

TeleNav, Inc.

F4Q10 Preview: Start of the Journey

We maintain our Overweight rating on TNAV ahead of F4Q10 results – the company's first report as a public company. We think TNAV is attractively valued; competitive threats weigh on sentiment, which we think will be dispelled by solid execution as well as product and contract announcements. As the leading carrier-branded, turn-by-turn navigation solution for use on GPS-enabled smartphones, we believe TNAV is poised for 24% compound annual revenue growth and 35%-plus EBITDA margins through FY13, while investing aggressively in international growth, and location-based services that could reach five billion consumers. Our December 2010 price target is \$13.50.

- **TNAV reports F4Q10 results on July 29.** The conference call will begin at 5pm ET; dial-in: 888-221-9466, passcode 5484800.
- **We expect TNAV to report F4Q PF EPS of \$0.28 on \$46.9mm in revenue** (Street: \$0.26/\$46.9mm). We look for net paying subscriber adds of ~1.1 million and for ending subs of 16.3 million. We expect an ARPU of \$0.98 and total sub revenue of \$46.2mm. We expect gross margin of 81%, down from 84.1% at F3Q owing to continued shift toward bundling.
- **We expect F1Q11 guidance to align with our estimates.** We look for F1Q PF EPS of \$0.21 on \$49.4mm in revenue (Street: \$0.22/\$49.8mm). We look for net paying subscriber adds of 600K. We expect an ARPU of \$0.97 and total sub revenue of \$48.2mm. We expect gross margin of 80%; continued decline.
- **Key questions for the call.** What impact is TeleNav seeing from 'free' navigation solutions from Google and Nokia? Which handsets are fuelling subscriber growth for TNAV? Should we expect bundling to accelerate, or will the AT&T MRC subscriber base offset the shift to lower ARPUs? How are the Auto and TeleNav Track growth initiatives proceeding, relative to expectations? When can we expect to see meaningful growth from international markets, particularly at China Mobile? To what extent is the European TBT opportunity impeded by data roaming charges? How soon will U.S. Cellular revenues benefit TNAV?

Overweight

TNAV, TNAV US

Price: \$8.91

Price Target: \$13.50

Applied Technologies

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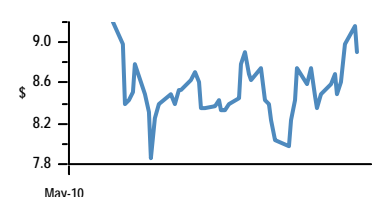
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Price Performance



	YTD	1m	3m	12m
Abs	-3.2%	1.9%	-3.2%	-3.2%

SMid Cap Research
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TeleNav, Inc. (TNAV;TNAV US)

	2009A	2010E	2011E	2012E
EPS - Recurring (\$)				
Q1 (Sep)	0.18	0.22A	0.21	0.24
Q2 (Dec)	0.24	0.28A	0.20	0.26
Q3 (Mar)	0.26	0.34A	0.21	0.27
Q4 (Jun)	0.36	0.28	0.23	0.28
FY	1.04	1.12	0.86	1.04
CY	1.12	1.03	0.94	1.13

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; FY10E=\$1.05; CY10E=\$0.95

FY11: 1QE=\$0.20, 2QE=\$0.18, 3QE=\$0.20, 4QE=\$0.21; FY11E=\$0.79; CY11E=\$0.86

FY12: 1QE=\$0.22, 2QE=\$0.24, 3QE=\$0.25, 4QE=\$0.26; FY12E=\$0.96; CY12E=\$1.04

Company Data

Price (\$)	8.91
Date Of Price	27 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 (\$)	13.50
Price Target End Date	31 Dec 10

See page 6 for analyst certification and important disclosures.

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- **We maintain our Overweight rating**, meaning that we expect the stock to outperform the mean of our coverage universe over the next 6-12 months. TNAV trades at 9.5 times CY11E PF EPS of \$0.94, which is a 47% discount to the mean of our coverage universe. We believe this discount reflects investors' concerns relating to declining ARPUs and margins, the competitive threat from Nokia and Google, and the risks associated with an early-stage company that has just gone public. We believe the stock is 'de-risked' at this level and technology investors are presented with a very intriguing GARP stock. Our December 31, 2010 price target is \$13.50, based on an assigned multiple of 6 times CY11E PF EBITDA of \$84.7 million; the multiple is based on the comms software/services peer group multiple.

Valuation and Rating Analysis

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Execution should earn higher multiple in time. We take the view that TNAV is a category-defining SaaS company, and can earn multiples that are comparable with high-growth companies in that software category; however, in the context of near-term declining ARPUs and margins, competitive threats, and business model risk, we believe this is a stretch as of today. TNAV needs to earn a higher multiple through execution. We believe investors need to see evidence of continued adoption of carrier-branded TBT navigation.

