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StockHouse News Desk

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Intrinsyc's Embedded Software Has 18-Month Lead

Intrinsyc Software has achieved mammoth quarter-over-quarter revenue growth in an environment of increased media attention focussing on embedded computers that power consumer products and enable Internet connectivity. Those elements combined to produce a recent 187% surge in the company's stock, and while some profit taking inevitably followed, the ride is not likely to be over anytime soon. With a reference platform that integrates their software onto the world's smallest information appliance, Intrinsyc's CEO and CFO are confident they have an eighteen-month lead-time on their competition.

Vancouver, BC, February 22 /SHfn/ -- Intrinsyc Software [V.ICS], a Vancouver, BC-based developer of software for embedded systems, saw its stock surge 187% during the second week of February. The 45-employee firm is riding a wave of increased publicity and interest in its market as both investors and media realize the potentially explosive benefits of technologies that bridge previously existing communication gaps between the Internet and Enterprise intranets.

The company's stock began its prodigious rise February 7; for the following week it notched new 52-week highs each trading day. February 9, Intrinsyc announced a \$5 million Special Warrants financing with Toronto investment banking firm Loewen, Ondaatje, McCutcheon Limited. The financing elicited an enthusiastic response, and was followed by a further news release February 14 that the financing had been increased by \$1 million.

The \$6 million will be used, according to Chief Financial Officer Rod Campbell, to build the company's bank account. ICS realizes it needs sufficient cash on hand to avoid being considered a risky vendor by its growing customer list of Fortune 500 companies. "We need to have enough money in our bank, even though we are trending very nicely toward profitability, so that we look credible."

Research firm International Data Corp expects the embedded software market to grow from US\$1.7 billion in 1997 to more than US\$4.8 billion in 2001. The sector has seen increased attention during the past several weeks with a spate of announcements by consumer companies and appliance manufacturers extolling the advantages of technologies that will connect everything from cars to refrigerators to the Internet. With articles in luminary publications such as the *New York Times*, *Business Week*, and the *Wall Street Journal*, the market has taken notice.

For a discussion of major players in the embedded systems marketplace, please [click here](#) for a discussion of semiconductor companies, and [here](#) for operating systems and application software makers.

Chief Executive Officer Derek Spratt has called this period of history the post PC world. "If you look at technology trends over the last 100 years, when you really start to get the consumer benefit is when the stuff disappears. We don't think much about electricity in our lives anymore. [...] I think what we really have to do is get computers to disappear. I think if they truly embed themselves in our lives then you can talk to the machine and it has voice recognition and you can see people and talk to them using video conferencing, things become a lot less technical. Consumers, generally speaking, hate technology because it forces change in their lives, and we're not really comfortable with change. [...] Hopefully, it boils down to the human being being respected, not the devices."

Intrinsyc produces software tools for the emerging information appliance and Internet device marketplace. Its products serve an interlinked world in which embedded devices are beginning to talk to the Internet and from Enterprise systems and intranets. Spratt says, "One of the things that we have been focussing on is taking e-business beyond the PC. It's about taking the value of this interconnected world, which is really everything being connected to the Internet, the English language of computer networks, and pushing that to all the hidden devices that are out there."

Intrinsyc's CFO chimes in: "Anything now with a power switch can be smart and can be connected to the Internet or connected to each other or connected to the Enterprise. That's all great that they're all smart and they can be connected, but unless they communicate effectively with one another, you have really missed out on a lot of the potential." Campbell cites the well-publicized **Coca-Cola [KO]** example. Coke plans to place computer chips in its vending machines so that the price for a can of pop could be adjusted to account for higher demand as temperatures soar, or when the machine calculates that there is only a single can remaining.

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The company has leveraged its partnership arrangement with **Intel [INTC]** to produce what it calls the "world's smallest information appliance platform." The ICS CErfBoard, a low-cost embedded computer weighing less than 29 grams (1 ounce) and measuring less than 13 square centimetres (5 square inches), was unveiled at the recent Consumer Electronics Show in Las Vegas. February 15, the company announced it was shipping the CErfBoard, which was named for **Microsoft's [MSFT]** Windows CE operating system. The CErfBoard is capable of replacing a powerful desktop PC, and will be available later this year with a chip speed of 750 MHz.

