

## TeleNav, Inc.

### F4Q Results: Sprint Bombshell; Cutting Estimates and Downgrading to Neutral

TeleNav reported strong F4Q results, beating EPS and revenue expectations and closed the fiscal year with 16.1 million subscribers. F1Q11 guidance also came in ahead of expectations. Unfortunately, none of this matters because management also revealed that contract roll-over negotiations with Sprint have started early and will probably lead to an aggregate reduction in revenue from that key customer, which represents 55% of total revenue. Growth prospects through 2012 are suddenly highly compromised. We are slashing estimates, establishing a December 2011 price target of \$7.00, and downgrading TNAV to Neutral.

- **TNAV beat F4Q expectations, reporting PF EPS of \$0.31 on revenue of \$49.5mm** (JPM prior est. \$0.28/\$46.9mm, Street \$0.29/\$46.9mm). The company exited FY10 with 16.1 million TBT navigation subscribers (JPMe 15.9mm), up 69%. ARPU at \$1.02 and gross margins at 83.1% both exceeded expectations; ordinarily, we would rejoice.
- **F1Q11 guidance was also slightly ahead of expectations.** The company looks for F1Q PF EPS of \$0.23 on revenue of \$50mm (JPM prior est \$0.21/\$49.4mm, Street \$0.22/\$49.8mm). So far, so good.
- **The Sprint bombshell.** Management revealed on the conference call that contract negotiations with Sprint have intensified ahead of the December 31 exclusivity deadline. TNAV believes the contract rollover, if successful, will lead to an aggregate **reduction** in revenue with that key customer, which accounts for 55% of total revenue. This puts TNAV's medium-term growth prospects seriously at risk and could lead other customers to pressure pricing.
- **Sprint's BATNA:** Free Navigation. On discussing the issue with TNAV management, we believe Sprint is seeking an aggressive reduction in pricing, possibly citing ad-based 'free' navigation as the best alternative to a negotiated agreement (BATNA). We believe TNAV is countering with proposals for price reductions and new applications; however we sense that Sprint has the upper hand. Critically, this is not a replay of the last contract rollover, where bundled pricing sparked a net revenue gain for TNAV owing to price-elastic demand; this time Sprint seeks a net reduction in cost of supply, we believe.

#### 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	0.21	0.23	0.24	0.10
Q2 (Dec)	0.28A	0.28A	0.20	0.21	0.26	0.13
Q3 (Mar)	0.34A	0.34A	0.21	0.13	0.27	0.15
Q4 (Jun)	0.28A	0.31A	0.23	0.08	0.28	0.18
FY	1.12A	1.15A	0.86	0.65	1.04	0.57
CY	1.03	1.09	0.94	0.45	1.13	0.76
EBITDA CY (\$ mn)	78	79	85	43	105	71

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=\$0.99

FY11: 1QE=\$0.22, 2QE=\$0.19, 3QE=\$0.12, 4QE=\$0.07; FY11E=\$0.59; CY11E=\$0.39

FY12: 1QE=\$0.09, 2QE=\$0.12, 3QE=\$0.14, 4QE=\$0.16; FY12E=\$0.51; CY12E=\$0.69

### ▼ Neutral

Previous: Overweight

**TNAV, TNAV US**

Price: \$8.91

### ▼ Price Target: \$7.00

Previous: \$13.50

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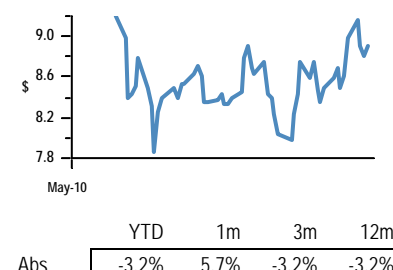
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J.P. Morgan Securities Inc.

#### Price Performance



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

#### Company Data

Price (\$)	8.91
Date Of Price	29 Jul 10
52-week Range (\$)	11.48 - 7.80
Mkt Cap (\$ mn)	338.83
Fiscal Year End	Jun
Shares O/S (mn)	38
Price Target (\$)	7.00
Price Target End Date	31 Dec 11

See page 6 for analyst certification and important disclosures.

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- **We are cutting estimates.** We are introducing a 37% reduction in ARPU to \$0.64 by mid CY11, which assumes price declines of near 50% at Sprint, flat at AT&T, T-Mobile, and other carriers. We also assume subscriber growth is 10% lower than our prior forecast on the assumption that Sprint pushes a higher proportion of customers into ad-based services. We are reducing gross margins by ~190bp in FY11 and by 280bp in FY12. We assume that company reins in operating expenses relative to prior expectations but continues to ramp R&D investment. Where previously we forecast a 22% CY10-12 revenue CAGR, we now forecast 5%. CY11E EBITDA goes to \$43.2mm (previously \$78.8mm), and CY12 goes to \$71.2mm (previously \$97.4mm). Until we know the outcome of the Sprint negotiations, we sense there is downside risk to these estimates.
- **We believe contract negotiations with Sprint will conclude by December 31, 2010.**
- **We are downgrading TNAV to 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. We are establishing a December 2011 price target of \$7.00.

