

20 December 2011

# Tangoe, Inc.

Reuters: **TNGO.OQ** Bloomberg: **TNGO US** Exchange: **NMS** Ticker: **TNGO**

## Tangoe acquires Profitline

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### Tangoe acquires Profitline

Tangoe announced the acquisition of Profitline, for \$23.5m, ~1.6x CY12 rev. This is its 3rd acquisition this year, after acquiring HCL's TEM business and Telwares early in 2011. The acquisition will bring ~\$14m-\$15m in 2012 revenues. Tangoe expects slight accretion as customers are migrated gradually to its platform over the next 12-18 months. With a good track record of integrating acquisitions, we think this move will improve Tangoe's scale, mainly with the addition of key government agencies as customers. We reiterate our Buy rating and \$18 PT

### Consolidation Opportunity Ripe and Unique to Tangoe

It appears Profitline sold out at a time when its sizable customer base of about 50 was losing business competitively to Tangoe. As has been Tangoe's practice, we will likely see many of the approximately 100 employees become integrated early in the process, with customers gradually migrating to Tangoe's platform over the next four to six quarters. Customers include Starbucks, BASF, NASA, DoD and the US Postal Service, with about \$5m in annual revenue from the government sector, where Tangoe hasn't historically had much presence. Two other private competitors of roughly the same scale as Profitline-Rivermine and Symphony - now remain. Recall IBM acquired Emptoris last week, which owns Rivermine. With IBM already a top partner of Tangoe, we wouldn't be surprised to see the Rivermine assets carved off, which could be a net positive for Tangoe, the only natural consolidator in the market.

### 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, 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.

### Forecasts and ratios

Year End Dec 31	2010A	2011E	2012E
FY EPS (USD)	0.13	<b>0.26</b>	0.39
EV/EBITDA (x)	–	<b>36.3</b>	29.4
Revenue (USDm)	68.5	<b>103.8</b>	137.0
EV/Sales (x)	–	<b>4.3</b>	4.0
EV/FCF (x)	0.0	<b>54.9</b>	34.5

Source: Deutsche Bank estimates, company data

## Company Update

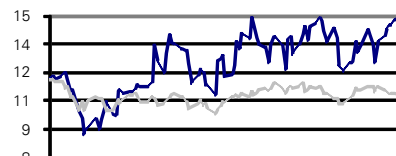
### Buy

Price at 19 Dec 2011 (USD)	<b>14.93</b>
Price target	<b>18.00</b>
52-week range	<b>14.93 - 8.75</b>

### Key changes

EPS (USD)	0.25 to 0.26	↑	<b>1.8%</b>
Revenue (USDm)	103.4 to 103.8	↑	<b>0.4%</b>

### Price/price relative

7/11  
— Tangoe, Inc.  
— S&P 500 INDEX (Rebased)

Performance (%)	1m	3m	12m
Absolute	9.9	13.1	–
S&P 500 INDEX	-0.8	0.1	-3.1

### Stock & option liquidity data

Market cap (USDm)	484.2
Shares outstanding (m)	32.4
Free float (%)	100
Volume (19 Dec 2011)	24,791
Option volume (und. shrs., 1M avg.)	–

Deutsche Bank Securities Inc.

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Model updated: 20 December 2011

## Running the numbers

## North America

## United States

## Application Software

## Tangoe, Inc.

Reuters: TNGO.OQ

Bloomberg: TNGO US

## Buy

Price (19 Dec 11) USD 14.93

Target price USD 18.00

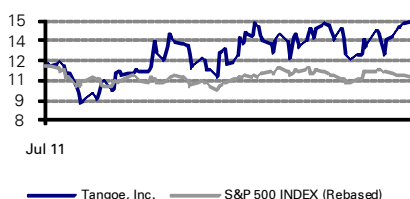
52-week Range USD 8.75 - 14.93

Market Cap (m) USDm 484  
EURm 369

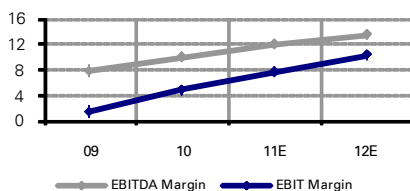
## Company Profile

Tangoe, Inc. provides on-demand communications lifecycle management (CLM) software and related services to enterprises, including large and medium-sized businesses and other organizations. The company's on-demand software and related services enable enterprises to manage and optimize the processes and expenses associated with the lifecycle of an enterprise's fixed and mobile communications assets and services. Tangoe, Inc. was founded in 2000.

