

## TeleNav, Inc.

### F1Q11 Preview: Trimming Estimates and Looking for Clarity in the Business Model

We maintain our Neutral rating for TNAV ahead of F1Q11 results. While we think TNAV is attractively valued, competitive threats (especially Android handsets) still weigh on sentiment, the business model remains uncertain, and customer concentration risk remains a concern. Given the recent resolution of the Sprint contract renegotiation, which altered the business model for over 50% of TNAV's revenue, we hope the earnings call will provide more precise metrics around subscription, fixed fee, and advertising revenue forecasts. We are trimming calendar 2011-2012 estimates with this note, cutting automotive-related revenue, and increasing R&D; we believe our prior forecast was too aggressive. We are also adjusting our 2011 price target multiple assumption, lowering the EV/EBITDA multiple two turns to reflect what we view as the growing threat from Android. We are maintaining our December 2011 price target of \$7 (see page 3 for further explanation).

- **TNAV reports F1Q11 results on October 28.** The conference call will begin at 5pm ET; dial-in 888-724-9493.
- **We expect TNAV to report F1Q11 PF EPS of \$0.23 on \$49.8mm in revenue** (Street: \$0.22/\$50.4mm). We expect total subscription/fixed fee revenue of \$48.3mm and gross margin of 80%, down from 83.1% at F4Q10. Post Sprint contract renegotiation, TNAV's 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. We know that the contract is effective from September 1, 2010, meaning that F1Q11 entails only one month of revised terms, and that substantial sequential impact will be felt in the December quarter.
- **We expect F2Q11 guidance to be aligned with our estimates, and for additional metrics to be provided.** We look for F2Q PF EPS of \$0.11 on \$41.3mm in revenue (Street: \$0.12/\$44.7mm). We expect gross margin of 77.8%, continued decline.

## Neutral

TNAV, TNAV US

Price: \$5.02

Price Target: \$7.00

### Applied Technologies

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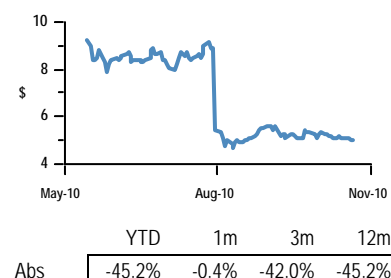
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### Price Performance



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

	2010E	2011E (Old)	2011E (New)	2012E (Old)	2012E (New)
EPS - Recurring (\$)					
Q1 (Sep)	0.22A	0.23	0.23	0.08	0.06
Q2 (Dec)	0.28A	0.11	0.11	0.11	0.08
Q3 (Mar)	0.34A	0.10	0.10	0.13	0.08
Q4 (Jun)	0.31A	0.14	0.13	0.17	0.12
FY	1.15A	0.57	0.56	0.49	0.34
CY	0.99	0.42	0.36	0.64	0.44
EBITDA CY (\$ mn)	72	41	36	62	46
Revenues FY (\$ mn)	171A	182	181	188	179

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

GAAP EPS estimates: FY09A=\$1.02; FY10A=\$1.06; FY11: 1QE=\$0.21, 2QE=\$0.09, 3QE=\$0.08, 4QE=\$0.11; FY11E=\$0.49;

FY12: 1QE=\$0.04, 2QE=\$0.06, 3QE=\$0.06, 4QE=\$0.10; FY12E=\$0.26

### Company Data

Price (\$)	5.02
Date Of Price	21 Oct 10
52-week Range (\$)	11.48 - 4.65
Mkt Cap (\$ mn)	190.90
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 lowering estimates with this note.** Specifically, we are cutting back the auto-related royalties (e.g., Ford) by nearly 50% in calendar 2011; we think the revenue ramp was too aggressive. We have also cut back the ad-based revenue ramp; this is an early-stage opportunity and we believe the bar should be set low. We have also increased R&D slightly to reflect our view that the firm must invest heavily to capture new market opportunities. CY11 EBITDA goes to \$36 million from \$41 million, and CY12 EBITDA goes to \$46 from \$62 million.
- **Key questions for the call.** What percent of revenue will the Sprint flat fee represent next quarter and beyond? Should the Sprint contract be considered as an industry trend and will it affect TNAV's contracts with other carriers? What impact is TeleNav seeing from 'free' navigation solutions from Google and Nokia? How are the Auto and TeleNav Track growth initiatives proceeding, and what are the latest expectations? When can we expect to see meaningful growth from international markets, particularly at China Mobile?
- **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 and its drivers (particularly at Sprint). We are incorporating a two-turn reduction in the EV/EBITDA multiple assumption for our December 2011 price target, reflecting our view of increased competition from Android handsets and lower CY12 estimates.

## Valuation and Rating Analysis

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Our December 2011 price target of \$7.00 is based on an assigned multiple of 5x CY12E PF EBITDA of \$46.3mm, lowered from 7x. 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 recent significant shifts in the competitive landscape (Android gaining market share in handsets, TomTom gaining share in autos).

