

November 9, 2011

Software Bytes

TECHNOLOGY/ENTERPRISE SOFTWARE

SUMMARY

- **TNGO: Dancin' To A Solid Quarter; Raising PT to \$16**
- **ADBE: Realigns Business Once Again...Plans to Shed 7.5% of Workforce and Shift Model**
- **Mozilla Firefox Now Supports Amazon's Kindle Cloud Reader; Internet Explorer Support Coming Soon?**

KEY POINTS

TNGO: Dancin' To A Solid Quarter; Raising PT to \$16

We are raising our PT to \$16 from \$14 on the heels of a solid 3Q11, led by healthy recurring revenue growth (+68% Y/Y) and solid customer wins. The company continues to gain share of worldwide fixed/mobile communications spend (now manages ~\$15.3B of the ~\$425B CLM market) and we believe Tango can deliver double-digit EPS/revenue growth through a variety of drivers (e.g., greenfield opportunities, penetrate spend at existing customers, international expansion, drive leverage in the model, deepen alliances) for the foreseeable future. With the HCL/Telwares acquisitions in the rear-view mirror, we expect TNGO to continue its M&A strategy to acquire customers, geography, or technology. Given these solid fundamentals and an attractive valuation (4.1x CY12E recurring rev.), we remain buyers.

ADBE: Realigns Business Once Again...Plans to Shed 7.5% of Workforce and Shift Model

Adobe announced plans to realign its business around its Digital Media and Digital Marketing solutions and to shift more of its business from perpetual-license deals to recurring-revenue via its subscription-offering. As part of the restructuring, ADBE intends on eliminating 750 full-time employees (~10% > than its last round of head-count reductions in 11/09) and stepping-up its investments in these two digital areas.

Mozilla Firefox Now Supports Amazon's Kindle Cloud Reader; Internet Explorer Support Coming Soon?

Yesterday, **Amazon** disclosed its Kindle Cloud Reader was now available on Mozilla Firefox. The company's HTML5 based webapp, called Cloud Reader, is a web based e-book reader, which enables users to read Kindle books instantly in their browsers and across devices.

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Today's Quote:

"If you want to make an apple pie from scratch, you must first create the universe." - Dr. Carl Sagan, born this day in 1934.

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TNGO: Dancin' To A Solid Quarter; Raising PT to \$16

We are raising our PT to \$16 from \$14 on the heels of a solid 3Q11, led by healthy recurring revenue growth (+68% Y/Y) and solid customer wins. The company continues to gain share of worldwide fixed/mobile communications spend (now manages ~\$15.3B of the ~\$425B CLM market), and we believe Tango can deliver double-digit EPS/revenue growth through a variety of drivers (e.g., greenfield opportunities, penetrate spend at existing customers, international expansion, drive leverage in the model, deepen alliances) for the foreseeable future. With the HCL/Telwares acquisitions in the rear-view mirror, we expect TNGO to continue its M&A strategy to acquire customers, geography, or technology. Given these solid fundamentals and an attractive valuation (4.1x CY12E recurring rev.), we remain buyers.

Delivers a solid 3Q. TNGO posted 3Q11 EPS/rev. of \$0.07/\$27.3M, vs. our estimates of \$0.06/\$26.5M. The healthy results were led by strong subscription rev. growth (up 68% Y/Y to \$24.5M) and solid uptake across TEM/MDM products. We are particularly impressed with at least ~25-30% organic rev. growth and 83% adjusted EBITDA growth Y/Y to \$3.3M.

Big win at IBM. Tangoe closed a multi-year, multi-million dollar engagement at IBM during the quarter. While we don't expect rev. until FY12, this deal is another signal the company is able to up/cross-sell its installed base. Separately, TNGO added 25 new customers during 3Q11 (same as in 2Q11).

Expect more acquisitions. TNGO acquired five companies in the past four years to obtain technology, customers, and extend its geographic reach. These acquisitions enabled TNGO to develop and up/cross-sell a holistic CLM (communications lifecycle management) suite to a larger installed base. Going forward, we expect TNGO to engage in additional tuck-in acquisitions to scale along these three axes.

