2-June-2010

TeleNav (TNAV)

Leading provider of mobile navigation services on the Sprint and AT&T networks.

Investment Rating: Marketperform

Pricing Update

Stock Data *(in mil, except per share)*

Current Price (2-Jun-2010)	$8.39
Shares Outstanding	45.7
Market Capitalization	$383.1
Enterprise Value	$292.3

IPO Data

Offer Date	5/12/2010
Offer Price	$8.00
Price Range	$11.00 - $13.00
Shares Offered (% insider)	7.0 (21%)
Deal Size	$56.0
Use of Proceeds	Working capital

IPO Underwriters *(*bookrunner)*

J.P. Morgan*	Deutsche Bank Securities*
Baird	Canaccord Genuity
Piper Jaffray	Pacific Crest

Key Financial Data

Income Model *($ in mil)*	*FY Ended Jun* **2009A**	**2010E**	**2011E**
Sales	$110.9	$170.3	$212.7
EBITDA	45.2	76.8	72.7
Adj. EPS	**0.85**	**1.08**	**0.89**
EBITDA Margin	*40.8%*	*45.1%*	*34.2%*
Net Margin	*27.0%*	*25.8%*	*19.3%*

Balance Sheet	*As of 3/31/10 (adj. for IPO)*
Cash	$90.8
Total Assets	154.8
Total Debt	0.0
Shareholders' Equity	134.9

Corporate Data

Employees	878
Year Founded	1999
Headquarters	Sunnyvale, CA
Phone Number	408-245-3800
Web Address	www.telenav.com

Rating Analysis Very Weak Neutral Very Strong

Long-Term

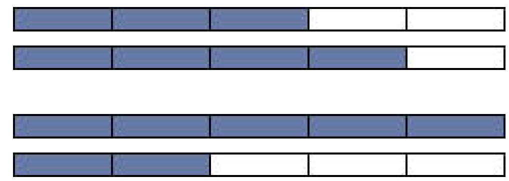
Company Fundamentals

Corporate Governance

Short-Term

Relative Valuation

Technical Strength



Telenav prices -33% below the midpoint of its original range, fills overallotment. TeleNav, raised $56 million on May 12 by offering 7 million shares at $8, 33% below the midpoint of its original $11-$13 range. In a May 11 filing, the company lowered its proposed range to $9-$10, and indicated that key VC backer Menlo Ventures planned to buy $7 million worth of shares on the IPO. Though the company posted a solid 23% first day return and filled the 100% primary, $8.4 million overallotment, the stock has given back 14% in aftermarket trading.

Valuation suggests at least 40% upside. At 3.7x EV/CY11 EBITDA, Telenav is trading at a 28% implied discount (40% upside) to the 5.6x average multiple of its telecom systems/navigation peer group. Admittedly, peer multiples have contracted since our pre-IPO report, punctuated by a 18% selloff for mobile navigation competitor TeleCommunication Systems. However, the lack of a pure-play comparable should compel investors to apply a greater weight to our perpetuity DCF approach, which implies nearly 50% upside.

Intriguing growth story at an attractive valuation; Waiting for technical headwinds to ease. TeleNav has leveraged exclusive relationships with Sprint and AT&T to drive strong adoption of its core mobile navigation services. This rapid user growth, coupled with its scalable, web-based platform has driven impressive profitability and cash flow. Looking forward, however, management expects the downward trend in ARPU and platform upgrades to pressure margins. Additionally, the company faces stiff competition from major software providers and OEMs, such as Google and Nokia, which are offering free navigation services to gain a foothold in the potentially lucrative mobile advertising business. While an attractive valuation should compensate investors for these competitive risks, lackluster deal demand and weak aftermarket trading lead us to initiate coverage with a high-end marketperform rating.

