Latest Comments

"Canadian companies — especially technology companies — are all global players. The ones that are around have managed to survive and thrive. Some of my companies in particular have done phenomenally well over the past six to nine months, so I think we're seeing a recovery in the Canadian tech space after a long time."

Naser Iqbal,
Canadian Technology

"Investors should use material weakness more than anything else as a chance to add to positions. I don't think you necessarily chase stocks as they are running up, but I think you want to have your position in place by the beginning of the fall. So, prior to the launch of PlayStation 3, you want to have your bets placed on which companies will benefit from the rising tide."

Edward Williams,
Interactive Entertainment

"We expect growth in revenues in the cruise industry this year, but not at the level and pace of growth that we have had over the last couple of years. This deceleration in growth has turned some investors against cruise operators' shares. We think about it differently; the stocks are attractively valued and the business model is fantastic, so we like the longer-term outlook."

Elizabeth Osur
Consumer Discretionary Stocks

Canadian Technology Companies

Roundtable Forum

Technology is in a moderate state of recovery in the Canadian markets. Some of the larger cap companies are doing better and some of them are still floundering, restructuring and dealing with the overhang of the tech bubble. But there has been action among the small cap names. A lot of startups were funded in the tech bubble five years ago with a lot of cash. Some of those companies have managed to survive and actually get a viable product into the market. Others are coming to the forefront after being under the radar, and a crop of new names is about to come to investors' attention during what is a year of transition. The Canadian companies are global. The ones that are around have managed to survive and thrive. Some in particular have done phenomenally well over the past six to nine months. Our panel: Todd A. Coupland of CIBC World Markets; Dennis dos Santos of Northern Securities Inc.; Naser Iqbal of Salman Partners Inc.

Analyst Interview

Nick Agostino of Research Capital Corporation covers three companies (two Canadian and one American) manufacturing wireless products that cellular carriers are using to offer new, high margin data revenue services to try to offset the decline in their commoditized voice revenues. As long as the economy remains fairly robust, IT departments and enterprise users in general will continue to adopt these wireless data applications.

Outlook for Consumer Discretionary Stocks

Analyst Interviews

Elizabeth Osur of Citigroup Global Markets says that to some extent, the cruise operators have fallen out of favor, the toy manufacturers almost always have appeal but are almost never a hot group, while video game manufacturers attract a lot of short- and long-term interest. For the video game manufacturers, assuming there is a launch this year of Sony's PlayStation 3, the big growth year in software revenues should be 2007. Edward Williams of Harris Nesbitt Corp. says the video game industry is on the cusp of a new platform cycle with the full deployment of the next generation of video game consoles. Investors should use material weakness so that their positions are in place by the beginning of the fall and their bets are placed on the companies that will benefit from the rising tide. Arvind Bhatia of Sterne, Agee & Leach Group believes there is potential to get great returns from the video game group long term; the top line of the companies will grow at 10% to 12% a year for the next couple of years. Joseph Hovorka of Raymond James & Associates sees a trend in the leisure industry in which higher-end products are stronger than the lower end.

Intrinsyc Software International, Inc. (ICS.TSX)

DEREK SPRATT is the Founder of Intrinsyc Software International, Inc., and currently serves as its CEO. In his long and successful career, Mr. Spratt has enjoyed many notable successes including being a co-Founder and CEO of Consequent Technologies, a co-Founder and EVP of PCS Wireless, Inc., the VP and Business Unit Manager of Nexus Engineering, and the Product Development Manager in Motorola's Wireless Data Division. Mr. Spratt has also been involved with CSI Credit Systems, Integra Systems, DBA Telecom, Cambian, Image Power, and Icron Technologies as an employee or advisor. He has served as a Vice Chairman of the Vancouver Enterprise Forum, a Board member of BC Advantage Fund (current), AceTech (current), Toronto Stock Exchange Advisory Committee (current), BC Securities Commission NEAT committee, and Softworld. Mr. Spratt takes a keen interest in supporting the non-profit sector and has provided financial and advisory support to the BCT Social Venture Partners, BC ScienceWorld, and the Sierra Legal Defense Fund

SECTOR – APPLICATION SOFTWARE

(ADY628) TWST: What is Intrinsyc Software?

Mr. Spratt: Intrinsyc Software is a mobile software company. We provide our software and supporting services to major mobile handset manufacturers worldwide, and all the major silicon vendors including Texas Instruments, FreeScale and Intel. Intrinsyc's main product is Soleus, a feature phone software platform, which is the consumer phone software that powers the midrange phones in the market.

TWST: What are the overall market dynamics today as far as demand? What are the changes or the innovations that play into your hands? What might you have to address more from a strategic or a competitive standpoint?

