

December 20, 2011

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$17.00
TNGO - NASDAQ \$14.93

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$15.79-\$8.01
Shares Outstanding 33.0M
Float 20.0M
Market Capitalization \$492.1M
Avg. Daily Trading Volume 119,360
Dividend/Div Yield \$0.00/0.00%
Fiscal Year Ends Dec
Book Value \$2.67
2011E ROE NA
LT Debt \$7.3M
Preferred NA
Common Equity \$94M
Convertible Available No

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2010A	--	--	--	--	0.79	18.9x
2011E	0.05A	0.06A	0.07A	0.07	0.25	59.7x
2012E	0.09	0.10	0.10	0.11	0.40	37.3x
Prior (E)	--	0.09	--	--	0.39	38.3x

Trading range as of 7/27/11 IPO.

TECHNOLOGY/ENTERPRISE SOFTWARE

Tangoe

ProfitLine Acquisition Bolsters CLM Capabilities

SUMMARY

AHs, TNGO announced its purchase of ProfitLine for roughly \$23.5 million in cash. The privately-held, California-based, ProfitLine is one of the biggest pure play communication lifecycle management (CLM) vendors in the space. We view this as a solid acquisition for TNGO, as it simultaneously takes out a healthy competitor and provides both plenty of up-sell/cross-sell opportunities for Tangoe and an entry into the federal-vertical (25% of ProfitLine's business is government). Additionally, as we believe one of TNGO's core competencies is M&A, we expect it to successfully migrate ProfitLine's customers to its platform and realize operational synergies in 2012. Given the accretive nature of the transaction and its ability to bolster growth, we are raising our price-target to \$17 from \$16.

KEY POINTS

- **Consolidating the space.** We estimate TNGO is paying an attractive 1.7x our CY12 revenue forecast to purchase one of the next largest independent players in the CLM market. We view this as a solid use of cash and a cost effective way to take out a competitor and acquire blue-chip customers.
- **Plenty of revenue synergies on the horizon.** We believe ProfitLine's roughly 50 customers represent a lucrative cross-sell/up-sell opportunity. As most of these customers are only using ProfitLine's solutions domestically and utilizing only either its fixed or MDM solutions, we believe TNGO can use its global reach and broad portfolio to significantly penetrate this install base.
- **Should open up the Federal door.** We feel the transaction will also provide TNGO with domain expertise and access to strategic relationships (HP) to help it finally break into the government vertical.
- **Adjusting estimates.** We now expect FY11E and FY12E EPS/revenue of \$0.25/\$104.0M and \$0.40/\$135.5M, up from \$0.25/\$103.6M and \$0.39/\$121.3M, respectively.
- **Valuation attractive.** At ~\$15, TNGO trades at 4.1x CY12E recurring revenue vs. peers at ~5x. Given the company's growth prospects, solid revenue visibility, and leverage in the model, we believe it should trade more in line with peers.

Stock Price Performance

Company Description

Tangoe is a leading provider of communications lifecycle management (CLM) software and services, specifically designed to cover the entire lifecycle of an enterprise's communications assets, from initial procurement, through invoicing, to decommissioning and disposal.

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Changes to our Estimates

We've adjusted our model following TNGO's acquisition of ProfitLine. We have increased our CY11E revenue forecast by \$400K to \$104.0 million but left our EPS unchanged at \$0.25. For FY12, we have increased our revenue forecast by \$14.2 million to \$135.5 million to account for the contribution of ProfitLine. Although we believe ProfitLine will be slightly dilutive to TNGO's gross margins in 2012, we expect TNGO to achieve operational synergies (elimination of redundant positions) and for the deal to be modestly accretive next year. Thus, we have increased our 2012 EPS by a penny to \$0.40. For a closer view of our other changes, please see the exhibit below:

Estimate Revisions

(\$ in millions, except EPS)	4Q11E			FY11E			FY12E		
	New	Previous	Variance ¹	New	Previous	Variance ¹	New	Previous	Variance ¹
Revenue and EPS									
Total Revenue	\$28.3	\$27.9	\$0.4	\$104.0	\$103.6	\$0.4	\$135.5	\$121.3	\$14.2
<i>Y/Y Growth</i>	51.3%	49.2%	1.4%	51.8%	51.2%	0.4%	30.4%	17.1%	10.5%
Recurring Revenue	\$25.4	\$25.0	\$0.4	\$93.3	\$92.9	\$0.4	\$124.0	\$109.7	\$14.2
<i>Y/Y Growth</i>	58.7%	56.2%	1.6%	61.6%	60.9%	0.4%	32.9%	18.2%	11.5%
Consulting & Other	\$2.9	\$2.9	\$0.0	\$10.7	\$10.7	\$0.0	\$11.6	\$11.6	\$0.0
<i>Y/Y Growth</i>	7.2%	7.2%	0.0%	(0.7%)	(0.7%)	0.0%	8.2%	8.2%	0.0%
Non-GAAP EPS	\$0.07	\$0.07	\$0.00	\$0.25	\$0.25	\$0.00	\$0.40	\$0.39	\$0.01
<i>Y/Y Growth</i>	N/A	N/A	0.2%	0.0%	0.0%	0.0%	60.1%	55.8%	2.7%
Adjusted EBITDA	\$3.5	\$3.3	\$0.2	\$12.5	\$12.3	\$0.2	\$20.6	\$18.5	\$2.1
<i>Y/Y Growth</i>	78.8%	69.3%	5.3%	82.0%	79.2%	1.5%	65.2%	50.6%	10.2%
Cash Flow									
Cash From Operations	\$3.2	\$3.4	(\$0.2)	\$8.5	\$8.7	(\$0.2)	\$19.0	\$18.8	\$0.2
<i>Y/Y Growth</i>	N/A	N/A	(6.4%)	149.5%	155.5%	(2.4%)	123.6%	116.2%	1.0%
FFO Per Share	\$0.08	\$0.09	(\$0.01)	\$0.26	\$0.26	(\$0.01)	\$0.48	\$0.47	\$0.00
<i>Y/Y Growth</i>	0.0%	0.0%	(6.4%)	(66.9%)	(66.1%)	(2.4%)	86.8%	80.5%	1.0%
Free Cash Flow	\$2.7	\$2.9	(\$0.2)	\$7.5	\$7.7	(\$0.2)	\$17.2	\$16.6	\$0.6
<i>Y/Y Growth</i>	N/A	N/A	(7.2%)	147.6%	154.0%	(2.6%)	128.9%	115.7%	3.3%
FCF Per Share	\$0.07	\$0.07	(\$0.01)	\$0.23	\$0.23	(\$0.01)	\$0.43	\$0.42	\$0.01
<i>Y/Y Growth</i>	0.0%	0.0%	(7.2%)	(67.2%)	(66.3%)	(2.6%)	91.2%	80.2%	3.3%
Margins									
Gross Margin (Non-GAAP)	52.8%	53.0%	(0.2%)	53.0%	53.0%	(0.1%)	56.5%	56.6%	(0.1%)
Operating Margin (Non-GAAP)	10.9%	10.4%	0.6%	10.6%	10.5%	0.2%	14.1%	13.7%	0.4%

Source: Oppenheimer & Co. Inc.

¹ variance column figures do not refer to y/y growth but variance %.

Stock prices of other companies mentioned (as of 12/19/2011):

Hewlett-Packard (HPQ-NYSE, \$25.13, NR)