Adjusting estimates. We now expect FY11E and FY12E EPS/rev. of \$0.25/\$103.6M and \$0.39/\$121.3M, from \$0.25/\$102.0M and \$0.38/\$117.9M, respectively.

Valuation attractive. At ~\$14, TNGO trades at 4.1x CY12E recurring rev. vs. peers at 4.9x. Given the company's growth prospects, solid revenue visibility, and leverage in the model, we believe it should trade more in line with peers.

ADBE: Realigns Business Once Again...Plans to Shed 7.5% of Workforce and Shift Model

After the bell yesterday, Adobe announced its plans to realign its business around its Digital Media and Digital Marketing solutions and to shift more of its business from perpetual license deals to recurring revenue via its subscription offering. As part of the restructuring, the company intends on eliminating 750 full-time employees (roughly 10% more than its last round of head-count reductions in 11/09) and materially stepping up its investments in these two digital areas. The company also highlighted that in order to drive sales and bookings in its digital marketing solutions, it plans on cutting its investments and license sales from certain enterprise solution product lines. Adobe management stated the impact from these changes will likely reduce FY12 revenue growth by approximately 4-5%. We note Adobe now expects FY12 revenue growth of 4-6%, below our and Street forecasts of roughly 9%. Looking ahead, management believes it can accelerate revenue growth to double-digits in FY13 and beyond.

Along with these changes, we expect Adobe to ramp its spend on its HTML5 efforts, focus on enhancing its digital publishing solutions, invest in its media monetization initiatives, try to bring innovation to its Creative Suite and step up its leadership position in document services. The net result of these actions and increased investments is margins are likely flat in FY12. Thus, while valuation appears inexpensive and we believe Adobe's decision to focus on these two large growth areas and shift its business to a more predictable model could pay off over time, given these efforts will likely take time to come to fruition, its healthy exposure to Europe and limited margin expansion on the horizon, we remain on the sidelines.

4Q11 tracking well. Although there are still four weeks remaining in the quarter, we believe ADBE is

on track to at least meet our estimates of \$0.59 on revenue of \$1091.5 million. Despite the macro uncertainty, management reaffirmed its 4Q guidance of \$0.57-0.64 on revenue of \$1075.0-1125.0.

Better aligning resources. Due to Adobe's plans to realign its resources around Digital Media and Digital Marketing, it plans to cut 750 full-time positions, which is anticipated to cost the company \$87-94M in pre-tax restructuring costs.

Estimates unchanged for now. We are leaving our estimates unchanged until we gain additional insight into ADBE's restructuring and re-alignment plans.

Valuation. At ~\$28 in after hours trading, ADBE trades at ~11x our FY12E EPS versus its large-cap peers at ~12.5x. While we don't anticipate material multiple expansion any time soon, we believe downside is relatively limited.

Mozilla Firefox Now Supports Amazon's Kindle Cloud Reader; Internet Explorer Support Coming Soon?

Yesterday, **Amazon** disclosed its Kindle Cloud Reader was now available on Mozilla Firefox. The company's HTML5 based webapp, called Cloud Reader, is a web based e-book reader, which enables users to read Kindle books instantly in their browsers and across devices. With this latest announcement, we note Amazon's Kindle webapp is now available on **Google's** Chrome browser, **Apple's** Safari browser and now Mozilla's Firefox browser. We believe **Microsoft's** Internet Explorer will also likely support Amazon's webapp shortly, thus providing Amazon with coverage of most browsers.

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Stock prices of other companies mentioned in this report (as of 11/8/2011):

International Business Machines (IBM-NYSE, \$187.25, NR)

Price Target Calculation

TNGO: We arrive at our \$16 price target for Tangoe by applying a 4.7x multiple to our FY12E recurring revenue of \$109.7M. We note the software-as-a-service peer group has historically traded at 5-7x next-12-months' recurring revenue. Admittedly, Tangoe is not yet a pure SaaS-only shop (its MDM product is delivered via a dedicated hosted or as an on-premise solution but is expected to migrate to SaaS architecture by end of next year). We contend that since TNGO's CLM solution is based on a deep technological foundation, the "stickiness" of its installed base, the recurring nature of its revenue (strong renewal rates, subscriptions model), its robust growth rates (40% five-year CAGR), market leadership position in an open-ended opportunity, and the sizable leverage in its model, Tangoe should trade roughly in line with its peers, which leads us to our \$16 price target.

