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The eDiscoveryJournal Report:

Analyzing HP's Acquisition of Autonomy

By:

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Introduction

On August 18, 2011, H-P agreed to buy U.K. software firm Autonomy Corp. for just over \$10 billion, a multiple of more than 10x Autonomy's estimated revenue for next year. Those kinds of numbers grab attention – and they raise the inevitable scrutiny of all affected by the acquisition: customers, competitors, employees, former employees, and shareholders.

The revenue multiple is newsworthy when compared to similar acquisitions that shook the information management market in the past:

- IBM's purchase of FileNet in 2006. The purchase price of \$1.6 billion was 3.79x FileNet's revenue. FileNet's revenues at the time of acquisition were \$423 million.
- Oracle's purchase of Stellent in 2006. The purchase price of \$440 million was 2.4x Stellent's revenue. Stellent's revenues at the time of acquisition were \$345 million (subtracting the company's \$95 million in liquid assets from its market cap).
- Symantec's purchase of Clearwell Systems in 2011. The purchase price of \$410 million was approximately 8x Clearwell's rumored yearly revenue of \$50 million.

Autonomy's 2010 revenues were \$870 million and in 2011 are forecast to be \$1 billion¹. The 33x earnings multiple that Autonomy got, however, is more in line with the 30x earnings multiple of FileNet at the time of acquisition and is also in line with the trading multiples of other information management companies such as Informatica, Tibco, and Salesforce.com. The premium HP paid for Autonomy is driven by profitability. While other analysts question Autonomy's organic growth numbers due to many acquisitions over the past several years, the fact is that the company has consistently shown gross margins in the high 80% range and operating margins pushing 50%.

The EDJ Quick Take

EDJ is bullish on the acquisition, even with the high premium paid. HP is betting the future of the company on the Autonomy business. With Autonomy in the fold HP is positioned to compete fiercely in the information management space, which HP estimates to be a \$20 billion market. Given that 90% of all information today is unstructured content, having Autonomy's content analytics capabilities will give HP an edge in making sense of organizations' content landfills. The business intelligence (BI) market will expand to include intelligence hidden in unstructured content and kick off new competition amongst the information management vendors to offer added elements of analytics. Going further, HP now has the opportunity to integrate IDOL (unstructured and semi structured data management) with Vertica (structured data management) and ArcSight (security) for holistic information management and protection. Autonomy points out that many BI vendors are already OEM customers, integrating Autonomy's IDOL into their products in order to process unstructured data.

¹ Source: Wall Street Journal. "HP Explores Quitting Computers As Profits Slide." August 19, 2011. <http://online.wsj.com/article/SB10001424053111903596904576516403053718850.html>