TNGO Income Statement

(In millions), except EPS	FY 2009	FY 2010	Mar 11	Jun 11	Sept 11	Dec 11E	FY 2011E	Mar 12E	Jun 12E	Sept 12E	Dec 12E	FY 2012E
Revenues												
Recurring revenue	46.0	57.7	19.9	23.5	24.5	25.4	93.3	29.4	30.4	31.5	32.6	124.0
Consulting & other	9.9	10.8	2.4	2.5	2.9	2.9	10.7	2.9	2.9	2.9	2.9	11.6
Total Revenue	55.9	68.5	22.3	26.0	27.3	28.3	104.0	32.3	33.3	34.4	35.5	135.5
Cost of revenue (Non-GAAP)	24.8	29.9	10.2	12.5	12.9	13.3	48.9	14.2	14.6	15.0	15.3	59.0
Total gross profit (Non-GAAP)	31.1	38.6	12.2	13.6	14.4	14.9	55.1	18.2	18.8	19.4	20.2	76.6
Adjusted Operating expenses												
S&M (Non-GAAP)	9.6	11.9	3.5	3.8	3.9	4.3	15.5	5.1	5.3	5.4	5.6	21.4
G&A (Non-GAAP)	9.2	10.7	3.3	3.9	4.2	3.6	15.0	4.4	4.5	4.6	4.7	18.1
R&D (Non-GAAP)	8.0	9.2	2.8	2.8	3.0	3.5	12.1	4.0	4.0	4.1	4.2	16.4
D&A	3.5	3.5	1.0	1.1	1.2	1.3	4.6	1.3	1.3	1.3	1.4	5.2
Amortization of intangibles	(2.3)	(2.4)	(0.7)	(0.8)	(0.9)	(0.8)	(3.2)	(0.9)	(0.9)	(0.9)	(1.0)	(3.7)
Total operating expenses (Non-GAAP)	28.0	32.8	9.9	10.8	11.4	11.8	44.0	13.9	14.2	14.5	14.9	57.5
Income (Loss) from operations (Non-GAAP)	3.1	5.8	2.3	2.7	3.0	3.1	11.1	4.3	4.6	4.9	5.3	19.1
Other income (expense), net												
Interest income (expense) and other, net (Non-GAAP)	(2.2)	(2.0)	(0.7)	(0.8)	(0.4)	(0.3)	(2.1)	(0.5)	(0.5)	(0.5)	(0.6)	(2.1)
Income (Loss) before taxes (Non-GAAP)	1.0	3.8	1.6	2.0	2.6	2.8	9.0	3.8	4.1	4.4	4.7	17.0
Income tax (benefit) Provision (Non-GAAP)	0.3	0.3	0.1	0.2	0.1	0.2	0.6	0.2	0.3	0.3	0.3	1.085
Net Income (Loss) (Non-GAAP)	0.7	3.5	1.5	1.8	2.5	2.6	8.4	3.6	3.8	4.1	4.4	15.9
EPS (Non-GAAP)	0.16		0.05	0.06	0.07	0.07	0.25	0.09	0.10	0.10	0.11	0.40
Diluted Shares Outstanding (Non-GAAP)	4.3	4.4	29.3	29.9	35.1	38.5	33.2	39.0	39.5	40.0	40.5	39.8
Adjusted EBITDA	4.4	6.9	2.6	3.1	3.3	3.5	12.5	4.7	5.0	5.3	5.7	20.6

Margin Analysis												
Recurring revenue as % of revenue	82.3%	84.3%	89.2%	90.3%	89.5%	89.8%	89.7%	91.1%	91.3%	91.6%	91.8%	91.5%
Consulting & other as % of revenue	17.7%	15.7%	10.8%	9.7%	10.5%	10.2%	10.3%	8.9%	8.7%	8.4%	8.2%	8.5%
Cost of revenue as % of revenue (Non-GAAP)	44.3%	43.7%	45.6%	47.9%	47.2%	47.2%	47.0%	43.8%	43.7%	43.5%	43.1%	43.5%
Gross Margin (Non-GAAP)	55.7%	56.3%	54.4%	52.1%	52.8%	52.8%	53.0%	56.2%	56.3%	56.5%	56.9%	56.5%
S&M as % of revenue (Non-GAAP)	17.1%	17.3%	15.8%	14.4%	14.3%	15.3%	14.9%	15.8%	15.8%	15.8%	15.8%	15.8%
G&A as % of revenue (Non-GAAP)	16.5%	15.6%	14.6%	15.1%	15.4%	12.7%	14.4%	12.6%	12.6%	12.5%	12.3%	13.4%
R&D as % of revenue (Non-GAAP)	14.3%	13.4%	12.6%	10.7%	10.9%	12.3%	11.6%	12.3%	12.1%	12.0%	11.9%	12.1%
Total Stock comp as % of revenue (Non-GAAP)	-1.3%	-2.8%	-3.7%	-3.6%	-3.3%	-3.3%	-2.6%	-4.0%	-4.0%	-4.5%	-4.5%	0.0%
Amortization of intang. as % of revenue (Non-GAAP)	-4.1%	-3.6%	-3.2%	-2.9%	-3.3%	-2.9%	-3.1%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%
Operating Margin (Non-GAAP)	5.6%	8.4%	10.1%	10.5%	10.9%	10.9%	10.6%	13.3%	13.7%	14.2%	15.0%	14.1%
Interest income (expense) and other, net as % of revenue	-4.2%	-4.2%	-5.3%	-8.6%	-5.1%	-0.4%	-4.8%	0.0%	0.0%	0.0%	-0.2%	-0.1%
EBT Margin (Non-GAAP)	1.7%	5.5%	7.1%	7.5%	9.6%	9.9%	8.6%	11.7%	12.2%	12.8%	13.3%	12.5%
Tax rate (non GAAP)	27.5%	7.8%	7.9%	9.2%	3.4%	7.0%	6.6%	6.4%	6.4%	6.4%	6.4%	6.4%
Net income Margin (Non-GAAP)	1.2%	5.1%	6.6%	6.8%	9.2%	9.2%	8.1%	11.0%	11.4%	11.9%	12.4%	11.7%
EBITDA Margin (Non-GAAP)	11.9%	13.6%	14.6%	14.8%	15.5%	15.4%	15.1%	17.3%	17.6%	18.0%	18.8%	17.9%
Adjusted EBITDA Margin	7.8%	10.0%	11.4%	11.9%	12.2%	12.5%	12.0%	14.6%	14.9%	15.3%	16.1%	15.2%