Mr. Spratt: The overall handset market in 2005 was estimated at about 815 million units. The feature phone segment that we address was estimated at 510 million units in 2005. This is an industry that is growing at a double-digit rate; it is also an industry that's in transition — hence, the ability for a company like Intrinsyc to come into the market. In the market that we focus on — the midrange, feature phone market — these phones have been predominantly using software developed in-house by the handset manufacturers themselves over the last 15 years, and these are called proprietary operating systems. The industry is seeing that this in-house, proprietary software is being stretched thin and cannot effectively handle the advanced features that mass market phones require today.

In the high-end, business-class smartphone space, Microsoft offers an operating system called Windows Mobile. Intrinsyc is offering a complementary product, Soleus, to address the consumer phone space. We have built Soleus on top of the same kernel as Microsoft's Windows Mobile. We believe the reason why Microsoft doesn't do this itself is because each handset requires a different look and feel and a certain amount of customization, and Microsoft is focused on business class phones that leverage the Windows desktop environment and PC-like Microsoft Office applications to provide a comprehensive yet common look and feel to the business class user.

On the other hand, Intrinsyc is enabling OEMs and ODMs to create consumer products that are very trendy. Their models change every quarter, and we are providing the flexibility to create a differentiating set of phone features that each manufacturer and each carrier requires. We offer a more cost-effective solution and Microsoft gets a licensing fee and Intrinsyc gets a licensing fee for each handset that is shipped.

TWST: What is it that determines which handsets are your targets? Which other partners and companies look to you for that platform and framework?

Mr. Spratt: As I said, we understand that Microsoft focuses on the business user. These business users are people who are familiar with the Microsoft Office products on the desktop and they want an extension of that desktop with them in a mobile form to enable them to do their office work on the go. We are focusing on the consumer who is interested in playing music, video, television, and various entertainment and games. There is also a trend with the carriers and the network operators toward featuring more of their brand look and feel on these handsets.

Intrinsyc has developed Soleus, a phone software platform that is small, light and meets the right price point with low-cost chips that smartphone software doesn't have. The chip sets of smartphones, including the memory and the CPU, are probably 2 to 5 times the size of what a Soleus-based phone will be. We are working with handsets that have smaller screens, less computing power and less memory. Soleus allows us to squeeze a lot of functionality into this small hardware footprint so overall it is a lot less expensive to develop a phone. The licensing fees are inexpensive; likewise, the hardware costs are less, and the software has branding and customization capabilities. Soleus offers the operating system pieces as well as the software tools that allow the operators and the handset manufacturers to customize the look and feel of the handsets.

We would compete primarily with the in-house proprietary software that has been used until this point. We believe that it is becoming increasingly more difficult for OEMs and ODMs to use proprietary software because applications are getting too complex for the old architecture of these original operating systems to handle. The competition, in terms of who else could offer a high-level operating system, would be the Open Source Linux community to a degree, and to a lesser extent, perhaps companies such as Symbian who offer a smartphone operating system. The smartphone operating systems are coming downmarket from the smartphone level and want to create a market for themselves in the mid-range market.

TWST: What are those lead times today now that you have established Soleus? What keeps it from being outdated? What else is in the pipeline that you have to bring in?

Mr. Spratt: The industry is changing; it changes rapidly. However, we are building on what we believe to be the very best operating system, the Windows CE Kernel and the Microsoft Visual Studio Tool chain. We are the first to bring these capabilities into the feature phone market. So we are in a leadership position, and that gives us a time to market advantage.

Second of all, we made a very significant R&D investment, and that's backstopped by our successful $24 million financing that we closed a few weeks ago. We have a good, strong, core underlying business that does engineering services for handset manufacturers that use Windows Mobile. We are in a pretty good position. We have strong historical relationships within our existing business, and we have a product now that is right on the cutting edge.

We are being supported by many of the major silicon vendors, and we have participated in a number of industry events recently. CTIA Wireless is a very big event that we attended in Las Vegas during the first week of April. It is the largest mobile event of its kind in North America. We came out with strong partners and we are now pursuing potential customers. We are working toward signing software licensing agreements with our potential customers in the short term, and aim to have Soleus-based handsets in the market at the end of this calendar year or in early calendar 2007. So we are on our way and we intend to keep investing in R&D and keep the ball moving forward so we stay in the leadership position that we are enjoying right now.

"We are focusing on the consumer who is interested in playing music, video, television, and various entertainment and games. There is also a trend with the carriers and the network operators toward featuring more of their brand look and feel on these handsets. Intrinsyc has developed Soleus, a phone software platform that is small, light and meets the right price point with low-cost chips that smartphone software doesn't have."

TWST: One of your statements mentioned pre-integration with leading hardware platforms. I assume that means getting right to the chip manufacturers and the cell phone platform manufacturers themselves. How much work has to be done there? Do you have those strategic partners in place?

