J.P.Morgan

North America Equity Research
29 October 2010

TeleNav, Inc.

F1Q Review: Reassuring Start to FY11; Adj Ests.

TNAV easily beat F1Q expectations owing to tighter expense control than we anticipated. FY11 guidance was raised slightly. We are nudging up estimates to reflect the guidance and stronger-than-expected cash flow, however forecasting remains difficult owing to the pending transition to a fixed fee contract with Sprint (51% of F1Q sales), and the firm's expectations that over 10% of revenue will originate in premium services, auto licensing, and ad-based revenues, from a low base today. The AT&T contract (36% of sales) comes up for renewal in March 2011 and presents an event risk. We are in a transition period for TNAV, during which we will experience strong subscriber growth that will be offset by declining ARPUs, lower gross margins, and rising R&D investment. We look for visibility into reaccelerating revenue and earnings growth before becoming more constructive on the stock, notwithstanding the attractive valuation.

- **TNAV beat F1Q11 expectations**, reporting PF EPS of $0.29 on revenue of $51.1mm (JPM prior est $0.23/$49.8mm). Gross margin at 82.7% came in ahead of our forecast and operating expenses were lower than expected, so the firm is exercising expense discipline notwithstanding on-going investment in premium service offerings. This was a reassuring start to FY11.
- **FY11 Guidance was raised**. TNAV is looking to generate FY11 PF EPS of $70-$0.80 on revenue of $187-$192mm (JPM prior est $0.56/$181mm). We are encouraged by the firm's improved grasp of how the business will evolve with the change to the Sprint contract, however, we note that guidance points to a significant decline in ARPUs and gross margins as the Sprint revenues flip to fixed fee (revenue declines q/q then stabilizes at about $40-$45mm p.q.). In addition, the guidance calls for over 10% of revenue by F4Q11 to originate in auto royalties, new-to-the world premium services (voice recognition, real-time traffic, weather alerts) and ad-based revenues; implying very strong growth from a low base, which is risky. We are adjusting estimates to align with guidance, whilst acknowledging the risks here.

Neutral

TNAV, TNAV US

Price: $4.90

▲ **Price Target: $7.50**
Previous: $7.00

Applied & Emerging Technologies

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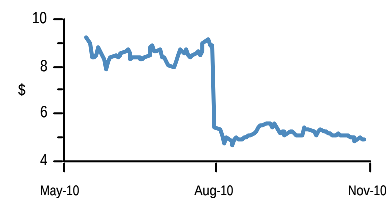
Price Performance



	YTD	1m	3m	12m
Abs	-46.7%	-6.8%	-44.4%	-46.7%

SMid Cap Research
THINK BIG, BUY SMALL

TeleNav, Inc. (TNAV;TNAV US)

	2010E	2011E *(Old)*	2011E *(New)*	2012E *(Old)*	2012E *(New)*
EPS - Recurring ($)					
Q1 (Sep)	0.22A	0.23	0.29A	0.06	0.12
Q2 (Dec)	0.28A	0.11	0.17	0.08	0.11
Q3 (Mar)	0.34A	0.10	0.15	0.08	0.10
Q4 (Jun)	0.31A	0.13	0.12	0.12	0.10
FY	1.15A	0.56	0.72	0.34	0.43
CY	1.12	0.36	0.49	0.44	0.41
EBITDA CY ($ mn)	83	36	47	46	44
Revenues FY ($ mn)	171A	181	187	179	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 ($)	4.90
Date Of Price	28 Oct 10
52-week Range ($)	11.48 - 4.65
Mkt Cap ($ mn)	186.34
Fiscal Year End	Jun
Shares O/S (mn)	38
Price Target ($)	7.50
Price Target End Date	31 Dec 11

See page 6 for analyst certification and important disclosures.