Y/Y Growth Analysis												
Recurring revenue	65.3%	25.4%	50.3%	69.2%	67.9%	58.7%	61.6%	47.7%	29.4%	28.8%	28.5%	32.9%
Consulting & other	2.3%	8.7%	-10.4%	-9.8%	11.2%	7.2%	-0.7%	19.7%	14.0%	1.4%	0.3%	8.2%
Total Revenue	49.0%	22.5%	40.0%	55.9%	59.4%	51.3%	51.8%	44.7%	27.9%	25.9%	25.6%	30.4%
Cost of revenue as % of revenue (Non-GAAP)	39.9%	20.6%	44.4%	71.3%	71.3%	65.9%	63.5%	39.1%	16.7%	16.1%	14.7%	20.6%
Gross Profit (Non-GAAP)	57.1%	23.9%	36.6%	44.0%	50.0%	40.3%	42.8%	49.4%	38.3%	34.7%	35.4%	39.0%
S&M (Non-GAAP)	24.6%	23.8%	29.5%	27.3%	33.1%	33.0%	30.8%	44.9%	40.2%	39.1%	29.7%	38.1%
G&A (Non-GAAP)	23.9%	15.8%	31.0%	53.0%	64.1%	17.7%	40.5%	34.0%	14.6%	9.1%	30.0%	20.9%
R&D (Non-GAAP)	37.4%	14.9%	25.9%	22.7%	29.8%	47.0%	31.5%	40.9%	44.5%	38.6%	21.5%	35.6%
Operating Profit (Non-GAAP)	-252.4%	84.2%	89.1%	101.5%	93.7%	83.2%	91.5%	90.6%	67.1%	63.9%	71.6%	72.3%
Total operating expenses (Non-GAAP)	28.0%	17.1%	28.5%	34.3%	41.7%	32.2%	34.2%	40.0%	31.0%	27.1%	25.9%	30.6%
EBT (Non-GAAP)	-130.2%	295.5%	142.3%	137.2%	156.7%	116.6%	136.3%	137.4%	107.5%	68.1%	68.6%	89.2%
EPS (Non-GAAP)	-120.4%	-100.0%	139.8%	119.5%	119.9%			81.3%	61.6%	43.0%	61.3%	60.1%
Adjusted EBITDA	-490.4%	57.6%	76.1%	89.9%	83.0%	78.8%	82.0%	84.6%	60.5%	58.7%	61.3%	65.2%

Source: Company Reports and Oppenheimer & Co. Inc. estimates

Investment Thesis

- A leading provider of communications lifecycle management (CLM) solutions
- Largest player in a multi-billion-dollar market that continues to grow
- Appears well positioned to sustain double-digit revenue and EPS growth
- Multiple growth drivers (greenfield marketplace, acquire new customers/penetrate existing accounts, international expansion, form additional strategic alliances, engage in additional acquisitions)
- Leverage in the model

Price Target Calculation

We arrive at our \$17 price target for Tangoe by applying a 4.6x multiple to our FY12E recurring revenue of \$124.0M. We note the SaaS 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 \$17 price target.

