

TeleNav, Inc.

F3Q11 Preview: Stabilizing, Growth Still Back-End Loaded

We expect TNAV to report in-line results, providing us with a sequential comp post transition to fixed fee with Sprint. However, TNAV is still in transition, and we expect the business model to stabilize towards 2H CY11. While we think TNAV is attractively valued, competitive threats (especially Android handsets) still weigh on sentiment, the business model remains uncertain with emerging categories still being nascent, and the customer concentration risk remains a concern. Read-through from AT&T earnings was neutral, as subscriber growth continued and churn remained stable, despite end of iPhone exclusivity. We are maintaining our December 2011 price target of \$9.50 and our Neutral rating.

- **TNAV reports F3Q11 results on April 28.** The conference call will begin at 5pm ET; dial-in 888-204-4317.
- **We expect TNAV to report F3Q11 PF EPS of \$0.18 on \$48.6mm in revenue** (Street: \$0.17/\$49.2mm). We expect total subscription/fixed fee revenue of \$45.0mm and gross margin of 80.0%, down from 81.6% at F2Q11. We will be looking for metrics indicating that in-dash navigation is becoming material, and for evidence that mobile advertising volumes, click-through & drive-to rates are all improving. We expect emerging categories (premium navigation, auto, ad-based) to represent ~8% this quarter (from 7% last quarter).
- **Still in transition.** Post Sprint contract renegotiation, TNAV model has been in flux. After being able to isolate Sprint fixed fee for the first time last quarter, we restructured our model to account for Sprint fixed fee revenues vs. other carrier variable revenues separately. This quarter will be the first sequential comp using our new forecasting methodology and should give us insight into its forecasting precision. We will be looking for additional metrics on the call to formulate precise subscription, fixed fee, and advertising revenue forecasts. We should also be in a better position to determine the ARPU trend associated with MRC, premium services and other revenues.

Neutral

TNAV, TNAV US

Price: \$10.76

Price Target: \$9.50

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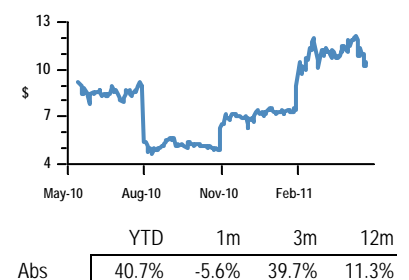
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Price Performance



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TeleNav, Inc. (TNAV;TNAV US)

	2010A	2011E	2012E
EPS - Recurring (\$)			
Q1 (Sep)	0.22	0.29A	0.16
Q2 (Dec)	0.28	0.24A	0.15
Q3 (Mar)	0.34	0.18	0.15
Q4 (Jun)	0.31	0.16	0.15
FY	1.15	0.86	0.61
CY	1.18	0.64	0.58
EBITDA CY (\$ mn)	86	61	58
Revenues FY (\$ mn)	171	197	210

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

GAAP EPS estimates: FY09A=\$1.02; FY10A=\$1.07; FY11: 1QA=\$0.27, 2QA=\$0.22, 3QE=\$0.16, 4QE=\$0.14; FY11E=\$0.80; FY12E=\$0.53

Company Data

Price (\$)	10.76
Date Of Price	25 Apr 11
52-week Range (\$)	12.56 - 4.65
Mkt Cap (\$ mn)	483.06
Fiscal Year End	Jun
Shares O/S (mn)	45
Price Target (\$)	9.50
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **We expect F4Q11 guidance to be aligned with our estimates.** We look for F4Q PF EPS of \$0.16 on \$49.4mm in revenue (Street: \$0.16/\$50.2mm). We expect gross margin to dip further to 77%; continuing to decline. On 4/19, J.P. Morgan Comm Equipment analyst, Rod Hall, reduced his handset forecasts for Q2 and Q3 to account for disruption in the supply chain due to Japan, but his 2011 forecasts was only slightly impacted (0.4%). Therefore, we don't anticipate a significant impact on TNAV from these handset supply chain disruptions.
- **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 close to fully-valued, in our view, and we believe TNAV will not outperform until we get 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 is \$9.50.

Valuation

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Our December 2011 price target is \$9.50 based on an assigned multiple of 5x CY12E PF EBITDA of \$58.1mm. Our multiple 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 (free navigation solutions, Android gaining market share in handsets, TomTom gaining share in autos).