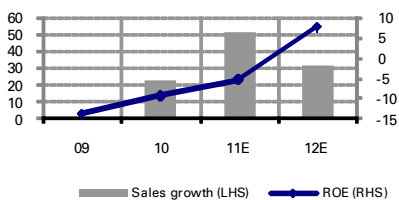
## Price Performance



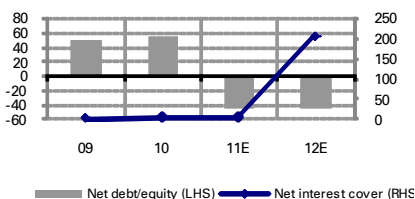
## Margin Trends



## Growth &amp; Profitability



## Solvency



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Fiscal year end 31-Dec

## Financial Summary

	2009	2010	2011E	2012E
DB EPS (USD)	-0.11	0.06	0.15	0.24
Reported EPS (USD)	-0.11	-0.06	-0.08	0.17
DPS (USD)	0.00	0.00	0.00	0.00
BVPS (USD)	0.80	0.71	2.50	2.29

## Valuation Metrics

Price/Sales (x)	nm	nm	4.7	4.2
P/E (DB) (x)	nm	na	100.1	62.1
P/E (Reported) (x)	nm	nm	nm	88.1
P/BV (x)	0.0	0.0	6.0	6.5
FCF yield (%)	na	na	1.7	2.7
Dividend yield (%)	na	na	0.0	0.0
EV/Sales	nm	nm	4.3	4.0
EV/EBITDA	nm	nm	36.3	29.4
EV/EBIT	nm	nm	56.1	38.4

## Income Statement (USDm)

Sales	56	68	104	137
EBITDA	4	7	12	18
EBIT	1	3	8	14
Pre-tax profit	-2	-1	3	8
Net income	-3	-2	-3	7

## Cash Flow (USDm)

Cash flow from operations	2	3	9	17
Net Capex	-1	0	-1	-2
Free cash flow	2	3	8	16
Equity raised/(bought back)	-1	-3	-18	-4
Dividends paid	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0
Other investing/financing cash flows	-1	0	47	-5
Net cash flow	0	0	37	7
Change in working capital	0	-1	-2	-1

## Balance Sheet (USDm)

Cash and cash equivalents	6	6	41	48
Property, plant & equipment	2	2	3	3
Goodwill	18	18	23	23
Other assets	31	33	48	53
Total assets	56	59	115	127
Debt	15	17	5	7
Other liabilities	22	23	28	31
Total liabilities	38	39	34	38
Total shareholders' equity	19	19	81	89
Net debt	9	11	-36	-41

## Key Company Metrics

Sales growth (%)	nm	22.5	51.6	32.0
DB EPS growth (%)	na	na	157.9	61.2
Payout ratio (%)	nm	nm	nm	0.0
EBITDA Margin (%)	7.8	10.0	11.9	13.5
EBIT Margin (%)	1.5	4.9	7.7	10.3
ROE (%)	-13.8	-9.2	-5.4	7.8
Net debt/equity (%)	49.6	55.4	-44.0	-45.7
Net interest cover (x)	0.3	1.7	4.2	204.4

## DuPont Analysis

EBIT margin (%)	1.5	4.9	7.7	10.3
x Asset turnover (x)	1.0	1.2	1.2	1.1
x Financial cost ratio (x)	-1.9	0.4	0.8	1.0
x Tax and other effects (x)	1.7	-1.3	-0.4	0.5
= ROA (post tax) (%)	-4.6	-3.1	-3.1	5.5
x Financial leverage (x)	3.0	3.0	1.7	1.4
= ROE (%)	-13.8	-9.2	-5.4	7.8
annual growth (%)	na	32.9	41.3	na
x NTA/share (avg) (x)	0.8	0.7	1.6	2.2
= Reported EPS	-0.11	-0.06	-0.08	0.17
annual growth (%)	na	41.5	-31.0	na

Source: Company data, Deutsche Bank estimates

# Tangoe acquires Profitline

## Tangoe acquires Profitline

Tangoe announced the acquisition of smaller private competitor Profitline, for \$23.5m, about 1.6x CY12 revenue. This is Tangoe's third consolidative move this year, after acquiring HCL's TEM business and Telwars early in 2011. The acquisition will bring about \$14m-\$15m in 2012 revenues and the company expects slight accretion as customers are migrated gradually to Tangoe's platform over the next 12-18 months. With a good track record of integrating acquisitions, we see this move as further improving Tangoe's scale, particularly with the addition of key government agencies as customers. We reiterate our Buy rating and \$18 PT.