Bull Insights

- Highly profitable and grew sales at a 100% CAGR from FY07-FY09
- Is only ~10% penetrated in its core partners' combined subscriber base
- US mobile navigation market is expected to exceed $2B by 2012 (52% CAGR)
- Perpetuity DCF analysis suggests 49% valuation upside

Bear Insights

- Free services from Nokia and Google may intensify margin pressures
- ARPU fell by 16% in the fiscal 3Q10 and gross margins are projected to fall
- Operates in a litigious industry and is party to multiple infringement claims
- Key peer TSYS has traded poorly after a disappointing 1Q outlook

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Company Fundamentals — Rating: Neutral

Overview:

TeleNav is the leading provider of location based services (LBS) for mobile devices, including the carrier-branded navigation applications offered by Sprint and AT&T. Its scalable, web-based platform integrates third party map, point of interest and traffic data, delivering voice guided directions on more than 500 types of mobile phones. The company has grown revenues rapidly by tapping into its carriers' vast distribution networks, and hopes to leverage its 14.5 million installed user base to gain a foothold in the nascent-but-promising mobile advertising market.

Rating Rationale:

TeleNav's hosted service model drives recurring, subscription-based revenues and strong cash flows. The company has rapidly and profitably grown sales of its core navigation product by leveraging the marketing and distribution infrastructure of key carrier partners, though maintaining exclusivity is a key concern given the high levels of revenue concentration. Overall, its large installed user base provides a first mover advantage, but pressure from OEMs and OS providers with free navigation applications could intensify anticipated margin pressures.

Business:

Provides voice guided navigation services for GPS-enabled mobile phones (94%), including the turn-by-turn navigation applications offered by leading US wireless carriers Sprint (55% of revenues) and AT&T (34%). In total, has 14.5 million end users and partners with 15 wireless carriers in 29 countries. US is 97% of sales. Integrates third party content to provide 3D moving maps, points of interest (POIs), traffic alerts, gas prices and weather updates. TeleNav's web-based delivery platform supports more than 500 types of handsets and all major operating systems. Client software is typically pre-installed on mobile phones, allowing users to access updated information and routing services without using device memory for map and POI storage. End users are generally billed on a monthly basis through their wireless carrier, which offer services on a bundled (Sprint) or stand-alone basis ($10/month for AT&T). Carriers pay TeleNav monthly fees on a per-subscriber or revenue sharing basis. Other 6% of revenue is generated from mobile phone-based workforce management/tracking systems (Xerox) and in-dash navigation systems (Ford). Also targets mobile/location based advertising. Relies on the marketing and distribution channels of its wireless network partners to drive adoption; also sells directly to end users through its website and mobile phone application stores (iTunes App Store). R&D team consists of 670 employees, primarily located in China. Leases data center space in Sunnyvale, Sacramento and Santa Clara.

Competition:

Has roughly a 20-25% share of the US mobile navigation market based on calendar 2009 revenues. The LBS market is highly competitive, with free services available from Nokia and Google. Other competitors include Navigon, TeleCommunication Systems (which supports Verizon's "VZ Navigator" application) and Telmap, as well as personal navigation device providers Garmin and TomTom.

Key Issues:

Free mobile phone-based navigation services from OEMs (Nokia) and OS providers (Google) may pose a significant threat. Relies on Sprint (55%) and AT&T (34%) for a substantial portion of revenues, though exclusivity rights roll off on Dec. 31, 2010 and March 19, 2011, respectively. ARPU has declined sequentially for 8 consecutive quarters, and fell 16% y/y in the fiscal 3Q10. Gross margins will continue to decline due to bundling and investments in new products. Faces multiple unresolved infringement claims and may be forced to defend carrier partners from similar IP litigation. Relies on third-party data and content from Tele Atlas and NAVTEQ, which are owned by competitors TomTom and Nokia, respectively. YTD cash flow has trailed net income due to a spike in receivables. Has a lengthy and complex sales process for new wireless carriers, particularly in new geographic markets which have language and regulatory hurdles. The company receives a fixed fee or revenue share per user, regardless of usage.