## Valuation and Rating Analysis

**We are downgrading TNAV to 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.

**We are establishing a December 2011 price target of \$7.00 with this note** (prior price target \$13.50, December 2010). The price target is based on an assigned multiple of 6 times revised CY11E PF EBITDA of \$71.2 million; the multiple is based on the comms software/services peer group multiple. The market cap takes into consideration \$112mm 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.

## TeleNav, Inc.: Summary Of Financials

Income Statement - Annual	FY10A	FY11E	FY12E	FY13E	Income Statement - Quarterly	1Q11E	2Q11E	3Q11E	4Q11E
Revenues	171	189	193	247	Revenues	51	51	45	41
Cost of products sold	29	45	55	73	Cost of products sold	11	12	12	11
Gross profit	142	143	138	174	Gross profit	41	39	34	30
SG&A	32	43	42	45	SG&A	10	11	11	11
R&D	42	56	59	63	R&D	14	14	14	14
Stock based comp.	5	4	5	6	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	44	38	66	Operating Income	16	14	8	5
EBITDA	78	54	56	86	EBITDA	19	17	11	8
Other income / (expense)	(0)	0	0	0	Other income / (expense)	0	0	0	0
Pre-tax income	68	46	40	68	Pre-tax income	17	15	9	5
Income taxes	27	18	16	27	Income taxes	7	6	4	2
Net income - GAAP	41	27	24	41	Net income - GAAP	10	9	5	3
Net income PF	45	30	27	45	Net income PF	11	9	6	4
Diluted shares outstanding	39	46	47	48	Diluted shares outstanding	46	46	46	46
EPS - GAAP	1.06	0.59	0.51	0.85	EPS - GAAP	0.22	0.19	0.12	0.07
EPS PF	1.15	0.65	0.57	0.93	EPS PF	0.23	0.21	0.13	0.08
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	152	177	217	Sales growth	54.4%	10.3%	2.5%	27.5%
Accounts receivable	37	32	40	50	EBIT growth	72.1%	(35.0%)	(10.7%)	68.9%
Inventories	0	0	0	0	EPS growth	11.0%	(43.3%)	(13.2%)	63.5%
Other current assets	5	5	5	5	Gross margin	82.8%	75.9%	71.5%	70.5%
Current assets	155	191	224	273	EBIT margin	43.0%	25.4%	22.1%	29.3%
PP&E	10	10	8	9	EBITDA margin	45.9%	28.8%	29.0%	34.9%
Long-term portfolio investments	-	-	-	-	Tax rate	39.1%	40.0%	40.0%	40.0%
Goodwill and intangibles	-	-	-	-	Net margin	26.2%	16.0%	13.8%	18.1%
Total assets	175	210	242	292	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	3	5	7	9	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	7	7	7	7	Return on assets (ROA)	36.4%	15.7%	11.8%	16.7%
Total debt	0	0	0	0	Return on equity (ROE)	58.9%	18.3%	13.7%	19.2%
Total liabilities	26	30	33	36	Return on invested capital (ROIC)	77.4%	56.5%	52.5%	68.4%
Shareholders' equity	149	180	209	256	Enterprise value / Sales	1.3	0.9	0.8	0.5
Net Income (including charges)	41	27	24	53	Enterprise value / EBITDA	-	-	-	-
D&A	5	7	13	14	Free cash flow yield	11.1%	10.0%	6.2%	9.5%
Change in Working Capital	(7)	10	(6)	(6)	P/E	8.4	15.0	17.6	10.4
Other	-	-	-	-					
Cash flow from operations	44	48	36	55					
Capex	(7)	(8)	(11)	(15)					
Free cash flow	37	40	25	39					
Cash flow from investing activities	(10)	(8)	(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

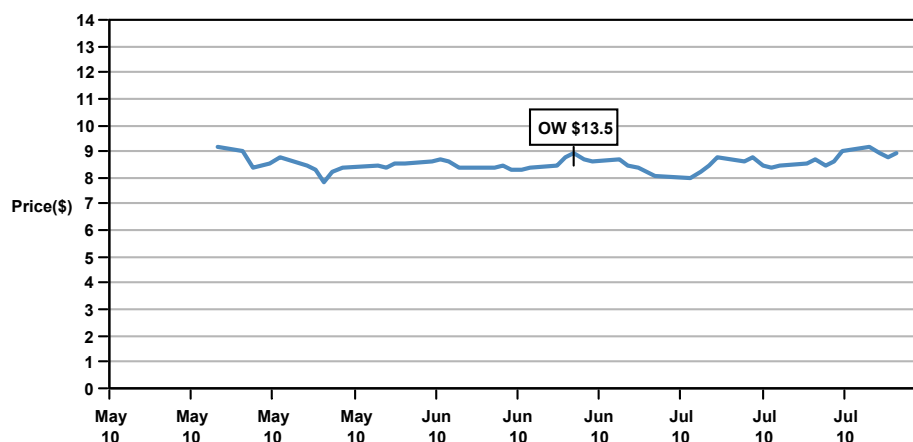
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TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jun-10	OW	8.45	13.50

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.  
Initiated coverage June 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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