Risks to 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 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	1Q11A	2Q11A	3Q11E	4Q11E
Revenues	171	197	210	234	Revenues	51	48	49	49
Cost of products sold	29	39	59	76	Cost of products sold	9	9	10	11
Gross profit	142	158	151	159	Gross profit	42	39	39	38
SG&A	32	43	42	43	SG&A	8	11	12	12
R&D	42	57	67	79	R&D	13	13	15	15
Stock based comp.	5	4	5	7	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	59	42	36	Operating Income	21	15	12	11
EBITDA	78	73	60	57	EBITDA	24	19	16	15
Other income / (expense)	(0)	0	0	0	Other income / (expense)	0	0	0	0
Pre-tax income	68	60	42	38	Pre-tax income	21	15	13	11
Income taxes	27	24	17	15	Income taxes	9	5	5	5
Net income - GAAP	41	36	25	22	Net income - GAAP	12	10	7	7
Net income PF	45	39	28	26	Net income PF	13	11	8	7
Diluted shares outstanding	39	45	47	48	Diluted shares outstanding	45	45	46	46
EPS - GAAP	1.07	0.80	0.53	0.46	EPS - GAAP	0.27	0.22	0.16	0.14
EPS PF	1.15	0.86	0.61	0.55	EPS PF	0.29	0.24	0.18	0.16
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	157	189	215	Sales growth	54.4%	15.2%	6.4%	11.6%
Accounts receivable	37	38	42	45	EBIT growth	72.1%	(14.1%)	(25.8%)	(8.4%)
Inventories	0	0	0	0	EPS growth	11.0%	(25.3%)	(29.5%)	(9.5%)
Other current assets	5	14	14	14	Gross margin	82.8%	80.3%	71.9%	67.7%
Current assets	155	209	245	275	EBIT margin	43.0%	32.1%	22.4%	18.4%
PP&E	10	9	8	9	EBITDA margin	45.9%	36.8%	28.7%	24.3%
Long-term portfolio investments	-	-	-	-	Tax rate	39.1%	39.5%	41.0%	41.0%
Goodwill and intangibles	-	-	-	-	Net margin	26.2%	19.9%	13.6%	11.2%
Total assets	175	226	260	291	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	3	3	5	5	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	7	11	11	11	Return on assets (ROA)	36.4%	19.6%	11.7%	9.5%
Total debt	0	0	0	0	Return on equity (ROE)	58.9%	23.3%	14.0%	11.3%
Total liabilities	26	38	42	44	Return on invested capital (ROIC)	77.4%	63.8%	50.3%	44.2%
Shareholders' equity	149	188	218	247	Enterprise value / Sales	1.6	1.2	0.9	0.7
Net Income (including charges)	41	36	25	23	Enterprise value / EBITDA	-	-	-	-
D&A	5	9	13	14	Free cash flow yield	11.1%	11.9%	7.9%	6.4%
Change in Working Capital	(7)	5	(1)	(1)	P/E	10.1	13.4	20.1	23.2
Other	-	-	-	-					
Cash flow from operations	44	55	43	42					
Capex	(7)	(8)	(11)	(15)					
Free cash flow	37	47	32	26					
Cash flow from investing activities	(10)	(122)	(11)	(15)					
Cash flow from financing activities	45	(1)	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

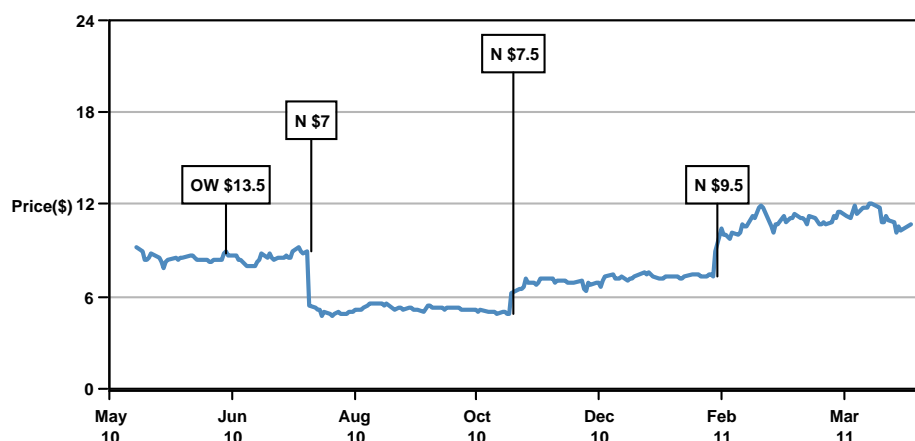
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TeleNav, Inc. (TNAV) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
22-Jun-10	OW	8.79	13.50
30-Jul-10	N	8.91	7.00
29-Oct-10	N	4.90	7.50
28-Jan-11	N	7.37	9.50

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