Taking a more conservative stance, we believe TNAV can be compared to software-based companies that are focused on the telecommunications industry, which include companies such as Amdocs, Neustar, and Synchronoss. The median multiples for this category of companies are 11.6 times CY11E P/E and 6.1 times CY11E EV/EBITDA. Using these multiples yields a valuation range of \$10.90 (P/E basis) to \$13.70 (EV/EBITDA). We think this valuation range is conservative for several reasons: 1) the comp group does not exhibit as strong a growth outlook as TNAV, 2) we believe (higher) CY12 earnings will be a consideration for investors soon, and 3) we believe the company can be awarded a SaaS-like multiple with good execution over the next several quarters.

Our December 31, 2010 price target is \$13.50 based on an assigned multiple of 6 times CY11E PF EBITDA of \$84.7 million; the multiple is based on the comms software/services peer group multiple. The market cap takes into consideration \$115mm of cash post IPO, and assumes zero debt. We use a post-IPO share count of 46 million shares to calculate our per-share price target.

Risks to Our Rating and Price Target

Customer concentration risk

Sprint accounted for 54% of FY09 revenues, and the contract with TeleNav ends in December 2011. In addition, we estimate Sprint accounts for nearly 12 million TNAV subscribers today and TeleNav is approaching 25% penetration of the post-paid market at that account, so aside from the contract rollover risk, there is also a risk that growth at Sprint slows soon. AT&T accounted for 27.5% of FY09 revenue, and we expect revenue growth at AT&T to be higher than at Sprint, especially if the operator begins to introduce bundling. The AT&T contract expires in March 2011.

Free navigation available from Google, Nokia, and Microsoft

Google introduced Google Maps Navigation for use on Android 2.0 devices in October 2009, and has since launched the free application in N. America and most of Europe. In January 2010, Nokia announced the availability of free navigation with Ovi Maps for use on S60 and Maemo smartphone platforms, which are widely used in Europe. In May 2010, Microsoft announced that free navigation would be available later in 2010 on devices running Windows Mobile 6.0 (and higher). Apple offers free maps and driving instructions, and a variety of TBT solutions are available for the iPhone and the iPad via the webstore. Free navigation is a serious threat to TeleNav, and these large companies are able to subsidize these initiatives indefinitely in a manner that TNAV cannot.

TeleNav's business model could change dramatically, with the onset of ad-based navigation and search

"Free" navigation will be increasingly supported by ad-based revenues. J.P. Morgan analyst Rod Hall estimates the LBA market could exceed \$18 billion by 2015. PricewaterhouseCoopers forecasts a four-fold increase in global mobile advertising, from \$414 million in 2009 to \$1.6 billion in 2014. TeleNav recognizes that the "paid" navigation market (subscription based, or bundled) may not be sustainable long term, to the extent that consumers are accepting of the placement of adverts and coupons on their phones (some may want to pay a premium for TBT navigation without the clutter).

Bundling and free navigation weighing on the business model in excess of our expectations

We expect TNAV's ARPUs to decline about 8% y/y in FY11 to \$0.95, stabilize in FY12 (owing to a higher proportion of revenue from AT&T), and then decline slowly for the indefinite future, primarily owing to the wireless operators transitioning to bundling and ad-based navigation and search. We expect gross margins to decline from a peak of 84% in F3Q10 to under 70% by FY15, and for EBITDA margins to decline from about 47% today to about 35% in FY11. There could be downside to the ARPUs and margins owing to competition and more rapid adoption of bundling (e.g., by AT&T), though the latter could buoy subscriber and revenue growth ahead of expectations.

Growth initiatives are somewhat opaque and risky

TNAV is engaged in some speculative software development (e.g., Whereaboutz, OnMyWay) in pursuit of new markets that might not develop (e.g., LBS features in social networking sites). We believe TNAV may make acquisitions in Europe to accelerate growth. The company is delivering solutions to a modest number of very large customers that have purchasing power and potentially the ability to stifle contract announcements and news flow for competitive reasons, so the intra-quarter information flow for TNAV could be modest. There are no good pure-play comps for TNAV, and the resulting information vacuum could lead to considerable stock intra-quarter volatility.