Both Spratt and Campbell refer to the CErfBoard as a Trojan Horse. Intrinsyc software can be bundled on the CErfBoard for direct integration by ICS' OEM customers. Campbell says, "It's really changed the discussion with our clients from being a portfolio of technologies to a solutions-based company and it gives us lots of credibility in embedded systems because the software is only part of the solution. The integration with the hardware is typically the tough part."

In addition to deviceRMS, the first universal plug-and-play remote management system for embedded Windows Internet devices, Intrinsyc makes additional software products that are available singly, or as a suite of products. The application suite includes deviceWEB, an embedded Windows server; and deviceOPC and deviceFT, industrial automation and fault tolerant software. All Intrinsyc applications can be bundled on the CErfBoard, or purchased independently of the reference platform.

Intrinsyc has heretofore specialized in embedded Windows applications, but plans to explore other operating systems, including Linux, this calendar year. According to Spratt, Intrinsyc, "will continue as our customers direct us and our partners direct us to work with those other OSs. So, it's really what we refer to as an OS-independent, or an OS-agnostic view of the world. We just don't want to be political. What our customers want is what we'll work with."

Customers are currently drawn from the industrial automation, building automation, and in-vehicle computing sectors. The list includes **General Motors [GM]**, **Siemens [SMAWY]**, **Eaton [ETN]**, and Mitsubishi. ICS also wants to increase its profile in point of sale markets and with telecom OEMs.

Electric GE

The company hopes to build on these specific market verticals, while continuing to sign on partners and forging channel-selling relationships. Spratt says that Intrinsyc will also begin to look at acquisitions as a method of growth, or where specific additions would provide a better whole product solution for the company's customers. There are also plans afoot to extend the CERfBoard platform to include technologies such as the Bluetooth™ standard, because as Spratt reports, "About half of our customers seem to be wireless right now."

At the reporting of fiscal year 1999 figures in October, management acknowledged that shareholders might have been disappointed with the performance of the stock. Intrinsyc has begun to enact measures to ensure the company builds on the attention afforded its sector recently. Deanna McKenzie was brought on as Vice President of Sales from Platinum Technology, a closely held firm that sold last year to **Computer Associates [CA]** for US\$3.6 billion. With a team of three quota-carrying sales people, McKenzie has fully developed the direct sales model, and has begun to tackle the formation of channel partnerships.

The relationship with Loewen, Ondaatje, McCutcheon is also seen as a key piece of the plan for growth. Increased institutional holdings are guaranteed by the Special Warrants financing, and a portion of the proceeds of that financing will be utilized to fund PR and IR efforts.

Revenues for fiscal year 1999 rang in at \$2,250,000, an eye-popping increase of 300% over the previous year. During fiscal year 1999 services provided about 85% of income, while product and licensing generated about 15% of total revenues. CFO Campbell says that ratio will change dramatically this year. "We would love to see 60%-40%. If it is 60-40, we'll be drastically profitable because the licensing component is infinitely scalable and massively profitable."

Reporting of Q1, 2000 figures in January showed revenue growth of 400% over the same period in the prior year. The company is not yet profitable. On revenues of \$321,000, it posted an operating loss of \$0.05 per share. Campbell suggests that Intrinsyc will show a positive balance sheet by the end of this calendar year. CEO Spratt states, "You are just starting to see the market pick up and you're starting to see us evolve from being an R&D shop to being a complete company with a front end that can sell."

While the company has shown astounding growth, and while management believes that they are ahead of the competition by as much as eighteen months with the CERfBoard reference platform, competition in this sector is formidable. **Wind River Systems [WIND]** and other firms such as **Microware Systems [MWAR]** make proprietary real time operating systems for embedded applications. WIND is an acknowledged leader in this sector, and with the purchase of its largest competitor, Integrated Systems, Wind River will be a formidable US\$300 million company.

Another behemoth that may provide competition for Intrinsyc is **Red Hat [RHAT]**. The Linux services company's coffers are overflowing with cash from its stellar IPO, and its stock is valuable currency. It acquired embedded systems software specialist Cygnus Solutions in December. Windows CE originator Microsoft must also be mentioned as a competitor, despite the software giant's status as an Intrinsyc partner.

Intrinsyc is a small entry in a sector certain to be of crucial interest as businesses quest for advantages using the Internet in an internetworked economy. The stock is off its February 14 intraday high of \$4.30, but after a pullback to \$3.25, the stock is climbing again, and likely remains a good buy as the market ponders the importance of this growing software segment.

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