

Autonomy (AU.)

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Basics:	Name	Autonomy Corporation	Symbol	AU.	Price (13th February 2008)	
984.50 Pence	Market Capitalisation	£2,097.91m		Current PE Ratio	47.3	Dividend
N/A	Holding: 14.935306 Shares					

AUT provide search solutions, generally for large enterprises under the tag line "the other 80%". The basis of this is that 80% of information in any given institution is either not properly catalogued due to format (like the contents of audio video files as opposed to their meta data) or due to context. Context refers to things like emails and the like where a simple keyword search will tend to throw up incorrect results and miss out important ones. AUT's software is supposed to be able to use algorithms developed at Cambridge university to extract "meaning" from such data and relate it to search terms in a way a keyword search would not.

One of the ways in which this is thought to be important is the Federal Rules of Civil Proceedings (FRCP) which lay down the rules for civil legal proceedings. Rules 26 - 37 lay down the idea that all relevant information should be disclosed to the parties involved before the case (there should be no surprises once it has begun in terms of facts) and a lot of the expense of civil litigation comes from finding out what is relevant from the huge amount of (un-indexed) information large organisations possess. The attraction of AUT's software is that it allows all of the information to be searched and ranked on the same basis.

The subprime crisis is likely to provide custom for AUT because banks are installing their products in response to it; against the trend of banks cutting their IT spending in light of the subprime crisis.

- Why we bought:
- The subprime crisis is causing quick sales
 - Recent software releases look set to become industry standard
 - They own everything from the ground up; the initial consultations, installation, maintenance, after sales care, data management, is all done by them.
 - They own the patents for their technology (it's not licensed from others)
 - Other search based organisations like Google and Microsoft have had trouble getting a real foot in the door when it comes to Enterprise level search solutions.
 - Organisations are starting to realise the potential magnitude of the problems caused by FRCP in a culture where civil litigation is a way of life rather than an exception
 - They have no debt on their books.

Concerns:

- This is the type of stock which gets over-hyped, it is followed by 11 brokers most of which rate it as a buy.
- It is trading on a PE of 50 which is double the sector average of around 25
- Scott's response to this which we were satisfied with was that software has become generally mistrusted and has stagnated, this is one of the few recent stocks with the potential for very large growth which has emerged recently, justifying a very high PE ratio.