

TANGOE INC

Healthy Q1 Results

Healthy Q1 results: Revenue and profitability were both better than consensus, allowing for a slight raise to guidance and notching up yet another “beat and raise quarter”. Management continued to sound positive on the state of affairs and the health of the business as well as end demand. All in, this appears to have been a good quarter consistent with prior quarters and supports the ongoing investment story for the stock. We re-iterate our 1-Overweight rating.

Modest increase to guidance: Full-year guidance was raised in-line with the extent of the Q1 surprise, suggesting management’s outlook for the remaining three quarters is unchanged. However, with the positive commentary around the health of end markets (no macro weakness issues) and the international expansion that should gain traction in coming quarters, we think any surprises favor the upside

Good, consistent quarter overall: Tangoe added 35 new customers in Q1, above the typical 20–30 new customer additions in the past, which is a constructive start to the year and coupled with the increased hiring of the sales force shows good momentum. The ASP was in-line with the historically discussed range (\$150–200k), the contribution mix towards total revenue remained 50% fixed TEM and 40% mobile TEM and the sources of revenue were similar to previous quarters with 25% from partners, 25% from direct sales to existing customers and 50% from new wins.

Re-affirming the investment case: We think these results support Tangoe’s investment case of a structural shift where enterprises are increasingly outsourcing their Telecom Expense Management solution, which remains a largely greenfield opportunity that can sustain the solid c. 25%+ growth on recurring revenue into the medium term.

TNGO: Quarterly and Annual EPS (USD)

	2011		2012		2013		Change y/y		
FY Dec	Actual	Old	New	Cons	Old	New	Cons	2012	2013
Q1	0.05A	0.08E	0.09A	0.08E	N/A	N/A	0.12E	80%	N/A
Q2	0.06A	0.09E	0.09E	0.09E	N/A	N/A	0.14E	50%	N/A
Q3	0.07A	0.12E	0.11E	0.11E	N/A	N/A	0.15E	57%	N/A
Q4	0.08A	0.14E	0.13E	0.14E	N/A	N/A	0.16E	62%	N/A
Year	0.26A	0.43E	0.41E	0.42E	0.59E	0.59E	0.56E	58%	44%
P/E	74.2		47.1			32.7			

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

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Stock Rating	1-OVERWEIGHT Unchanged
Sector View	1-POSITIVE Unchanged
Price Target	USD 26.00 Unchanged

Price (08-May-2012)	USD 19.30
Potential Upside/Downside	+35%
Tickers	TNGO

Market Cap (USD mn)	724
Shares Outstanding (mn)	37.16
Free Float (%)	82.99
52 Wk Avg Daily Volume (mn)	0.3
Dividend Yield (%)	N/A
Return on Equity TTM (%)	-5.09
Current BVPS (USD)	2.92

Source: FactSet Fundamentals

Price Performance	Exchange-Nasdaq
52 Week range	USD 21.74-8.01



Link to Barclays Live for interactive charting

U.S. Software

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COMPANY SNAPSHOT

Tangoe Inc

U.S. Software

Income statement (\$mn)	2011A	2012E	2013E	2014E	CAGR
Revenue	105	144	177	219	27.7%
EBITDA (adj)	13	21	29	44	51.9%
Operating profit (adj)	11	19	26	43	56.4%
Pre-tax income	-2	5	14	30	N/A
Net income (adj)	9	17	25	41	67.3%
EPS (adj) (\$)	0.26	0.41	0.59	0.96	55.1%
Diluted shares (mn)	33	41	42	42	8.6%
DPS (\$)	0.00	0.00	0.00	0.00	N/A

Margin and return data	Average				
EBITDA (adj) margin (%)	12.1	14.4	16.1	20.3	15.7
Adjusted operating margin (%)	10.7	13.2	14.9	19.7	14.6
Pre-tax margin (%)	-2.3	3.6	7.7	13.8	5.7
Net (adj) margin (%)	8.3	12.0	14.2	18.7	13.3
ROIC (%)	5.6	9.2	11.6	15.2	10.4
ROA (%)	6.2	10.2	12.7	16.3	11.4
ROE (%)	9.0	15.5	19.4	24.9	17.2