- **We still need more information.** The fixed fee associated with Sprint (51% of F1Q revenue) will be more easily isolated in F2Q 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 (AT&T was 36% of F1Q revenue), premium services and other revenues. It should also be possible to project gross margins with a bit more certainty. In short, it will take another quarter or two before sell-side models stabilize, in our view.
- **Overall tone remains constructive.** Management believes that wireless operators are committed to the TNAV white label service and exploring new revenue-sharing ideas. We note that operators can still place an own-brand navigation and search app on the majority of smart phones and nearly all feature phones, so the threat from Google, Nokia, TomTom and others is still muted in that respect, though 'free navigation' imposes price pressure on TNAV. The average subscriber count increased to 17.7 million in F1Q11, so TNAV remains the dominant provider of LBS navigation in N.America.
- **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 (previously $7.00) is based on an unchanged assigned multiple of 5x CY12E PF EBITDA of $47.4 (previously 46.3mm). The change in the price target largely reflects the very significant increase in the firm's cash position, which went from $113mm in F4Q10 to $131mm in F1Q11. Our multiple assumption is based on the comms 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 Mircosoft 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.

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- 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.: 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					
Current assets	155	223	249	273	Gross margin	82.8%	78.1%	72.0%	67.7%
PP&E	10	8	6	8	EBIT margin	43.0%	29.4%	17.7%	14.7%
Long-term portfolio investments	-	-	-	-	EBITDA margin	45.9%	33.5%	24.9%	21.3%
Goodwill and intangibles	-	-	-	-	Tax rate	39.1%	41.0%	41.0%	41.0%
Total assets	175	239	263	288	Net margin	26.2%	17.7%	10.9%	9.1%
Accounts payable	3	3	4	5	Debt / EBITDA	0.0	0.0	0.0	0.0
Deferred revenues	7	28	28	28	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Total debt	0	0	0	0					
Total liabilities	26	55	57	61	Return on assets (ROA)	36.4%	16.0%	8.0%	7.1%
Shareholders' equity	149	183	206	228	Return on equity (ROE)	58.9%	19.9%	10.3%	9.0%
					Return on invested capital (ROIC)	77.4%	62.1%	45.3%	40.0%
Net Income (including charges)	41	30	16	14					
D&A	5	8	13	14	Enterprise value / Sales	1.3	0.8	0.7	0.5
Change in Working Capital	(7)	32	(0)	(2)	Enterprise value / EBITDA	-	-	-	-
Other	-	-	-	-	Free cash flow yield	11.1%	17.0%	6.0%	4.5%
Cash flow from operations	44	75	35	34	P/E	4.6	7.4	14.0	15.5
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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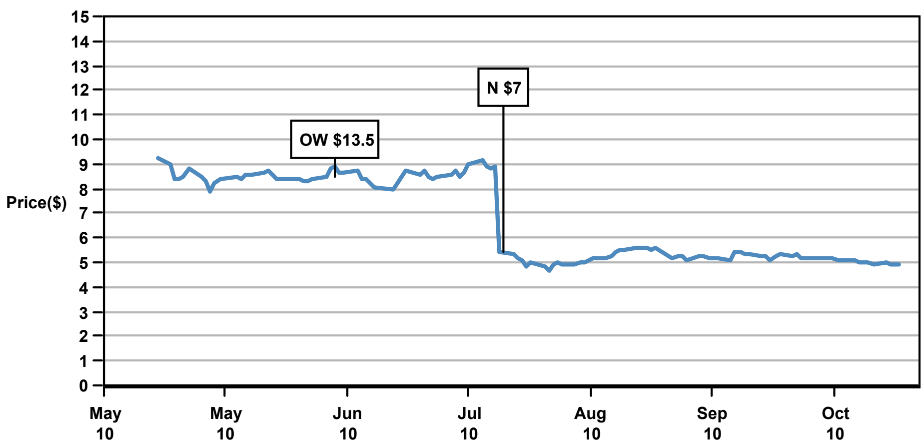
TeleNav, Inc. (TNAV) Price Chart



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

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.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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IB clients*	49%	45%	33%
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IB clients*	69%	60%	50%

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