing. The company has no debt.



Income Statement										
(in US\$ 000s) CAN GAAP Fiscal year end December 31st	Actual FY06 (Aug) 18,658	Actual FY07 (Aug) 19,706	Stub Dec-31 (four months) 5,221	Actual Mar-08 5,556	Estimate Jun-08 5,000	Estimate Sep-08 5,250	Estimate Dec-08 5,500	Estimate FY08 21,306	Estimate FY09 34,500	Estimate FY10 55,000
Revenue										
Y/Y Change	6.4%	5.6%		10.6%	-0.7%	2.7%	21.2%	8.1%	61.9%	59.4%
Q/Q Change				22.5%	-10.0%	5.0%	4.8%			
COGS	11,318	10,034	3,319	3,019	2,250	2,100	1,925	9,294	8,638	5,500
Gross Profit	7,340	9,672	1,902	2,536	2,750	3,150	3,575	12,011	25,863	49,500
Gross Margin	39.3%	49.1%	36.4%	45.7%	55.0%	60.0%	65.0%	56.4%	75.0%	90.0%
R&D	11,107	12,026	3,346	2,547	2,800	3,000	3,250	11,597	13,750	18,000
% of Revenue	59.5%	61.0%		45.8%	56.0%	57.1%	59.1%	54.4%	39.9%	32.7%
S,G&A	8,865	11,810	4,525	3,649	3,550	3,650	3,750	14,599	17,500	22,000
% of Revenue	47.5%	59.9%		65.7%	71.0%	69.5%	68.2%	68.5%	50.7%	40.0%
Operating Expenses	19,971	23,836	7,871	6,196	6,350	6,650	7,000	26,196	31,250	40,000
% of Revenue	107.0%	121.0%	150.8%	111.5%	127.0%	126.7%	127.3%	123.0%	90.6%	72.7%
Operating Income	-12,632	-14,164	-5,969	-3,660	-3,600	-3,500	-3,425	-14,185	-5,388	9,500
% of Revenue				-65.9%	-72.0%	-66.7%	-62.3%	-66.6%	-15.6%	17.3%
Interest Expense	692	609	-195	-172	-350	-325	-300	-1,147	-1,000	-800
Depreciation	1,471	821	284	212	275	300	325	1,112	1,335	1,600
Writedowns	1	0	659	0	0	0	0	0	0	0
FX Loss	428	126	289	-215	0	0	0	-215	0	0
Stock Based Compensation	915	669	230	284	284	284	284	1,137	800	1,000
Other Expense	124	294	0	23	125	125	135	0	0	0
Pretax Income	-14,920	-16,682	-7,237	-3,792.9	-3,934	-3,884	-3,869	-15,072	-6,523	7,700
% of Revenue	-80.0%	-84.7%	-138.6%	-68.3%	-78.7%	-74.0%	-70.4%	-70.7%	-18.9%	14.0%
Income Tax	131	316	58	44	0	0	0	0	0	0
Tax Rate	-0.9%	-1.9%	-0.8%	1.3%	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	-16,394	-16,998	-7,294	-3,837	-3,934	-3,884	-3,869	-15,525	-6,651	7,700
				-69.1%	-78.7%	-74.0%	-70.4%	-72.9%	-19.3%	14.0%
Shares	67,618	94,182	119,493	131,129	154,000	154,125	154,250	148,376	154,538	154,000
Fully Diluted Shares	67,618	94,182	119,493	131,129	157,000	157,250	157,500	150,720	154,725	155,000
Proforma EPS (Ex Special Items)	(\$0.24)	(\$0.18)	(\$0.06)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.03)	(\$0.10)	(\$0.04)	\$0.05
	(\$0.24)	(\$0.18)	(\$0.06)	(\$0.03)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.10)	(\$0.04)	\$0.05

Source: Paradigm Capital



Intrinsyc Software International Inc.						
May 13, 2008						
Balance Sheet	2004	2005	2006	2007	2007*	
(in C\$ 000s)	Q4	Q4	Q4	Q4	Stub	Q1
Fiscal year end December 31st	Aug-04	Aug-05	Aug-06	Aug-07	Dec-07	Mar-08
Cash & Equivalents	4,601	7,318	22,487	19,629	12,048	35,247
Short-Term Investments	0	0	0	0	0	0
Accounts Receivable	4,329	3,910	3,790	3,081	3,564	5,459
Inventory	278	134	111	16	103	51
Prepaid Expenses	335	346	386	541	693	703
<b>Total Current Assets</b>	<b>9,542</b>	<b>11,708</b>	<b>26,774</b>	<b>23,267</b>	<b>16,407</b>	<b>41,460</b>
PP&E, Net	838	981	1,361	1,479	1,398	1,473
Goodwill	14,190	14,190	14,190	14,190	14,190	13,823
Intangible & Other	1,443	1,213	1,134	397	411	623
<b>Total Assets</b>	<b>26,013</b>	<b>28,091</b>	<b>43,458</b>	<b>39,333</b>	<b>32,406</b>	<b>57,379</b>
Accounts Payable	2,032	2,790	4,011	3,563	3,339	3,496
Income Tax Payable	95	263	219	423	244	195
Notes Payable	0	0	0	0	0	0
Deferred Revenue	646	837	543	703	1,164	1,259
Other	0	0	0	15	16	16
<b>Total Current Liabilities</b>	<b>2,772</b>	<b>3,890</b>	<b>4,772</b>	<b>4,704</b>	<b>4,763</b>	<b>4,966</b>
Other Long Term Liabilities	261	261	230	184	137	109
Note Payable	0	0	7,618	0	0	0
<b>Total Long Term Liabilities</b>	<b>261</b>	<b>261</b>	<b>7,848</b>	<b>184</b>	<b>137</b>	<b>109</b>
<b>Total Liabilities</b>	<b>3,034</b>	<b>4,152</b>	<b>12,620</b>	<b>4,889</b>	<b>4,901</b>	<b>5,075</b>
Total Equity	22,979	23,939	30,839	34,444	27,505	52,304
<b>Total Liabilities &amp; Equity</b>	<b>26,012</b>	<b>28,091</b>	<b>43,458</b>	<b>39,333</b>	<b>32,406</b>	<b>57,379</b>

Source: Paradigm Capital



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