Balance sheet and cash flow (\$mn)	CAGR				
Net PP&E	3	3	2	2	-17.2%
Goodwill	36	40	34	27	-9.1%
Cash and equivalents	43	52	83	131	44.6%
Total assets	141	168	199	251	21.2%
Short and long-term debt	16	18	18	18	3.8%
Other long-term liabilities	0	0	0	0	N/A
Total liabilities	44	57	69	86	24.9%
Net debt/(funds)	-27	-34	-65	-113	N/A
Shareholders' equity	97	111	130	164	19.4%
Change in working capital	-1	-0	4	8	N/A
Cash flow from operations	10	19	31	50	70.1%
Capital expenditure	-1	-1	-1	-1	N/A
Free cash flow	9	18	30	49	73.6%

Valuation and leverage metrics	Average				
P/E (adj) (x)	74.2	47.1	32.7	20.1	43.5
EV/sales (x)	N/A	N/A	N/A	N/A	N/A
EV/EBITDA (adj) (x)	N/A	N/A	N/A	N/A	N/A
Equity FCF yield (%)	1.4	2.2	3.7	5.9	3.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net debt/EBITDA (adj) (x)	-2.2	-1.6	-2.3	-2.6	-2.2
Total debt/capital (%)	14.4	14.0	12.2	9.9	12.6

Selected operating metrics

License revenue	N/A	N/A	N/A	N/A
Maintenance revenue	N/A	N/A	N/A	N/A
Services revenue	N/A	N/A	N/A	N/A
Deferred revenue (\$mn)	12	13	17	23

Stock Rating	1-OVERWEIGHT
Sector View	1-POSITIVE
Price (08-May-2012)	USD 19.30
Price Target	USD 26.00
Ticker	TNGO

Investment case

Why a 1-Overweight? We like Tangoe's market leading position both in terms of product breadth and the quality of the technology offering. The market itself is still quite under penetrated with Tangoe as the only large independent vendor. There is still plenty of room for growth in acquiring both new customers and further cross selling as the solution represents a compelling ROI for customers.

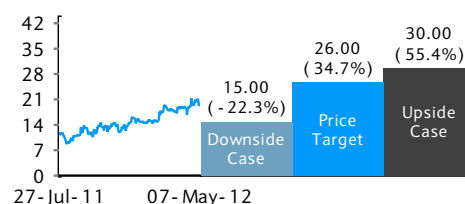
Upside case USD 30.00

Tangoe's growth could accelerate if there is an improvement in economic conditions where customers are willing to purchase more adjacent products/services. Our upside target is based on a 2012 EV/Sales of 8x.

Downside case USD 15.00

Greater competitive pressure from large telecom operators like AT&T or large vendors such as IBM and Accenture could affect Tangoe's ability to win deals and negatively impact the terminal multiple. Our downside target is based on an EV/Sales of 4x.

Upside/downside scenarios



Source: FactSet Fundamentals

Source: Company data, Barclays Research
Note: FY End Dec

Healthy Q1 Results

Tangoe has reported Q1 12 results after market. Total revenue was better than consensus coming in at \$34.1m (53% y/y growth) vs. \$33m. The dollar beat on revenue flowed through the P&L to be better than consensus expectations, with adjusted EBITDA of \$4.1m (58% y/y growth) vs. \$3.7m and adjusted EPS of \$0.09 vs. \$0.08. Figure 1 summarizes this.