Key Risks to Price Target

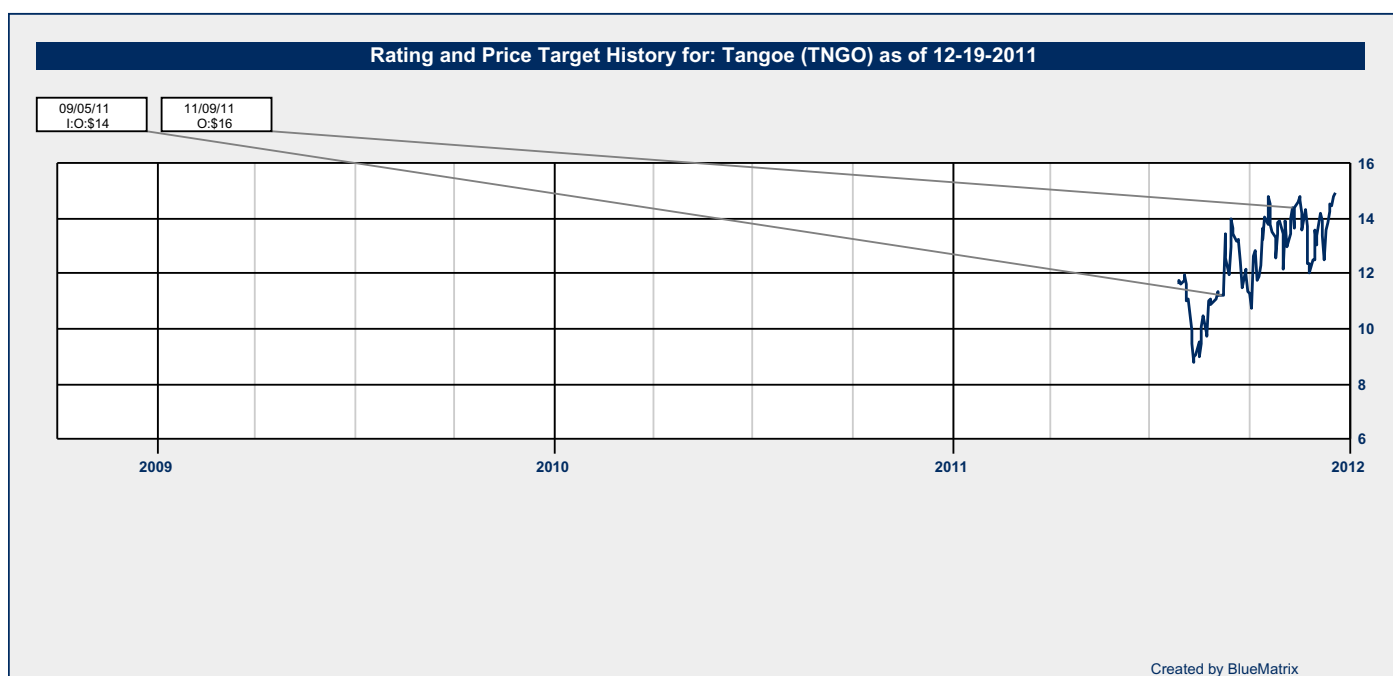
There are several risks to our investment thesis, including the sluggish pace of IT spending, which may cause deals to be delayed and/or downsized; the company's failing to successfully integrate an acquisition; CLM demand not materializing as expected; loss of a material customer; increased competition 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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Distribution of Ratings/IB Services Firmwide

Rating	Count	IB Serv/Past 12 Mos.		Count	Percent
		Percent	Count		
OUTPERFORM [O]	335	56.30	143	42.69	
PERFORM [P]	254	42.70	85	33.46	
UNDERPERFORM [U]	6	1.00	3	50.00	

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Oppenheimer & Co. Inc. makes a market in the securities of TNGO.

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