Income Statement Data

FY Jun ($ in mil)	**2007**	**2008**	**2009**	**YTD**
Sales	$27.7	$48.1	$110.9	$121.7
Gross Profit	19.8	36.7	90.6	100.5
EBITDA	-9.3	6.7	45.2	55.6
Operating Income	-10.4	4.8	42.3	50.6
Adjusted Net Income†	-9.5	5.0	30.0	32.2
Adjusted EPS†	**-0.88**	**0.14**	**0.85**	**$1.12**
Margins				
Gross Margin	71.3%	76.4%	81.7%	82.6%
EBITDA Margin	-33.7%	14.0%	40.8%	45.7%
Operating Margin	-37.4%	9.9%	38.1%	41.6%
Adjusted Net Margin†	-34.8%	9.6%	26.7%	26.5%
Cash Flow Data				
CFFO	-$6.6	-$0.3	$23.9	$19.9
Less: Capex	2.5	1.7	7.8	7.2
Free Cash Flow	-9.1	-2.0	16.0	12.7
Additional Data				
Monthly ARPU	$5.21	$3.58	$1.28	$1.05
Avg. end users *(in mil)*	0.4	1.1	7.1	12.7
Sprint *(% of sales)*	90%	62%	61%	55%
AT&T *(% of sales)*	2%	26%	29%	34%

†Adjusted net income excludes tax adjusted stock compensation.

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Latest Results and Outlook

Recent Financial Trends:

For the nine months ended March 2010, revenue increased 59% as a result of a 102% increase in average monthly paying end users, primarily due to adoption of Sprint's bundled "Simply Everything" plans, which provide navigation services at no additional charge. The strong user growth was partly offset by a 21% decline in monthly ARPU driven by an increasing mix of carrier-branded and bundled channels, in addition to a fee reduction from key partner Sprint; in July 2009, TeleNav agreed to lower Sprint's per-user fees in exchange for an extension of its exclusive agreement through calendar 2010. Gross profit grew 60% as the result of lower content and customer support costs, which were partially offset by the decrease in ARPU and rising per-subscriber usage rates. Operating profit grew 77% due to strong leverage on sales and marketing costs, though adjusted net income grew more slowly at 64% as the result of a tax benefit in the prior stub period. Cash flow from operations declined by 9% due to a $14 million increase in receivables.

Outlook:

After impressive 51% y/y revenue growth in the March fiscal 3Q, we project 42% growth for the June 4Q, producing full-year revenue and EBITDA of $170 million (+54%) and $77 million (+70%), respectively.

Though management's target model calls for 20-25% long term revenue growth, it anticipates moderate gross margin erosion (to 72%-75%) as a result of the mix shift toward bundled mobile navigation sales, increased per-subscriber usage and investments in its platform. Consequently, the company sees long term EBITDA margins between 33%-36% and adjusted net margins in the 16%-19% range, with capex running at 5% of sales. We project 25% top line growth for FY11, at the high end of the target range, with gross margins contracting to 78%. Further, we expect near-term overhead pressure due to administrative and R&D headcount additions. As a result, we model a y/y decline in EBITDA to $73 million (34% margin), though in later years, leverage on operating costs should at least partially offset gross margin declines. With EBITDA and net margins stabilizing at 35% and 19%, respectively, the company could approach $1.50 in adjusted EPS by 2014.

Interim Results - *3 months ended*

($ in mil)	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
Sales	$29.8	$34.3	$36.0	$40.5	$45.1
Gross Margin	82.3%	81.1%	80.4%	83.0%	84.1%
EBITDA Margin	42.6%	42.5%	44.2%	46.2%	46.4%
Operating Margin	40.1%	39.8%	40.5%	42.0%	42.2%
Adjusted Net Margin	25.2%	30.6%	23.0%	25.8%	28.7%
Cash Flow Data					
CFFO	$19.4	$2.0	$15.4	$7.0	-$2.6
Less: Capex	1.7	4.0	3.7	1.8	1.7
Free Cash Flow	17.7	-2.0	11.8	5.2	-4.2
Additional Data					
Monthly ARPU	$1.21	$1.18	$1.10	$1.04	$1.02
Avg. end users (in mil)	8.0	9.5	10.8	12.7	14.5

