

TeleNav, Inc.

F2Q11 Preview: Still in Transition

We expect TNAV to report in-line results, providing more granularity regarding Sprint's fixed fee payments, which will make modeling easier. However, TNAV is still in transition, and we expect the difficult period with declining ARPU to continue at least through year-end. While we think TNAV is attractively valued, competitive threats (especially Android handsets) still weigh on sentiment, the business model remains uncertain, and the customer concentration risk remains a concern. We are maintaining our December 2011 price target of \$7.50 and our Neutral rating.

- **TNAV reports F2Q11 results on January 27.** The conference call will begin at 5pm ET; dial-in 888-208-1361.
- **We expect TNAV to report F2Q11 PF EPS of \$0.17 on \$45.9mm in revenue** (Street: \$0.17/\$46.2mm). We expect total subscription/fixed fee revenue of \$43.5mm and gross margin of 79%, down from 82.7% at F1Q11. We will be looking for metrics indicating that in-dash navigation is becoming material, and for evidence that mobile advertising volumes, click-through & drive-to rates are all improving.
- **Still in transition.** Post Sprint contract renegotiation, TNAV model has been in flux, so we will be looking for additional metrics on the call to formulate precise subscription, fixed fee, and advertising revenue forecasts. The fixed fee associated with Sprint will be possible to isolate this quarter because the new contract will apply for the entire quarter. We should therefore be in a better position to determine the ARPU trend associated with MRC, premium services and other revenues. It should also be possible to project gross margins with a bit more certainty.
- **We expect F3Q11 guidance to be aligned with our estimates, and for additional metrics to be provided.** We look for F3Q PF EPS of \$0.15 on \$45.2mm in revenue (Street: \$0.15/\$46.1mm). We expect gross margin to dip further to 76%; continued decline.

Neutral

TNAV, TNAV US

Price: \$7.34

Price Target: \$7.50

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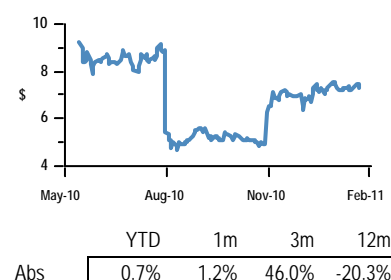
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Price Performance



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TeleNav, Inc. (TNAV;TNAV US)

	2010E	2011E	2012E
EPS - Recurring (\$)			
Q1 (Sep)	0.22A	0.29A	0.12
Q2 (Dec)	0.28A	0.17	0.11
Q3 (Mar)	0.34A	0.15	0.10
Q4 (Jun)	0.31A	0.12	0.10
FY	1.15A	0.72	0.43
CY	1.12	0.49	0.41
EBITDA CY (\$ mn)	83	47	44
Revenues FY (\$ mn)	171A	187	184

Source: Company data, Bloomberg, J.P. Morgan estimates.

GAAP EPS estimates: FY09A=\$1.02; FY10A=\$1.06; FY11: 1QA=\$0.27, 2QE=\$0.16, 3QE=\$0.13, 4QE=\$0.10;

FY11E=\$0.67;

FY12: 1QE=\$0.10, 2QE=\$0.09, 3QE=\$0.08, 4QE=\$0.08; FY12E=\$0.35

Company Data

Price (\$)	7.34
Date Of Price	24 Jan 11
52-week Range (\$)	11.48 - 4.65
Mkt Cap (\$ mn)	279.12
Fiscal Year End	Jun
Shares O/S (mn)	38
Price Target (\$)	7.50
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **Maintain Neutral**, meaning that we expect the stock to perform in line with the mean of our coverage universe in the next 6-12 months. The stock is still undervalued, in our view, but we believe TNAV will not outperform until we get better clarity on the business model, improved metrics relating to the growth of premium and ad-based navigation services, and better visibility into re-accelerating revenue and earnings growth. Our December 2011 price target of \$7.50 reflects our view of the risks in this stock.

Valuation and Rating Analysis

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Our December 2011 price target of \$7.50 is based on an assigned multiple of 5x CY12E PF EBITDA of \$47.4mn. Our multiple is based on the communication software/services peer group current median multiple of ~7x, but with a discount that takes into consideration significant shifts in the competitive landscape (Android gaining market share in handsets, TomTom gaining share in autos).

Risks to Our Rating and Price Target

We could become more constructive on TNAV's prospects for any of the following reasons:

- TeleNav experiences faster subscriber growth than we anticipate
- Telenav wins new customer contracts that spur subscriber growth
- New applications and features allow TNAV to stabilize or increase ARPUs and gross margins.
- Telenav's growth initiatives, including MRM, Ad-based navigation/mcommerce, Auto OEM solutions, accelerate ahead of expectations.
- "Free" navigation solutions providers, such as Nokia or Google, exit the market or reduce their commitment
- TNAV reduces expenses relative to our expectations without compromising growth prospects, leading to higher margins than we anticipate.