Figure 1: Summary of actual results vs. consensus

\$, m	1Q 11	1Q 12	1Q 12	Actual	1Q 12	Actual
	Actual	Actual	Barclays	Barclays	Cons	vs. Cons.
Recurring technology and services	19.9	30.7	29.9	2.7%		
Strategic consulting, licenses	2.4	3.4	3.1	8.3%		
Total Revenue	22.3	34.1	33.0	3.2%	33	3.3%
EBITDA, adjusted	2.6	4.1	3.3	25.9%	3.7	10.8%
% margin	11.5%	11.9%	9.9%		11.2%	
Net income, adjusted	1.4	3.4	2.9	15.3%	2.9	17.2%
EPS, adjusted	0.05	0.09	0.08	19.1%	0.08	12.5%

Source: Barclays Research, Company data, FactSet

Guidance upgraded for better Q1

Full year guidance has been modestly increased for total revenue now in the range of \$142.3–144.3m from \$141.5–143.5m and adjusted EBITDA to \$20.2–20.7m from \$20.0–20.5m. However, the company is now forecasting a higher share count of 41.3m vs. 39.5m previously due to the recent follow-on offering (which was not anticipated at the time of original guidance), and is hence lowering the EPS guidance by 1 cent to \$0.41–0.42 from \$0.42–0.43. Without the increased share count assumption EPS guidance would have increased by \$0.02. Q2 guidance was also provided, with revenue in the range \$35–35.5m vs. consensus \$34.9m, adjusted EBITDA in the range \$4.3–4.5m vs. consensus \$4.5m and adjusted EPS of \$0.09 vs. consensus \$0.09.

Clearly, the full year guidance has been raised in-line with the extent of the Q1 surprise. This suggests management's outlook for the remaining three quarters of the year is unchanged from the previously issued guidance. However, with the positive commentary around the health of end markets (no macro weakness issues) and the international expansion that should gain traction in the coming quarters, we think this leaves any risk of a surprise favoring the upside.

Overall the quarter was said to be just very good and consistent with prior quarters. Tangoe added 35 new customers in Q1, which is above the normal 20–30 additions that the company has historically seen. We also notice that there was a moderate uptick in Sales & Marketing spending, which reflects the increased hiring in quota carrying sales reps and the support staff around those sales people. In our view, this shows ongoing momentum in the business and readiness to capture the still large end market opportunity. The ASP was in-line with the historically discussed range of \$150–200k, the contribution mix towards total revenue remained 50% fixed TEM and 40% mobile TEM and the sources of revenue were

similar to previous quarters with 25% from partners, 25% from direct sales to existing customers and 50% from new wins.

We believe this exemplifies Tangoe's story of being well exposed to a structural shift of enterprises outsourcing their Telecom Expense Management solution, which is still largely a greenfield opportunity and the company should be able to deliver good, consistent results into the medium term.

Estimate changes

We are upgrading our numbers based on the better than expected Q1 results and the improved guidance. While it looks like an EPS downgrade, this is purely due to the higher share count due to the follow-on offering as mentioned above and on a pro forma share count basis, we would actually be increasing our EPS estimate, as reflected by our increased adjusted Net Income forecast.

Figure 2: Summary of estimate changes

\$, m	New	Old	Change	New	Old	Change
	2012E	2012E		2013E	2013E	
Recurring technology and services	130.0	129.4	0.5%	162.6	155.3	4.7%
Strategic consulting, licenses	13.5	13.4	0.8%	14.8	13.8	7.7%
Total Revenue	143.5	142.8	0.5%	177.4	169.1	4.9%
R&D, non-GAAP	15.2	15.6	(2.9)%	18.4	17.4	5.9%
% margin						
Sales & Marketing, non-GAAP	22.2	22.7	(2.3)%	28.9	27.6	4.9%
% margin						
G&A, non-GAAP	21.2	20.5	3.5%	23.4	21.8	7.4%
% margin						
Operating profit, adjusted	18.9	18.6	1.6%	26.5	26.0	1.9%
% margin						
Net income, adjusted	17.2	16.9	1.7%	25.2	23.5	7.5%
EPS, adjusted	0.41	0.43	(2.9)%	0.59	0.59	1.1%