Mr. Spratt: They are in place. We already have the software running on leading chip sets; there are always new chips coming out and we continue to work on the new chips. The silicon vendor companies are already existing customers and partners of ours, and we are planning tours of duty, and co-marketing together on certain strategic accounts. The volumes that we anticipate getting for the Soleus-based handsets start modestly for next year, and then we anticipate it ramping up for 2008.

So we end up going from a business that is in the $18-$20 million a year range now, and that is comprised of predominantly engineering services revenues, to a business that becomes very scalable.

TWST: With the business model you just described, it would seem that top-line growth has higher margins and supports faster growth on the bottom line. Is that the overall plan?

Mr. Spratt: Yes, absolutely.

TWST: Have you released any information about what kind of overall margins or bottom-line performance you anticipate, once you get this model fully deployed?

Mr. Spratt: No, but we are being followed by both trade and industry analysts as well as research analysts who have recently published their opinions. We are not giving formal guidance; we're typical of public companies nowadays. Our fiscal year ends August 31, which is a bit different.

TWST: Introduce us to two or three of the key individuals in your top-level management team today.

Mr. Spratt: I am the Founder of the company and the CEO. I have been in this business with Motorola and other key players for 23 years. My partner, Vincent Schiralli, is a 25-year IBM veteran. He is our Chief Operating Officer and President, so he is the steady hand on the sales and marketing operations.

Randy Kath is an ex-executive of Microsoft. He was one of the Founders who helped build the Windows Embedded group at Microsoft from literally a few dozen people up to about 300-400 on staff and about 600 people under contract. He left Microsoft in 2000 to do some consulting work in the Seattle area. He then consulted for Microsoft again to help them launch Windows Mobile 5.0. So Randy Kath is a key contributor to our executive team.

He runs our Bellevue, Washington, offices, right beside Microsoft, and we have about 50 developers there. A number of them were the original Microsoft Windows Mobile embedded developers. So we have our Vancouver offices and our Seattle offices and our UK facilities and now our Singapore facility. We have a great group of people who are the top domain experts in this area. It is about having people that are really experienced.

TWST: What historically has been the shareholder base with the company? Has that base undergone any changes or transitions?

Mr. Spratt: It has been widely held, and we have had some key investors who have been with us since the early days. Today, the company is approximately 25% institutionally held and there is a mix of US institutions and Canadian institutions that own positions in the company now.

TWST: Do you feel that there are any misperceptions from the investment community as they look at what you are and how you are doing?

Mr. Spratt: No, there is just a time lag. Intrinsyc is no longer a complicated story because everyone uses mobile phones, and consumer class cell phones are clearly ubiquitous. Clearly, the small cap tech institutional investors who have participated in the last round of financing understand this. But I do believe there is still some education that needs to be done, and some of that just happens from success. You can tell people about the future all you want to, but I think it's when you deliver the earnings and the revenues, that the numbers speak for themselves.

TWST: Everything seems to be going to the hand-held device. What are the variables? What can go wrong?

Mr. Spratt: There are two aspects to it. Handset manufacturers who are doing a Windows Mobile phone right now for the smartphone market can now do an Intrinsyc Soleus feature phone with only an incremental investment. So the handset manufacturers who are doing WinMo phones can use the same software platform to address the feature phone market that is adjacent to the smartphone market. Keep in mind that the feature phone market is about 5 times the size of the smartphone market.

Then there is the general question of converting handset manufacturers from the in-house developed software platforms, to high level, open operating systems. It takes time, and some evangelizing is required. It is the usual dynamics of behavioral change and attitudinal change that have to play out. Clearly, there is competition from other newcomers like the Linux people, but we are all fighting the same battle — getting people off the out-dated internal stuff and on to the new stuff, and getting them to focus on their R&D and other activities that add more value to their businesses, and not the operating system companies in their own right.

So I think it is just a matter of pacing the market. Intrinsyc only needs low-single digit market penetration to be successful. Most of the development work has been done. The product is developed and has been commercialized, and we are in the process of negotiating licensing agreements and getting ready to do manufacturing and ship later this year.

TWST: What would compel investors to include Intrinsyc not only as part of their current portfolios but as part of their longer-term investment strategies?

Mr. Spratt: An investor should understand that our company has an existing, established, well-regarded business, being experts in Windows Mobile services work and in smartphone work. We have layered on top of that a very high-growth product that leverages the business and all of those existing relationships that we have in the industry. And the product is developed and we are bringing that product to a large addressable market, so it is not too hard to see that if Soleus revenues ramp up, then Intrinsyc Software should do well.

TWST: Thank you. (DWA)

DEREK SPRATT
CEO
Intrinsyc Software International, Inc.
700 West Pender St.
10th Floor
Vancouver, British Columbia V6C 1G8
Canada
(604) 801-6461
(800) 474-7644 – TOLL FREE
(604) 801-6417 – FAX
www.instrinsyc.com
e-mail: invest@intrinsic.com