We could become less constructive on TNAV's prospects for any of the following reasons:

- Sprint terminates the relationship with TNAV or renegotiates terms that reduce revenues to TNAV, relative to our expectations
- AT&T, T-Mobile or other TNAV customers do not roll over contracts with TNAV, or reduce pricing.
- Free navigation from Google, Nokia and Microsoft captures market share owing to the handsets on which these solutions are pre-provisioned.
- TeleNav's ARPUs and gross margins fall faster than we have anticipated
- Subscriber growth falls short of our expectations.
- International growth, especially at China Mobile, does not happen.
- The company allows expenses to run up faster than we have forecast, leading to lower operating and EBITDA margins than we estimate.

TeleNav, Inc.: Summary Of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E	Income Statement - Quarterly	1Q11A	2Q11E	3Q11E	4Q11E
Revenues	171	187	184	213	Revenues	51	46	45	45
Cost of products sold	29	41	52	69	Cost of products sold	9	10	11	12
Gross profit	142	146	133	144	Gross profit	42	36	34	33
SG&A	32	37	37	39	SG&A	8	9	10	10
R&D	42	58	69	81	R&D	13	15	15	16
Stock based comp.	5	4	6	7	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	51	27	24	Operating Income	21	12	10	8
EBITDA	78	63	46	45	EBITDA	24	15	13	11
Other income / (expense)	(0)	0	0	0	Other income / (expense)	0	0	0	0
Pre-tax income	68	52	28	26	Pre-tax income	21	12	10	8
Income taxes	27	21	11	10	Income taxes	9	5	4	3
Net income - GAAP	41	30	16	15	Net income - GAAP	12	7	6	5
Net income PF	45	33	20	19	Net income PF	13	8	7	6
Diluted shares outstanding	39	46	47	48	Diluted shares outstanding	45	46	46	46
EPS - GAAP	1.06	0.67	0.35	0.32	EPS - GAAP	0.27	0.16	0.13	0.10
EPS PF	1.15	0.72	0.43	0.41	EPS PF	0.29	0.17	0.15	0.12
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	179	203	222	Sales growth	54.4%	9.3%	(1.5%)	15.7%
Accounts receivable	37	34	36	42	EBIT growth	72.1%	(25.4%)	(40.8%)	(3.6%)
Inventories	0	0	0	0	EPS growth	11.0%	(37.2%)	(41.0%)	(4.8%)
Other current assets	5	7	7	7	Gross margin	82.8%	78.1%	72.0%	67.7%
Current assets	155	223	249	273	EBIT margin	43.0%	29.4%	17.7%	14.7%
PP&E	10	8	6	8	EBITDA margin	45.9%	33.5%	24.9%	21.3%
Long-term portfolio investments	-	-	-	-	Tax rate	39.1%	41.0%	41.0%	41.0%
Goodwill and intangibles	-	-	-	-	Net margin	26.2%	17.7%	10.9%	9.1%
Total assets	175	239	263	288	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	3	3	4	5	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	7	28	28	28	Return on assets (ROA)	36.4%	16.0%	8.0%	7.1%
Total debt	0	0	0	0	Return on equity (ROE)	58.9%	19.9%	10.3%	9.0%
Total liabilities	26	55	57	61	Return on invested capital (ROIC)	77.4%	62.1%	45.3%	40.0%
Shareholders' equity	149	183	206	228	Enterprise value / Sales	1.3	0.8	0.7	0.5
Net Income (including charges)	41	30	16	14	Enterprise value / EBITDA	-	-	-	-
D&A	5	8	13	14	Free cash flow yield	11.1%	17.0%	6.0%	4.5%
Change in Working Capital	(7)	32	(0)	(2)	P/E	6.9	11.0	21.0	23.2
Other	-	-	-	-					
Cash flow from operations	44	75	35	34					
Capex	(7)	(8)	(11)	(15)					
Free cash flow	37	67	24	18					
Cash flow from investing activities	(10)	(89)	(11)	(15)					
Cash flow from financing activities	45	0	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Jun

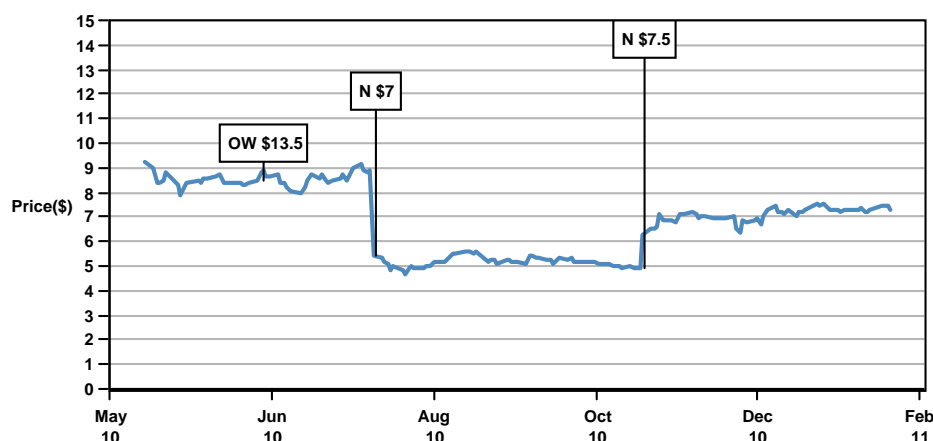
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TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jun-10	OW	8.45	13.50
30-Jul-10	N	5.44	7.00
29-Oct-10	N	4.90	7.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 22, 2010. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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