Source: Barclays Research

Figure 3: Tangoe P&L

Fiscal end = Dec USD, m	2010A	2011A	1Q 12	2Q 12E	3Q 12E	4Q 12E	2012E	2013E	2014E
Recurring technology and services	57.7	93.7	30.8	32.0	32.8	34.5	130.0	162.6	201.6
y/y growth	25.4%	62.3%	54.3%	36.0%	34.0%	34.0%	38.8%	25.0%	24.0%
Strategic consulting, licenses	10.8	11.3	3.4	3.0	3.3	3.8	13.5	14.8	17.1
y/y growth	8.7%	4.6%	40.5%	20.0%	15.0%	9.0%	19.7%	10.0%	15.0%
Total revenue	68.5	104.9	34.1	35.0	36.1	38.3	143.5	177.4	218.6
y/y growth	22.5%	53.3%	52.8%	34.4%	32.0%	31.0%	36.8%	23.6%	23.2%
Gross profit, non-GAAP	38.6	55.6	18.6	19.2	20.0	21.2	79.0	99.3	129.2
% margin	56.3%	53.0%	54.5%	54.7%	55.5%	55.4%	55.1%	56.0%	59.1%
Sales and marketing	11.9	15.4	5.2	5.5	5.6	5.9	22.2	28.9	36.7
% margin	17.3%	14.7%	15.2%	15.7%	15.5%	15.4%	15.5%	16.3%	16.8%
General and admin	10.7	15.8	5.8	5.4	5.1	4.9	21.2	23.4	26.2
% margin	15.6%	15.1%	16.9%	15.4%	14.1%	12.8%	14.8%	13.2%	12.0%
Research and development	9.2	11.7	3.6	3.7	4.0	3.9	15.2	18.4	21.9
% margin	13.4%	11.1%	10.5%	10.6%	11.1%	10.1%	10.6%	10.4%	10.0%
Depreciation and amortization	3.5	4.6	1.9	2.0	2.0	2.1	7.9	8.4	7.7
Total operating expenses, non-GAAP	33.0	44.4	14.9	15.0	15.1	15.1	60.1	72.8	86.2
% margin	48.1%	42.3%	43.5%	42.9%	41.9%	39.5%	41.9%	41.0%	39.4%
Operating income, non-GAAP	5.6	11.2	3.8	4.1	4.9	6.1	18.9	26.5	43.0
% margin	8.2%	10.7%	11.0%	11.8%	13.7%	15.9%	13.2%	14.9%	19.7%
Operating income, GAAP	1.4	2.6	0.6	0.9	1.7	2.9	6.1	13.6	30.1
% margin	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted EBITDA	6.9	12.7	4.1	4.6	5.3	6.6	20.7	28.6	44.3
% margin	10.0%	12.1%	11.9%	13.2%	14.8%	17.3%	14.4%	16.1%	20.3%
Total net other income/expense	(2.9)	(5.0)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)	0.1	0.1
Profit before tax, non-GAAP	2.7	8.2	3.5	3.9	4.7	5.9	18.0	26.5	43.1
Tax, non-GAAP	0.3	0.5	0.2	0.2	0.2	0.3	0.9	1.3	2.2
Effective tax rate, %	10.7%	6.5%	4.4%	5.0%	5.0%	5.0%	4.9%	5.0%	5.0%
Net loss, GAAP	(1.8)	(3.0)	0.2	0.5	1.3	2.4	4.3	12.4	28.1
Net income, non-GAAP	3.4	8.7	3.4	3.7	4.5	5.6	17.2	25.2	40.9
Shares diluted	4.4	33.2	39.0	41.7	42.0	42.5	41.3	42.5	42.5
EPS diluted, non-GAAP	0.12	0.26	0.09	0.09	0.11	0.13	0.41	0.59	0.96
y/y growth		120.8%	81.0%	49.5%	48.5%	67.3%	60.5%	43.3%	62.2%