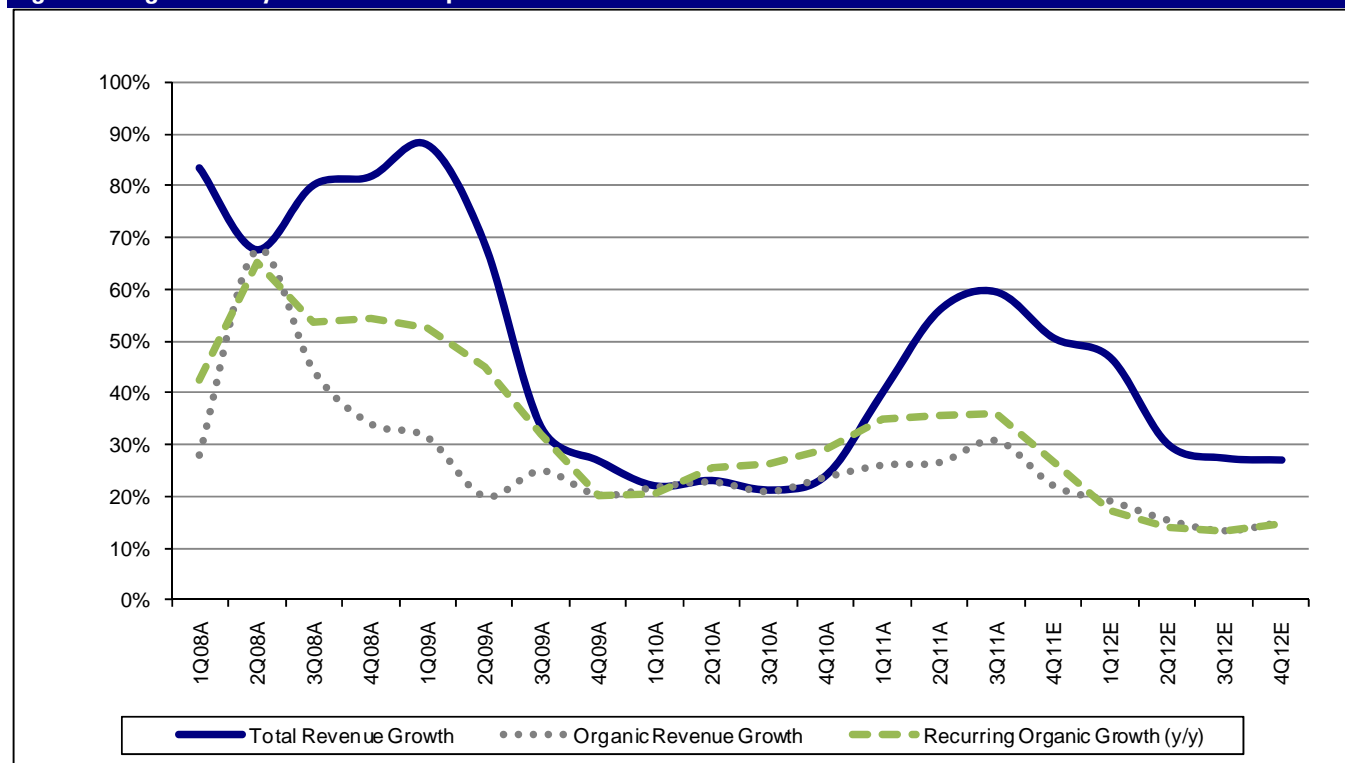
**Figure 1: Estimate Changes**

	Revenues		EPS		uFCF/Share	
	Old	New	Old	New	Old	New
<b>4Q11E</b>	\$27.7	\$28.1	\$0.07	\$0.07	\$0.08	0.08
<b>1Q12E</b>	\$29.0	\$32.8	\$0.09	\$0.09	\$0.06	\$0.06
<b>2011E</b>	\$103.4	\$103.8	\$0.25	\$0.25	\$0.28	\$0.28
<b>2012E</b>	\$122.0	\$137.0	\$0.39	\$0.39	\$0.40	\$0.40

Source: Deutsche Bank

## Consolidation Opportunity Ripe and Unique to Tangoe

It appears Profitline sold out at a time when its sizable customer base of about 50 was losing business competitively to Tangoe. As has been Tangoe's practice, we will likely see many of the approximately 100 employees become integrated early in the process, with customers gradually migrating to Tangoe's platform over the next four to six quarters. Customers include Starbucks, BASF, NASA, DoD and the US Postal Service, with about \$5m in annual revenue from the government sector, where Tangoe hasn't historically had much presence. Two other private competitors of roughly the same scale as Profitline-Rivermine and Symphony - now remain. Recall IBM acquired Emptoris last week, which owns Rivermine. With IBM already a top partner of Tangoe, we wouldn't be surprised to see the Rivermine assets carved off, which could be a net positive for Tangoe, the only natural consolidator in the market.

