

Intrinsyc Software International Inc.

ICS-TSX

F2Q08: Soleus to Ramp in 2H

Event

Intrinsyc Software reported F2Q08 results yesterday. Revenues came in at \$5.6 mln (RJ: \$5.1 mln, consensus: \$5.6 mln). EPS loss of \$0.03 was in-line with our estimate and consensus.

Action

We reiterate our OUTPERFORM rating and \$0.65 target.

Analysis

We now expect Soleus royalty revenues to start ramping in 2H08. While management alluded to some lengthening of platform evaluation timeframes due to the current macroeconomic environment, solutions such as Soleus which offer Location Based Services and advanced UI still offer value to customers. As a result, design wins are progressing more or less as planned. A device from Quanta is scheduled for launch in F4Q08. Mitac launched its first Soleus based device, the Mio Moov 380 (a connected PND device) in Taiwan and a launch in Europe is scheduled for the Fall. Samsung LSI reference kit shipments are expected in 2H08 with subsequent shipments to Samsung OEM customers. Intrinsyc also completed the Soleus platform for the second silicon vendor for a GPS phone solution targeted for release in China. For the MSI device, shipments have been delayed due to a business level decision. We still believe that there could be as many as four customers generating Soleus royalties by the end of 2008. The Destinator integration is proceeding well. Intrinsyc has re-negotiated contracts with 20 Destinator customers since the transaction. After the end of F2Q08 Motorola launched the MING A1600 handset for the consumer market in China leveraging Destinator's navigation software solution. We estimate Intrinsyc has ~\$21 mln in cash post the Destinator transaction and is burning cash between \$5-\$6 mln per quarter.

Valuation

Intrinsyc currently trades at 0.7x C2009E revenues while comparable mobile software companies trade at 2.6x C2009E revenues.

TECHNOLOGY

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RATING & TARGET

RATING	OUTPERFORM 2 =
Target Price (6-12 mths)	0.65 =
Closing Price	0.38
Total Return to Target	71%

MARKET DATA

Market Capitalization (\$mln)	62
Current Net Debt (\$mln)	(21)
Enterprise Value (\$mln)	41
Shares Outstanding (mln)	162
Avg Daily Dollar Volume (3mo, mln)	n.a.
52 Week Range	\$0.38 - \$1.30

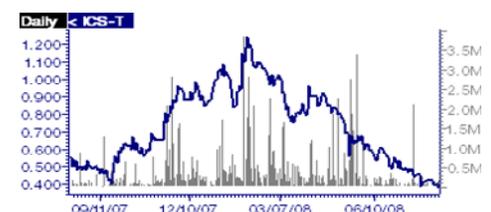
KEY FINANCIAL METRICS

FY-Dec 31	2008E	2009E	2010E
EPS (C\$)	-0.12	-0.08	-0.04
P/E	n.m.	n.m.	n.m.
EPS - 1Q	-0.03 A	-0.03	n.a.
EPS - 2Q	-0.03 A	-0.02	n.a.
EPS - 3Q	-0.03	-0.02	n.a.
EPS - 4Q	-0.03	-0.02	n.a.
EBITDA	-17.3	-9.4	-3.1
EV/EBITDA	n.m.	n.m.	n.m.
Revenue (\$mln)	28.3	49.7	59.4
Yield (%)			

EBITDA in C\$ mln

COMPANY DESCRIPTION

Intrinsyc is a mobile software and engineering services company that provides systems integration for wireless handsets. The company has leveraged its expertise to develop a high-level operating system (HLOS) called Soleus, to enable handset manufacturers and telecommunications operators to deliver feature phones more rapidly, at a lower cost, and with customizable options and design.



All figures in C\$, unless otherwise noted.

Sources: Raymond James Ltd., ThomsonOne, CapIQ

Risks

- Risk of design wins not translating into material revenue due to failed device launches.
- Heightened competition from competing OS providers.
- Exposure to currency fluctuations. Lumpiness inherent in Engineering services business.

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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. OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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Company	Symbol	Exchange	Disclosures
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