

## TeleNav, Inc.

### Sprint Deal Amended; Adjusting Estimates

TeleNav announced that contract with Sprint has been re-negotiated. Contract rollover was successful, extending through December 31, 2012 (previously December 31, 2010). As expected, the new contract leads to an aggregate reduction in revenue from Sprint, who represents 55% of total revenue – FY11 guidance was revised down accordingly, but 1FQ11 guidance was left unchanged. We view the announcement as an overall positive, as the elimination of uncertainty offsets slightly disappointing FY11 guidance. December 2011 Price Target is \$7.00; Maintain Neutral.

- **Sprint deal amended.** TNAV will remain Sprint's preferred navigation supplier through December 31, 2012 (previously December 31, 2010) and Sprint's right to terminate the agreement will begin on June 30, 2012 (previously December 31, 2010). TNAV will receive a guaranteed annual fixed fee from Sprint for bundled navigation application, to be recognized monthly over the term of the agreement (28 months, starting September 1, 2010). As expected, the new contract leads to an aggregate reduction in revenue from that key customer, who represents 55% of total revenue. On the other hand, TNAV's portion of revenue sharing for MRC (monthly recurring charge) navigation subs, enterprise LBS subs, mobile advertising/commerce and any other premium services, was increased. We expect that these contract terms will provide an incentive for Sprint to pre-provision TNAV application to a larger number of subscribers, and therefore an opportunity for TNAV to provide additional services on top of navigation to a larger subscriber base.
- **Sprint navigator to be TNAV-branded.** Sprint-branded bundled navigation services will transition to TNAV brand over time, meaning that new subs and new devices will have a TNAV-branded navigation app instead of the Sprint-branded one. While this may indicate that Sprint's commitment to TNAV solution is moderating, it also yields TNAV the opportunity to establish its own brand in the marketplace and reach end-users directly.
- **Contract with Tele Atlas was revised as well.** TNAV will pay fees related to Sprint's bundled navigation as a percentage of fees collected from Sprint for basic navigation services and from mobile advertising revenue, rather than the previous arrangement based on monthly fees per user or per transaction fees.

#### TeleNav, Inc. (TNAV;TNAV US)

	2010E (Old)	2010E (New)	2011E (Old)	2011E (New)	2012E (Old)	2012E (New)
EPS - Recurring (\$)						
Q1 (Sep)	0.22A	0.22A	0.23	0.23	0.10	0.08
Q2 (Dec)	0.28A	0.28A	0.21	0.11	0.13	0.11
Q3 (Mar)	0.34A	0.34A	0.13	0.10	0.15	0.13
Q4 (Jun)	0.31A	0.31A	0.08	0.14	0.18	0.17
FY	1.15A	1.15A	0.65	0.57	0.57	0.49
CY	1.09	0.99	0.45	0.42	0.76	0.64
EBITDA CY (\$ mn)	79	72	43	41	71	62

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

GAAP EPS estimates: FY09A=\$1.02; CY09A=\$1.10

FY10: 1QA=\$0.22, 2QA=\$0.27, 3QA=\$0.33, 4QE=\$0.24; FY10A=\$1.06; CY10E=\$0.89

FY11: 1QE=\$0.21, 2QE=\$0.09, 3QE=\$0.08, 4QE=\$0.12; FY11E=\$0.50; CY11E=\$0.35

FY12: 1QE=\$0.06, 2QE=\$0.09, 3QE=\$0.11, 4QE=\$0.15; FY12E=\$0.41; CY12E=\$0.56

## Neutral

TNAV, TNAV US

Price: \$5.06

Price Target: \$7.00

#### Applied Technologies

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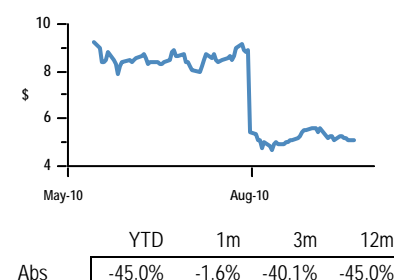
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J.P. Morgan Securities LLC