Source: Barclays Research, Company data

Figure 4: Tangoe Balance Sheet

Fiscal end = Dec USD, m	2010A	2011A	1Q 12	2Q 12E	3Q 12E	4Q 12E	2012E	2013E	2014E
Current assets									
Cash and cash equivalents	5.9	43.4	37.9	43.0	45.4	52.3	52.3	82.7	131.3
Accounts receivable	14.3	25.3	26.6	27.3	30.6	32.6	32.6	40.8	50.3
Total current assets	21.6	71.2	67.8	73.7	79.4	88.3	88.3	126.9	185.0
Non-current assets									
PP&E	1.8	3.3	3.5	3.3	3.1	2.9	2.9	1.9	1.9
Intangible assets	15.8	28.8	34.5	34.5	34.5	34.5	34.5	34.5	34.5
Goodwill	17.6	36.3	44.7	43.1	41.5	40.0	40.0	33.6	27.3
Total non-current assets	37.1	69.6	84.7	82.9	81.1	79.3	79.3	72.0	65.6
Total assets	58.7	140.9	152.5	156.6	160.5	167.6	167.6	198.9	250.6
Current liabilities									
Accounts payable	3.3	6.6	8.6	8.8	7.9	8.4	8.4	10.6	13.1
Deferred revenue	8.3	9.1	9.5	10.2	11.2	10.9	10.9	14.7	20.8
Notes payable	6.3	7.9	13.2	13.2	13.2	13.2	13.2	13.2	13.2
Total current liabilities	21.3	31.7	39.9	41.8	42.9	45.9	45.9	58.3	75.5
Non-current liabilities									
Deferred revenue	1.8	2.6	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Notes payable	11.8	8.3	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Total non-current liabilities	18.0	12.6	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Total liabilities	39.3	44.3	50.7	52.6	53.7	56.7	56.7	69.1	86.3
Shareholders' equity									
Additional paid-in capital	7.3	142.9	147.9	149.5	151.2	152.8	152.8	159.3	165.8
Retained earnings	(51.6)	(56.8)	(56.6)	(56.1)	(54.8)	(52.5)	(52.5)	(40.1)	(12.0)
Total shareholders' equity	19.4	96.6	101.9	104.0	106.9	110.9	110.9	129.7	164.3
Total liabilities and equity	58.7	140.9	152.5	156.6	160.5	167.6	167.6	198.9	250.6

Source: Barclays Research, Company data

Figure 5: Tangoe Cash Flow

Fiscal end = Dec USD, m	2010A	2011A	1Q 12	2Q 12E	3Q 12E	4Q 12E	2012E	2013E	2014E
Net income	(1.8)	(3.0)	0.2	0.5	1.3	2.4	4.3	12.4	28.1
Depreciation and amortization	3.5	4.6	1.9	1.8	1.8	1.9	7.4	8.4	7.7
Stock based compensation	1.9	4.0	1.6	1.6	1.6	1.6	6.5	6.5	6.5
Change in OWC:	(1.2)	(0.7)	(0.4)	1.2	(2.2)	1.1	(0.4)	4.2	7.7
Accounts receivable	(3.0)	(4.4)	0.2	(0.8)	(3.3)	(1.9)	(5.8)	(8.2)	(9.5)
Accounts payable	0.2	(0.2)	0.9	0.2	(0.8)	0.5	0.8	2.2	2.5
Deferred revenue	2.3	1.2	(0.4)	0.8	1.0	(0.4)	1.0	3.9	6.1
Cash from operating activities	3.4	10.1	3.5	5.3	2.6	7.2	18.6	31.4	49.9
Purchase of PP&E	(0.4)	(0.9)	(0.4)	(0.2)	(0.2)	(0.2)	(1.1)	(1.1)	(1.3)
Cash from investing activities	(0.4)	(23.0)	(9.0)	(0.2)	(0.2)	(0.2)	(9.7)	(1.1)	(1.3)
Repayments of debt	(8.6)	(38.0)	(1.5)	0.0	0.0	0.0	(1.5)	0.0	0.0
Borrowings of debt	5.5	20.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
IPO/common stock issuance	0.0	67.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash from financing activities	(3.3)	50.4	(0.1)	0.0	0.0	0.0	(0.1)	0.0	0.0
Change in cash	(0.3)	37.5	(5.6)	5.1	2.4	6.9	8.9	30.4	48.6
FX impact	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in cash	(0.3)	37.5	(5.5)	5.1	2.4	6.9	8.9	30.4	48.6