Interim Results - *9 months ended*

($ in mil)	Mar-09	Mar-10	% Chg
Sales	$76.6	$121.7	*59%*
Gross Profit	62.9	100.5	*60%*
EBITDA	30.6	55.6	*81%*
Operating Income	28.7	50.6	*77%*
Adjusted Net Income	19.6	32.2	*64%*
Adjusted EPS	**0.71**	**1.12**	***58%***
Margins			
Gross Margin	82.0%	82.6%	
EBITDA Margin	40.0%	45.7%	
Operating Margin	37.4%	41.6%	
Adjusted Net Margin	25.6%	26.5%	
Cash Flow Data			
CFFO	$21.9	$19.9	
Less: Capex	3.8	7.2	
Free Cash Flow	18.1	12.7	
Additional Data			
Monthly ARPU	$1.33	$1.05	
Avg. end users (in mil)	6.3	12.7	
Sprint (% of sales)	--	55%	
AT&T (% of sales)	--	34%	

Balance Sheet Data	Actual	Post IPO
($ in mil)	3/31/10	3/31/10
Cash	$46.1	$90.8
Working Capital	74.9	119.6
Total Assets	110.1	154.8
Total Debt	0.0	0.0
Shareholders' Equity	34.2	134.9

Corporate Governance — Rating: Strong

Management has built an impressive track record of rapid-yet-profitable growth and maintains a respectable 12% ownership stake following the IPO. The CFO has public company experience and executive compensation is very reasonable. That said, only one of six board members is independent by our standards, and there was modest insider selling on the deal ($12 million). Nonetheless, management's solid execution keeps our governance rating at strong.

Key Executive	Age	Position	Corporate Background
H.P. Jin	46	CEO & Chairman	Co-founder. Chairman and CEO since inception in 1999. Previously served in strategy consulting roles at McKenna Group and McKinsey & Co. Earlier, was technical director at LINCSS, a division of Loral Space & Communications.
Douglas Miller	52	CFO	Since 2006. From 2005 to 2006 was CFO of telecom software provider Longboard. Earlier, held various positions at Synplicity

Key Shareholder	Holdings	Additional Details
Samuel Chen	26.9%	Angel investor. Director since 2002. Invested $5.2 million in a 2004 convertible notes offering and $1.4 million in a 2006 preferred stock deal. Sold 2.2% of his holdings ($2.1 million) on the IPO.
Menlo Ventures	14.6%	Menlo Park, CA-based venture firm. Invested $16.2 million in a 2006 preferred stock deal. Includes 875,000 shares that it indicated it would purchase on the IPO. Holds one board seat.
Executives	12.0%	Includes the CEO (4.0%). Roughly half represents options at $6.12 or below. As a group, sold 71,743 shares ($574k) on the IPO.
iGlobe Partners Fund	7.5%	Singapore-based venture firm. Invested $250,000 in a 2004 convertible notes offering and $594,000 in a 2006 preferred stock deal. Sold 11.4% of its holdings ($3.3 million) on the IPO. Holds two board seats.

Relative Valuation — Rating: Very Strong

At 3.7x EV/CY11 EBITDA, Telenav is trading at a 28% implied discount (40% upside) to the 5.6x average multiple of its telecom systems/navigation peer group. Admittedly, peer multiples have contracted since our pre-IPO report, punctuated by a 18% selloff for mobile navigation competitor TeleCommunication Systems. However, the lack of a pure-play comparable should compel investors to apply a greater weight to our perpetuity DCF approach, which implies nearly 50% upside.

Valuation Methods

	DCF	Relative
Methodology	Perpetuity	5.6x 2011 EBITDA
Implied Value	$12.51	$11.71
Upside/Downside	+49%	+40%