#### Price Performance



**SMid Cap Research**  
THINK BIG, BUY SMALL

#### Company Data

Price (\$)	5.06
Date Of Price	20 Sep 10
52-week Range (\$)	11.48 - 4.65
Mkt Cap (\$ mn)	192.42
Fiscal Year End	Jun
Shares O/S (mn)	38
Price Target (\$)	7.00
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **F1Q11 guidance was maintained; FY11 guidance was revised, coming in slightly below expectations.** The company looks for F1Q11 PF EPS of \$0.23 on revenue of \$50mm (JPM prior est \$0.23/\$51.4mm, Street \$0.23/\$50.3mm). FY11 PF EPS is expected to be in the range \$0.55-\$0.60 on revenue of \$180-\$185mm (JPM prior est \$0.65/\$188.8mm, Street \$0.85/\$206.0mm).
- **Adjusting estimates.** TNAV model is now in a flux and we feel that we require additional information to build precise subscription (now subscription and fixed fee) and advertising revenue forecasts. For the time being, we have assumed conservative FY11 and FY12 growth rates (6% and 3% respectively) on the overall revenue, and aligned our PF EPS estimates with management guidance. When we obtain additional data indicative of the performance of Automotive, MRM and Mobile Advertising segments, we will provide a more detailed and precise revenue model. We are now modeling FY11 PF EPS of \$0.57 on revenue of \$182.2mm, PF EBITDA \$48.4mm, FY12 PF EPS of \$0.49 on revenue of \$188.3mm, PF EBITDA \$49.6mm.
- **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. Long-term growth prospects associated with navigation and LBS solutions are offset by the risks of pricing pressure at key customers. December 2011 Price Target is \$7.00.

## Valuation and Rating Analysis

**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. Long-term growth prospects associated with navigation and LBS solutions are now offset by the risks of pricing pressure at key customers, spurred by the availability of 'free' solutions from Nokia and Google.

**December 31, 2011 price target is \$7.00.** The Price Target is based on an assigned multiple of 7 (previously 6 times) revised CY12E PF EBITDA of \$61.9 million; the multiple is based on the comms software/services peer group multiple. We have increased the multiple by one turn to reflect the reduced risk profile for the stock. The market cap takes into consideration \$112mm in cash, and zero debt. We use 45.5 million shares to calculate our per-share price target.

## Risks to Our Rating and Price Target

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

- Negotiations with Sprint conclude with more favorable pricing terms than we have assumed.
- 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 negotiates 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.

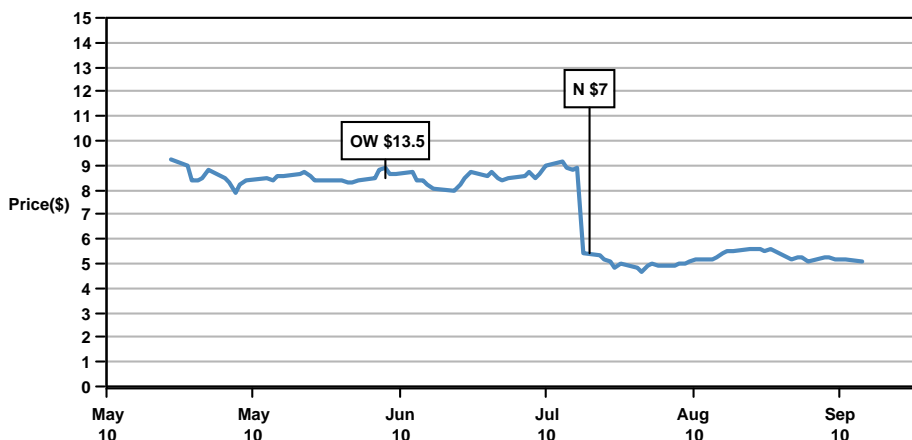
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TeleNav, Inc. (TNAV) Price Chart



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

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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