

North America United States

TMT Application Software

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COMPANY ALERT**Tangoe, Inc.****IBM to acquire Emptoris; net positive for Tangoe****Breaking News****Buy**

Reuters:TNGO.OQ Exchange:NMS Ticker:TNGO

Price (USD)	14.53
Price target	18.00
52-week range	14.83 - 8.75
Market cap (USD)	471.3
Shares outstanding (m)	32.4
Free float (%)	100
Volume (14 Dec 2011)	217,800
S&P 500 INDEX	1,211.82

FYE 12/31	2010A	2011E	2012E
1Q EPS	0.02	0.02A	0.06
2Q EPS	0.01	0.03A	0.06
3Q EPS	0.02	0.05	0.06
4Q EPS	0.01	0.04	0.06
FY EPS (USD)	0.06	0.14	0.24
P/E (x)	–	100.6	59.8

* Includes the impact of FAS123R requiring the expensing of stock options.

IBM (Buy, USD188.72) this morning announced that it is acquiring Emptoris, a provider of on-demand supply chain software. We note that Rivermine, a smaller telecom expense management (TEM) competitor of Tangoe, was recently acquired by Emptoris. We believe the Emptoris acquisition is focused on IBM's efforts to beef up its software business. IBM's relationship with Tangoe is on the consulting (Global Services) side of the business and we therefore don't see the Rivermine segment as directly competitive or disruptive to the IBM partner relationship.

As a byproduct of the IBM-Emptoris deal, we also see the possibility of Tangoe being able to acquire the Rivermine customer base, in case IBM decides to focus purely on the supply chain assets of Emptoris.

Reiterate Buy and \$18 PT

Our \$18 price target is based on a CY13 uFCF/share estimate of \$0.48, an EV/uFCF/G multiple of 1.1x (slight premium to the peer group given market leadership), and an estimated five-year growth rate, net of dilution, of 30%. Risks include execution risk from integrating acquisitions, delayed profitability from new projects not ramping fast enough and customers taking expense processing in-house after early gains from Tangoe's platform.

Tom Ernst Jr

Research Analyst
() 800 592-0290
thomas.ernst@db.com

Nandan Amladi

Research Analyst
(+1) 212 250-4570
nandan.amladi@db.com

Deutsche Bank Securities Inc.

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