Key Risks to Price Target

TNGO: There are several risks to our investment thesis, including the sluggish pace of IT spending, which may cause deals to be delayed and/or downsized; the company's failing to successfully integrate an acquisition; CLM demand not materializing as expected; loss of a material customer; increased competition from vendors with larger resources and scale; and the possibility that the company will be unable to execute on its growth initiatives. Any of these risks, as well as others unforeseen, could prevent the stock from attaining our price target.

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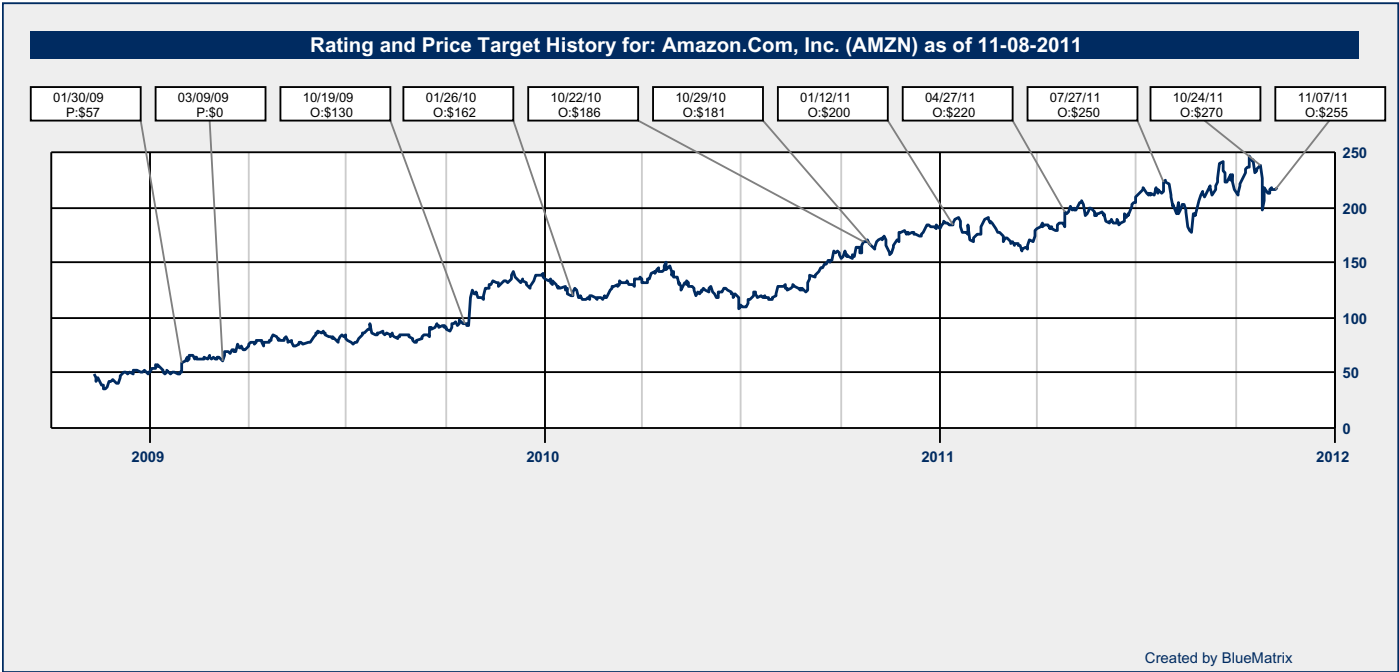
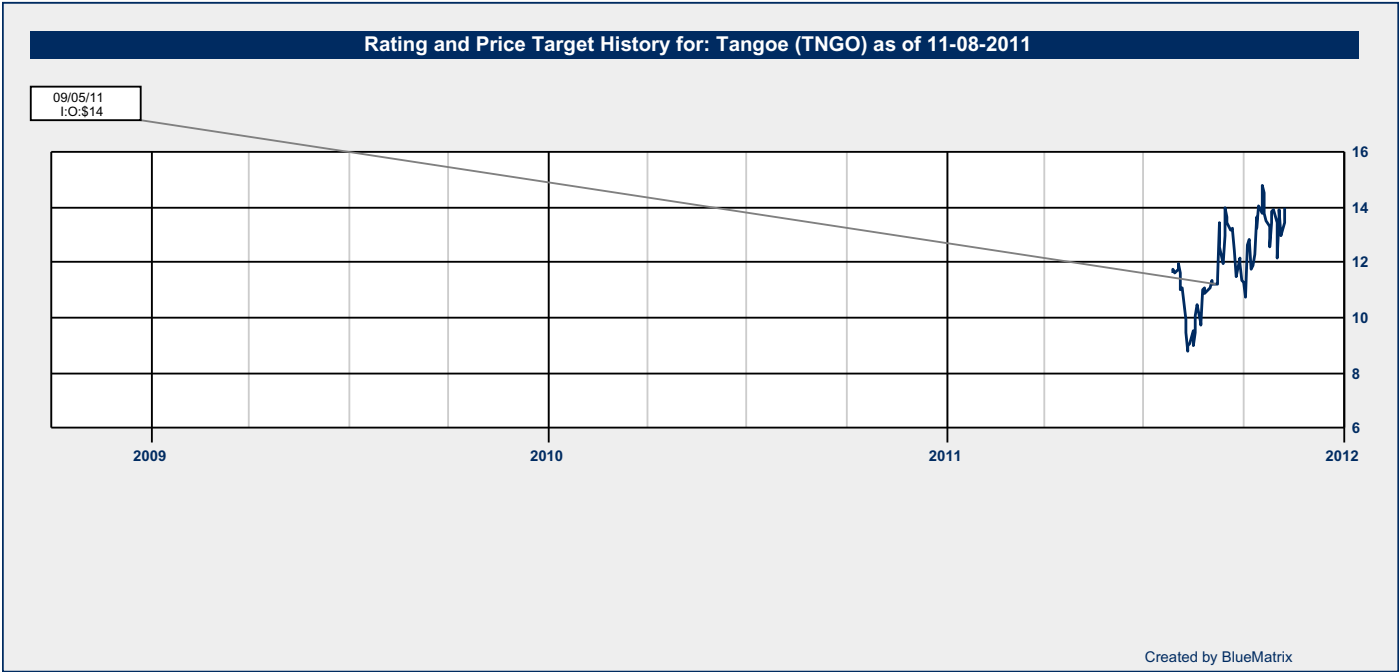
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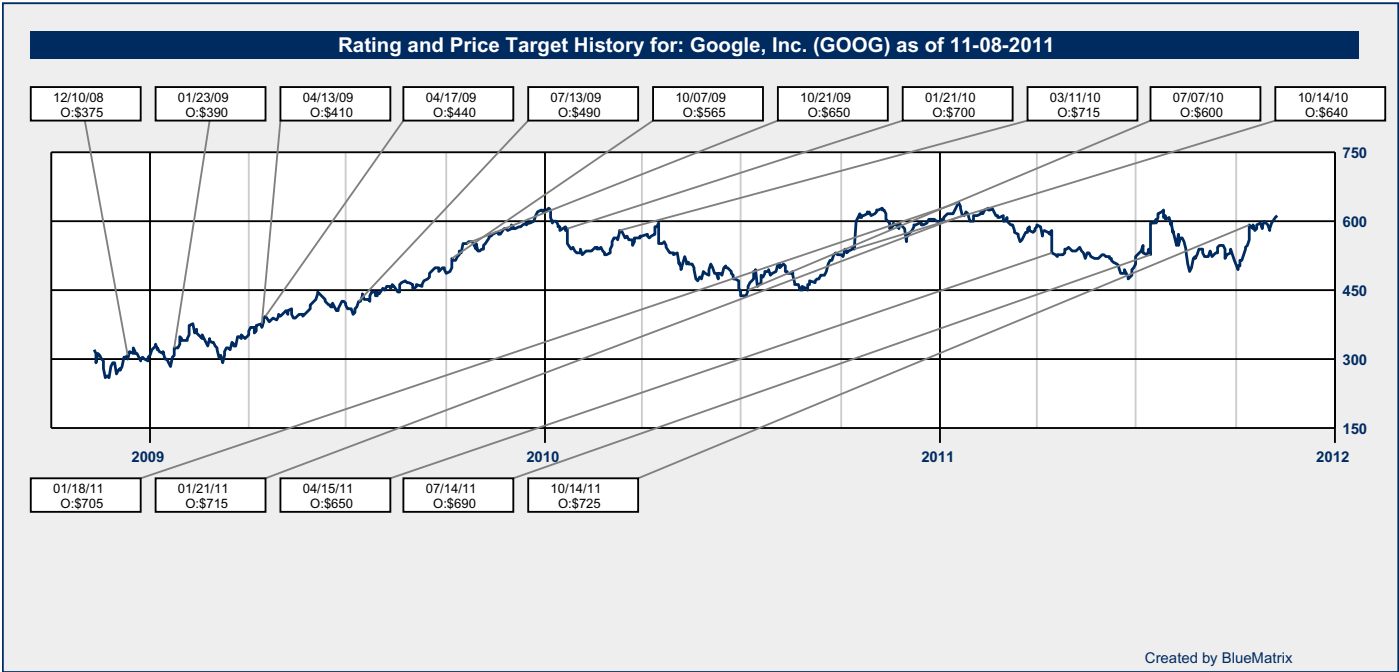
