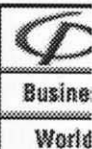


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COMPANY FOCUS

Intrinsyc Software

Wed, May. 24, 2000 13:44

By **Tracy Johnson, Canada-iNvest**

Do you remember a couple of years ago when everyone was talking about microwaves that would surf the net? Remember that no one could quite figure out why anybody would want his or her microwave to surf the net?

Well, Vancouver's **Intrinsyc Software (ICS)** has figured it out, and it's poised to rule the sector. If it can just keep ahead of the competition.

In practical terms, Intrinsyc networks embedded systems. 'Embedded systems' is the catch-all description for the microchips that are in everything from cars to VCRs to stoves to vending machines. There are something like seven billion microchips produced every year and more than 90% of them are used in embedded systems.



That, in itself, is not startling investment news. Embedded systems have been around for many years. But, the game is now about getting these chips connected to each other and to the web, so that you could start your car in the mornings from your PC, or a company could network together assembly lines in several different factories. Or, to take a real life example, soft drink makers are considering installing chips in their pop machines so that they can increase prices when it's hot outside and drop prices during off-peak hours. Overall, it's thought to be a huge market, roughly \$10 billion going ahead a few years.


Intrinsyc has been around for about six years now, and has been developing this particular business since 1996. It doesn't make the microprocessors, but sells the software that connects them to the web, and provides expertise for companies trying to get their products connected. The sector is still very much in its infancy.

The stock trades on the CDNX and had been as high as \$9.70 during the high-tech binge in March. On Friday it closed at \$3.94.

Although Intrinsyc is considered something of a leader, its revenues are only expected to top \$3 million this year. Intrinsyc says going ahead, revenues should grow exponentially.

"This is where the rubber hits the road for us," says Rod Campbell, Intrinsyc's CFO. "For every 50 processors that get produced, only one is..."



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Posted Monday, March 25, 2002

Offline with Derek Spratt*By Silicon Valley NORTH****Derek Spratt, Chair, Founder and Chief Strategist of Vancouver's Intrinsyc Software***

You recently announced that you've raised \$10 million in equity financing through a special warrant offering, about a week and a half after you announced the warrant offering. Seems like a fairly fast financing, especially these days.

Well I've done my fair share of financings, I think about \$110-million worth in the last eight years. People usually don't go out and announce a financing unless it's already done. The regulatory requirements require that you don't actually shop things until you announce them so there's a lot of gauging interest beforehand. We were in Toronto the week before we opened, just doing our standard road show, and in the last two minutes of the one-hour presentations, to the various institutional investment houses, we would just say we're thinking of accelerating our mergers and acquisitions strategy. We've got \$15 million in the bank now but we don't want to draw that down – that's kind of our safe harbour rainy-day fund. But we could use some cash for acquisitions; it'll be a bigger story as a result. Would you have an appetite if a fictitious transaction would materialize? You gauge enough of that to decide whether or not the bankers and the people who run the institutional sales desks (will allow you to) do the deal. It's really up to the bankers. So when we say we're going to go out and do a financing there's risk that it will or will not close, and general market conditions can cause difficulties. But in our case, we've been pretty solid with our investor base in Toronto. They were confident and the people we talked to directly were confident, so we said let's do it.

When did the financing process really start for you then? When did you sit down and make the decision to raise some capital?

We started in September thinking much more seriously about our mergers and acquisitions strategy. We went through some of the initial scrubbing of some of the candidates in the late fall. We recognized that the stock market hasn't been ideal, and we waited a bit to see what the markets would do at the beginning of the year. The market conditions weren't bad in the first week of January, they were fairly positive actually, so we waded in there and did our road show, got some feedback. Then market conditions deteriorated during the two weeks we announced and closed, and so the financing was done at a fairly aggressive price. Probably wasn't quite the price we would have liked, but it still represented the ability for us to build a bigger story. So the process end-to-end was less than four weeks, officially it was less than two weeks.

What are the proceeds from the financing earmarked for?

These proceeds are targeted towards what I would call non-linear growth, or external growth. We have an internal organic growth, we're growing our company, we're building it very quickly, and we're building it in spite of the fact that the market conditions in the general economy are very poor. At the same time we're growing that organic growth and we're looking to add to that by bringing in a stable of companies, which includes people, the intellectual capital and know-how, the technology and products that they have, the geographic presence they have, and certainly the revenues and customer relationships they have that we can then up-sell with Intrinsyc's existing technologies.

Do you have any acquisitions in mind then, anything on the horizon?

We don't actually have detailed negotiations underway. We have had over 100 companies in the funnel that we've short-listed, and now that we've got our additional capital we're having more substantive discussions with some of the leading candidates. I've been in the business long enough to know it's never over until it's over, and I wouldn't want to set expectations too high, but I'd say that things are moving forward right now as expected for the company. We do have some ideas.

For companies finding themselves in the enviable position of having some money to spend, as you now do, is this an opportune time in a somewhat down market to make some good acquisitions and consolidate the market a bit?

If you were a fly in the wall at our board meetings, you'd hear discussions about how difficult many companies' situations are, both locally and in the international technology market. There's a great amount of caution, a great amount of concern, and at the same time I think everyone basically agrees that we've seen the general economy bottom-out and start to recover. But at the same time, the tech space is still under a big cloud. So there's indicators both way, some say now is the perfect time to start consolidating the space and grow aggressively, and there's other indicators that say no, don't leverage. There's a big difference between moving forward intelligently and taking bets that relate to things you can control, versus assuming the market is going to get better in a defined period of time and leaping into the void, hoping the market is going to be there for you when you have to land on your feet. I think the board, and Intrinsyc as a company, are making moves that are defensible even if the current economic climate maintains its course for the foreseeable future. We're taking advantage of our strong economic position and the relative weakness of some of our potential competitors. We're going to consolidate, we're going to be aggressive, but we will not be making moves that are reliant on the stock market springing back to life.

You announced two new contracts with unnamed companies in February with a total value of over \$6 million. What's involved in those?

One of them was with a major electronics manufacturer. It's a sub-assembly on a computer module we're developing for them that includes our licensable technologies that goes into a number of their products. Even though we've announced the value of the contract at about \$1 million, the relationship has phase two and phase three potential follow-ons, so that's a really interesting relationship. The other deal, which is bigger than \$5 million, is a little bit new for us and it's a harbinger of the evolution of our business model and where it's

us, and it's a harbinger of the evolution of our business model and where we're heading. We've taken on the responsibility of developing a product for this company, it's a wireless hand-held PDA in a specific market segment, and we're developing that product for them. We'll actually give them the initial manufacturing volumes and they'll then manufacture that under licence from us.

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