

24 April 2008  
Equity Research

## MORNING NOTE

Hold 990.0p  
(Buy)

Target Price: 1076p  
(1125)

Stock Codes: AUTN.L / AU / LN

EPS

Dec 2007 A 38.18¢

Dec 2008 E 55.57¢

Dec 2009 E 67.30¢

Panmure Gordon Estimates

Market Cap: £2116m

Analyst

George O'Connor

george.oconnor@panmure.com

+44 (0)20 7614 8344

### Autonomy

#### Q1 results ahead of expectations

An upbeat set of results, a whisker ahead of our forecasts, with the highlight being cash generation and 12 OEMs signed. Autonomy is not changing guidance – which it admits is “conservative”. However, this will attract attention to the valuation, which despite the very attractive PEG, 0.78x, looks expensive on an earnings basis. Reluctantly we move our recommendation back to Hold and reduce our target price from 1125p to 1076p.

■ **Results overview.** Q1 revenue increasing to US\$105.1m (our forecast was US\$104.9m) from US\$65.5m last year. No disclosure on the results by line of business but we have Zantaz pencilled in at US\$34.5m from nothing a year ago, we assume US\$23.4m from deferred revenue and US\$13.0m from OEM. Adjusted PBT was US\$31.1 in line with our expectations. EPS of €10 - our forecast being €9.8. Good cash generation of US\$25m, up sequentially and year-on-year, left cash at \$95.5m.

■ **Highlights.** We note licence revenue up 21% from Q1 2007, 12 OEMs signed with industry names including Oracle, Symantec, Tumbleweed and Openwave. Average selling price broadly unchanged at US\$380,000 (from US\$385,000) after working in the dilutive effect of Zantaz. Gross margin down from 89% to 84% - similarly due to Zantaz. Repeat business from existing customers accounted for c45% of revenue for the quarter. Receivables, 31 March, were US\$111.8m - US\$110.5m for the prior quarter. Deferred revenue was US\$93.6m at 31 March v. US\$97.9m 31st December

■ **Impact on forecasts.** We are leaving forecasts unchanged at this juncture, ahead of meeting management later this morning. We are currently shy of 2008E consensus estimates with revenue of US\$486 – we are on US\$480m – with consensus EPS at €59 ahead of our €56. We have noted from previous experience and indeed recent reported results, notably EMC, that users take advantage of difficult markets to ‘trade up’ their suppliers, so a short term effect is to create a performance divergence – whereby companies with better market share out-perform smaller peers. Autonomy will benefit from this effect.

■ **Valuation.** In our view shares are range bound in the short term, as new investors are likely to have some difficulty with the valuation. Notwithstanding the attractive PEG, on an earnings basis Autonomy shares are trading on a P/E of 35x, EV/EBITDA 22.8x; while our DCF suggests a valuation of 1157p, the FCF yield is only 2.7%. We flag up that there is a shift in Autonomy’s investor base with the some of the mid cap fund managers being forced sellers (the stock is too big!), with buyers from the larger funds – this may create a short term supply and demand mismatch.

From time to time, we may offer investment banking and other services (IBS) to Autonomy. We buy and sell these securities from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may make a market in the securities of Autonomy.

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## **Distribution of investment ratings for equity research (as of 31 Mar 08)**

Overall Global Distribution (Banking Client*)		
Buy	Hold	Sell
63% (32%)	22% (7%)	15% (0%)

\* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients

## **Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)**

Buy	Expected to produce a total return of 15% or better in the next 12 months
Hold	Fairly valued: total return in the next 12 months expected to be $\pm 10\%$
Sell	Stock is expected to decline by 10% or more in the next 12 months

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*Panmure Gordon (UK) Limited*

Moorgate Hall, 155 Moorgate, London EC2M 6XB  
+44 (0)20 7459 3600

20 Chapel Street, Liverpool, L3 9AG  
+44 (0)151 243 0960

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