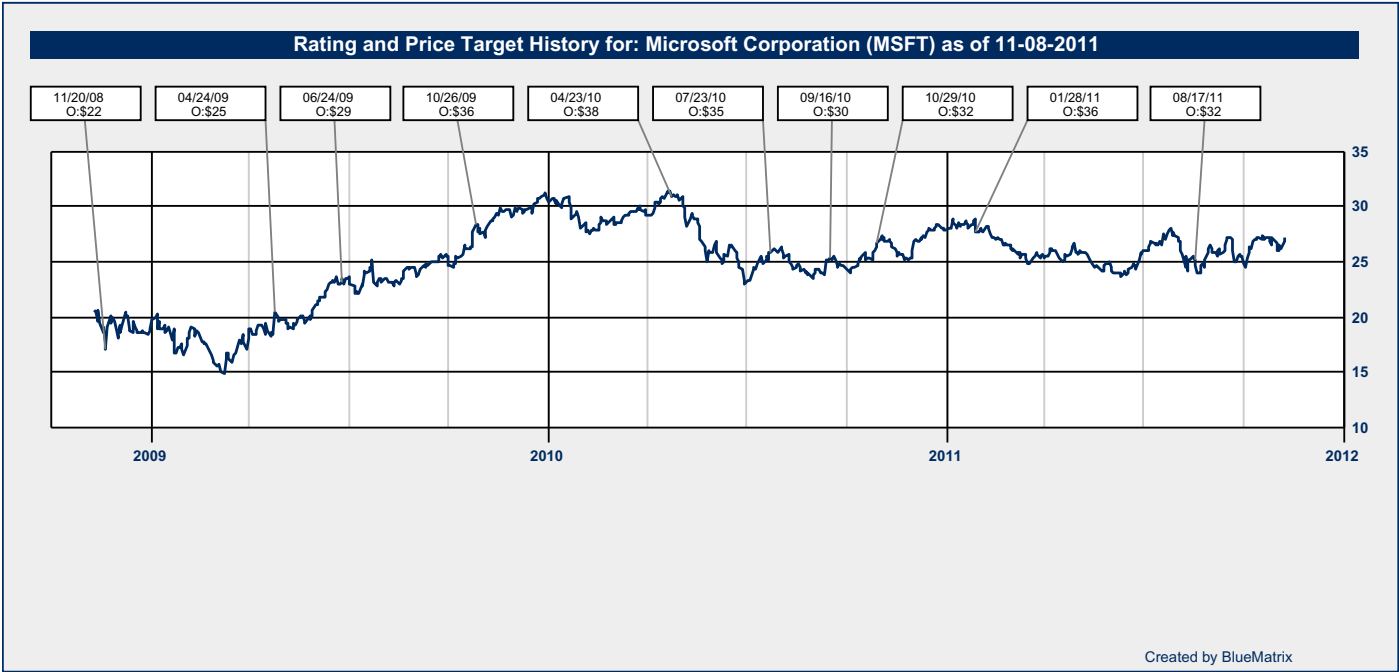
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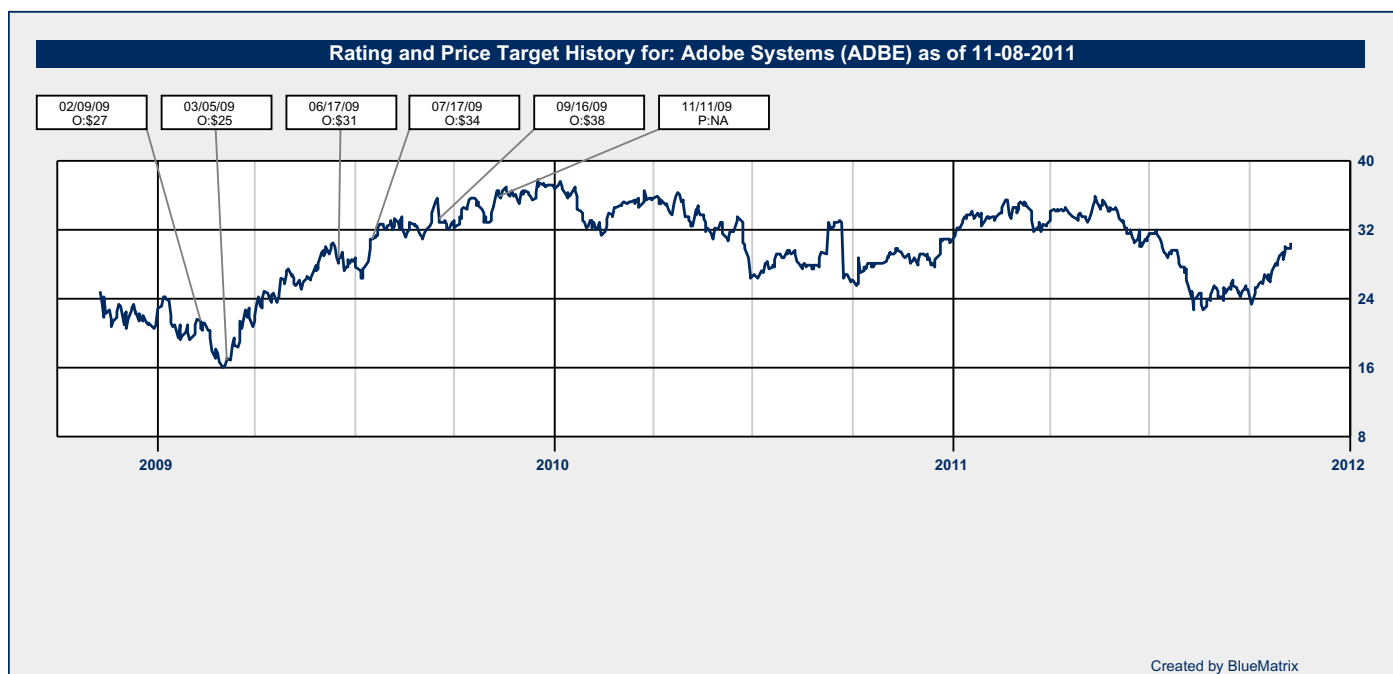
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Stock Prices as of November 9, 2011

Tangoe (TNGO - Nasdaq, 13.97, OUTPERFORM)
 Amazon.Com, Inc. (AMZN - Nasdaq, 217.99, OUTPERFORM)
 Microsoft Corporation (MSFT - Nasdaq, 27.16, OUTPERFORM)
 Google, Inc. (GOOG - Nasdaq, 612.34, OUTPERFORM)
 Adobe Systems (ADBE - Nasdaq, 30.42, PERFORM)







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Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
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UNDERPERFORM [U]	9	1.50		3	33.33

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