TeleNav, Inc.: Summary Of Financials

Income Statement - Annual	FY09A	FY10E	FY11E	FY12E	Income Statement - Quarterly	1Q10A	2Q10A	3Q10A	4Q10E
Revenues	111	169	210	261	Revenues	36	41	45	47
Cost of products sold	20	30	47	67	Cost of products sold	7	7	7	9
Gross profit	91	139	163	194	Gross profit	29	34	38	38
SG&A	25	31	44	52	SG&A	6	7	8	9
R&D	24	40	57	66	R&D	8	9	11	12
Stock based comp.	0	5	5	7	Stock based comp.	0	1	1	3
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	42	67	63	76	Operating Income	15	17	19	17
EBITDA	45	77	75	96	EBITDA	16	19	21	22
Other income / (expense)	(1)	(0)	0	0	Other income / (expense)	(1)	0	(0)	(0)
Pre-tax income	41	67	63	77	Pre-tax income	14	17	19	17
Income taxes	12	26	27	31	Income taxes	6	7	6	7
Net income - GAAP	30	41	37	45	Net income - GAAP	8	10	13	10
Net income PF	30	44	40	49	Net income PF	8	10	13	12
Diluted shares outstanding	29	39	46	47	Diluted shares outstanding	38	38	38	42
EPS - GAAP	1.02	1.05	0.79	0.96	EPS - GAAP	0.22	0.27	0.33	0.24
EPS PF	1.04	1.12	0.86	1.04	EPS PF	0.22	0.28	0.34	0.28
Balance Sheet and Cash Flow Data	FY09A	FY10E	FY11E	FY12E	Ratio Analysis	FY09A	FY10E	FY11E	FY12E
Cash and cash equivalents	33	115	149	198	Sales growth	130.7%	52.1%	24.6%	24.4%
Accounts receivable	24	33	44	54	EBIT growth	717.3%	69.6%	(6.0%)	21.6%
Inventories	0	0	0	0	EPS growth	493.0%	7.6%	(23.4%)	21.3%
Other current assets	5	7	7	7	Gross margin	81.7%	82.2%	77.8%	74.3%
Current assets	62	156	200	259	EBIT margin	38.6%	43.0%	32.5%	31.7%
PP&E	7	12	13	11	EBITDA margin	40.7%	45.9%	35.6%	36.8%
Long-term portfolio investments	-	-	-	-	Tax rate	28.7%	39.1%	42.0%	41.0%
Goodwill and intangibles	-	-	-	-	Net margin	27.0%	25.8%	18.9%	18.8%
Total assets	72	176	222	278	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	2	4	6	8	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	3	5	5	5	Return on assets (ROA)	55.4%	35.1%	19.9%	19.6%
Total debt	0	0	0	0	Return on equity (ROE)	(267.7%)	87.3%	33.8%	29.9%
Total liabilities	69	80	84	88	Return on invested capital (ROIC)	82.4%	77.2%	59.4%	70.2%
Shareholders' equity	3	96	138	190	Enterprise value / Sales	2.7	1.3	0.9	0.5
Net Income (including charges)	30	41	37	45	Enterprise value / EBITDA	-	-	-	-
D&A	2	5	7	13	Free cash flow yield	6.4%	9.9%	8.5%	12.0%
Change in Working Capital	(10)	(7)	(6)	(5)	P/E	8.7	8.5	11.2	9.3
Other	-	-	-	-					
Cash flow from operations	24	44	42	60					
Capex	(8)	(11)	(8)	(11)					
Free cash flow	16	33	34	49					
Cash flow from investing activities	(8)	(11)	(8)	(11)					
Cash flow from financing activities	0	49	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

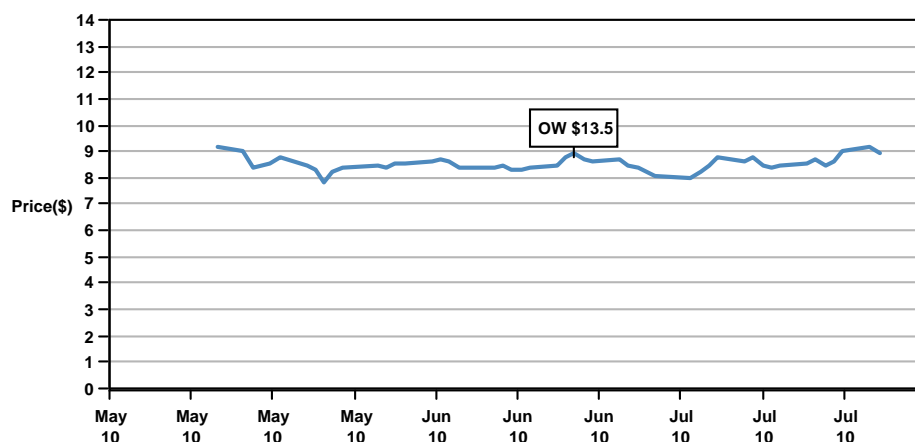
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TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jun-10	OW	8.79	13.50

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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