**Figure 2: Organic analysis – current expectations could be conservative**

Source: Deutsche Bank

### 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, 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.

**Figure 3: EV/uFCF/G sensitivity**

Source: Deutsche Bank

Figure 4: Income Statement



Source: Deutsche Bank

Figure 5: Balance Sheet

Source: Deutsche Bank

Figure 6: Cash Flow Statement

Source: Deutsche Bank

# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Tangoe, Inc.	TNGO.OQ	14.93 (USD) 19 Dec 11	1,2,7

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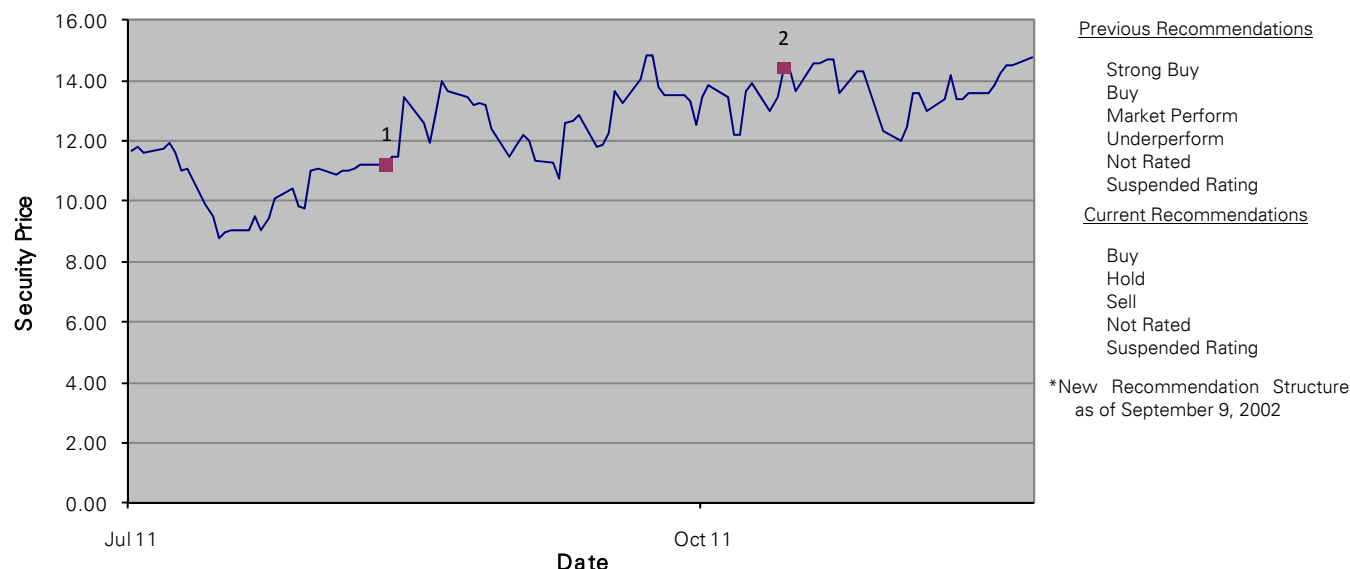
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**Historical recommendations and target price: Tangoe, Inc. (TNGO.OQ)**

(as of 12/19/2011)



1. 9/6/2011: Buy, Target Price Change USD17.00

2. 11/9/2011: Buy, Target Price Change USD18.00

**Equity rating key****Equity rating dispersion and banking relationships**

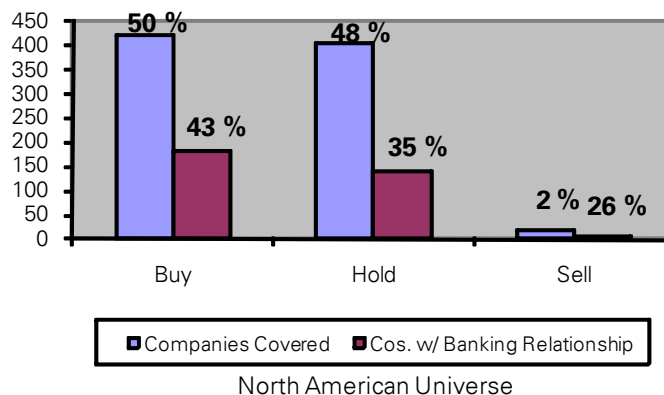
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**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

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