Source: Barclays Research, Company data

ANALYST(S) CERTIFICATION(S)

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Primary Stocks (Ticker, Date, Price)

Tango Inc (TNGO, 08-May-2012, USD 19.30), 1-Overweight/1-Positive

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Our coverage analysts use a relative rating system in which they rate stocks as 1-Overweight, 2-Equal Weight or 3-Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry sector (the "sector coverage universe").

In addition to the stock rating, we provide sector views which rate the outlook for the sector coverage universe as 1-Positive, 2-Neutral or 3-Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

1-Overweight - The stock is expected to outperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

2-Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the sector coverage universe over a 12-month investment horizon.

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Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "sector coverage universe":

U.S. Software

Ariba, Inc. (ARBA)	Autodesk Inc. (ADSK)	Citrix Systems (CTXS)
Cornerstone OnDemand Inc. (CSOD)	DealerTrack Holdings (TRAK)	Ellie Mae Inc. (ELLI)
Informatica Corp. (INFA)	Intuit Inc. (INTU)	LogMeIn, Inc. (LOGM)
Microsoft Corp. (MSFT)	NetSuite Inc. (N)	Oracle Corp. (ORCL)
Parametric Technology (PMTCT)	Qlik Tech (QLIK)	Salesforce.com Inc. (CRM)
SAP AG (SAP)	Symantec Corp. (SYMC)	Tango Inc (TNGO)
Teradata Corp. (TDC)	TIBCO Software (TIBX)	VMware Inc. (VMW)

IMPORTANT DISCLOSURES CONTINUED

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IMPORTANT DISCLOSURES CONTINUED

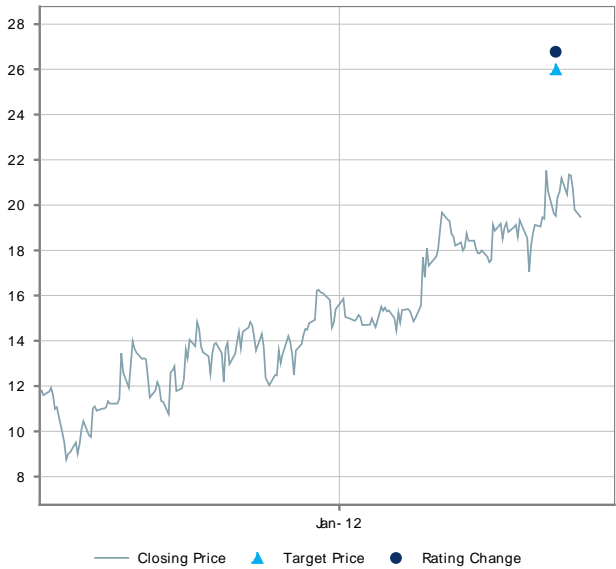
Tango Inc (TNGO)
USD 19.30 (08-May-2012)

Stock Rating
1-OVERWEIGHT

Sector View
1-POSITIVE

Rating and Price Target Chart - USD (as of 08-May-2012)

Currency=USD



Date	Closing Price	Rating	Price Target
24-Apr-2012	19.53	1-Overweight	26.00

[Link to Barclays Live for interactive charting](#)

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Valuation Methodology: Our price target of \$26 is based on a 2012 EV/Sales of 6.5x and revenue of \$143m

Risks which May Impede the Achievement of the Barclays Research Price Target: Tango could face increasing competition from telecom operators such as AT&T, especially where they have a large installed base. In addition, if IBM focused its considerable resources on the TEM market via its acquisition of Emptoris/Rivermine this could be another issue. Tango has also been very acquisitive in its past, and thus needs to integrate its wide range of products. This poses execution risk since a failure to integrate products properly and loss of functionality could create reputational damage.

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