Although our estimates are lowered, our December 2011 price target remains unchanged at \$7.00. This is because we have corrected an error in our price target calculation in which we failed to add back TNAV's net cash position of \$113mm into our market cap calculation. With this adjustment and the decrease in our CY12 EBITDA estimate, our 2011 price target remains at \$7. Based on the correct market cap (\$546mm), our price target in our September 21st TeleNav note would have been \$12.00, based on a 7x multiple assumption on CY12E PF EBITDA of \$61.9mm.

## 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 materialize.
- 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	181	179	212	Revenues	50	41	43	47
Cost of products sold	29	43	52	64	Cost of products sold	10	9	11	13
Gross profit	142	138	127	148	Gross profit	40	32	32	35
SG&A	32	42	42	39	SG&A	10	10	11	11
R&D	42	59	67	74	R&D	14	15	15	16
Stock based comp.	5	4	6	8	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	37	18	36	Operating Income	16	7	6	8
EBITDA	78	48	38	57	EBITDA	18	9	9	11
Other income / (expense)	(0)	0	0	0	Other income / (expense)	0	0	0	0
Pre-tax income	68	38	20	38	Pre-tax income	16	7	6	8
Income taxes	27	16	8	15	Income taxes	7	3	3	3
Net income - GAAP	41	23	12	23	Net income - GAAP	10	4	4	5
Net income PF	45	26	16	27	Net income PF	10	5	4	6
Diluted shares outstanding	39	46	47	48	Diluted shares outstanding	46	46	46	46
EPS - GAAP	1.06	0.49	0.26	0.48	EPS - GAAP	0.21	0.09	0.08	0.11
EPS PF	1.15	0.56	0.34	0.57	EPS PF	0.23	0.11	0.10	0.13
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	147	167	192	Sales growth	54.4%	5.9%	(1.2%)	18.3%
Accounts receivable	37	36	38	44	EBIT growth	72.1%	(44.1%)	(40.1%)	76.8%
Inventories	0	0	0	0	EPS growth	11.0%	(51.6%)	(39.4%)	69.0%
Other current assets	5	5	5	5	Gross margin	82.8%	76.1%	71.2%	70.0%
Current assets	155	188	210	241	EBIT margin	43.0%	22.7%	13.8%	20.5%
PP&E	10	10	8	9	EBITDA margin	45.9%	26.3%	21.2%	27.1%
Long-term portfolio investments	-	-	-	-	Tax rate	39.1%	41.0%	40.0%	40.0%
Goodwill and intangibles	-	-	-	-	Net margin	26.2%	14.1%	8.8%	12.9%
Total assets	175	208	228	260	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	3	6	7	8	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	7	7	7	7	Return on assets (ROA)	36.4%	13.4%	7.3%	11.2%
Total debt	0	0	0	0	Return on equity (ROE)	58.9%	15.8%	8.6%	13.0%
Total liabilities	26	32	34	36	Return on invested capital (ROIC)	77.4%	46.2%	37.4%	50.6%
Shareholders' equity	149	176	194	225	Enterprise value / Sales	1.3	1.0	0.9	0.6
Net Income (including charges)	41	23	12	27	Enterprise value / EBITDA	-	-	-	-
D&A	5	7	13	14	Free cash flow yield	11.1%	8.1%	5.0%	6.1%
Change in Working Capital	(7)	7	0	(4)	P/E	4.7	10.2	19.4	10.5
Other	-	-	-	-					
Cash flow from operations	44	40	32	40					
Capex	(7)	(8)	(11)	(15)					
Free cash flow	37	32	20	25					
Cash flow from investing activities	(10)	(8)	(11)	(15)					
Cash flow from financing activities	45	2	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

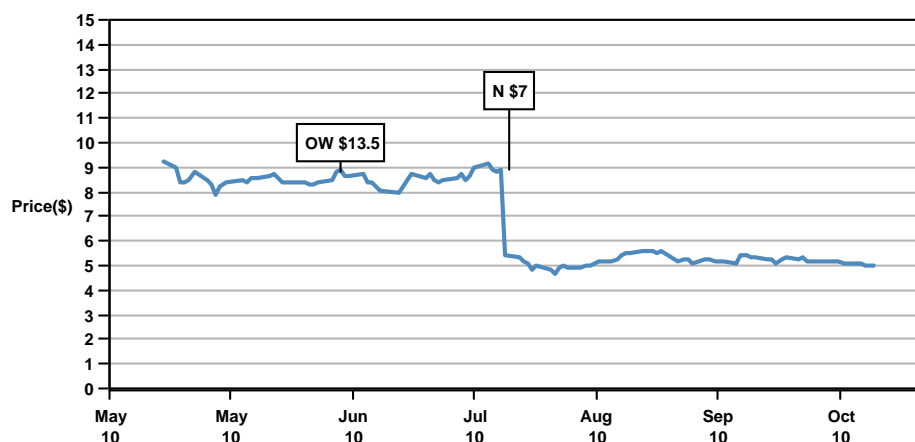
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TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jun-10	OW	8.79	13.50
30-Jul-10	N	8.91	7.00

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