View DCF Model at www.ipointelligence.com/iporesearch/

Comparable Financial Analysis

IPO and Key Peers	*FY*	*Sales (US$)*	*GM %*	*EBITDA %*	*EBIT %*	*Net %*	*ROE %*	*Debt-to-Capital*	*MRQ Growth*	*Capex/ Sales*
TeleNav	**Jun**	**$155.9**	**82.3%**	**45.0%**	**41.2%**	**26.4%**	**32.5%**	**0.0%**	**51%**	**7.2%**
TeleCommunication Systems	Dec	$320.5	38.1%	14.4%	10.2%	8.9%	22.7%	48.4%	29%	1.7%
Syniverse Holdings	Dec	$523.1	63.8%	40.6%	27.7%	13.4%	22.1%	44.3%	37%	8.5%
NeuStar	Dec	$496.2	76.9%	44.0%	36.1%	20.6%	26.2%	3.4%	14%	6.3%
Garmin	Dec	$2,940.8	50.3%	30.9%	27.6%	23.6%	21.6%	0.0%	-1%	1.4%
TomTom	Dec	$1,888.9	50.0%	23.9%	16.9%	8.2%	14.4%	43.5%	26%	1.0%
Openwave Systems	Jun	$187.6	59.5%	2.9%	-1.2%	-3.4%	10.4%	0.0%	-10%	1.7%
Group Average			**52.9%**	**23.6%**	**17.5%**	**11.0%**	**18.0%**	**19.9%**	**22%**	**3.1%**

Note: All dollars are in millions. All financial metrics are based on LTM data; return metrics are based on forward estimates.

Comparable Valuation Analysis

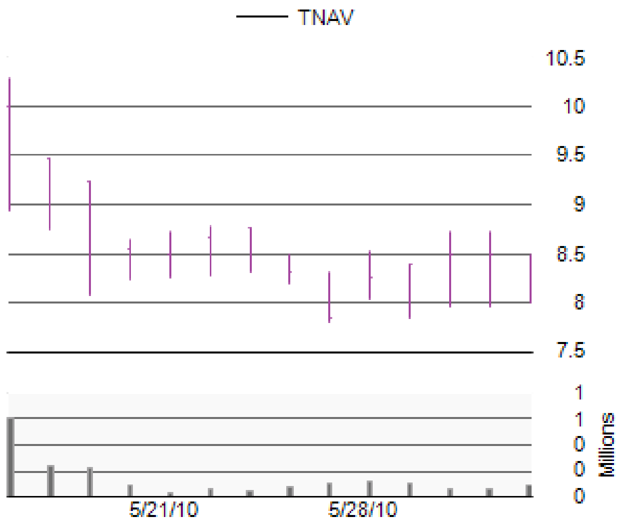
IPO and Key Peers	*Ticker*	*Price*	*Market Value*	*Enterprise Value*	*EV-to-EBITDA 2010*	*EV-to-EBITDA 2011*	*P/E 2010*	*P/E 2011*	*LT Growth*	*P/E/G 2011*	*P/CF*
TeleNav	**TNAV**	**$8.39**	**$383.1**	**$292.3**	**3.8x**	**3.7x**	**8.2x**	**8.7x**	**15%**	**0.6x**	**17.5x**
TeleCommunication Systems	TSYS	$5.12	$344.3	$451.0	5.8x	4.9x	8.1x	7.8x	14%	0.6x	4.4x
Syniverse Holdings	SVR	$19.73	$1,353.1	$1,761.1	6.9x	6.3x	10.5x	9.7x	14%	0.7x	9.4x
NeuStar	NSR	$21.03	$1,597.1	$1,261.3	5.4x	4.8x	13.2x	11.4x	14%	0.8x	10.7x
Garmin	GRMN	$33.10	$6,656.1	$5,345.1	6.9x	7.2x	11.4x	12.0x	9%	1.4x	6.7x
TomTom	TOM2 NA	€5.33	$1,456.3	$2,021.6	5.6x	5.6x	8.5x	8.0x	10%	0.8x	3.7x
Openwave Systems	OPWV	$2.11	$176.3	$67.3	6.3x	4.6x	55.5x	22.7x	20%	1.1x	n/a
Group Average					**6.2x**	**5.6x**	**17.9x**	**11.9x**	**13%**	**0.9x**	**7.0x**

Note: All dollars are in millions except for per share amounts. Multiples based on calendar year estimates. EV/EBITDA averages exclude INSP. P/E averages exclude OPWV.

Technical Strength — Rating: Weak

Stock Performance of IPO and its Peer Group

TNAV



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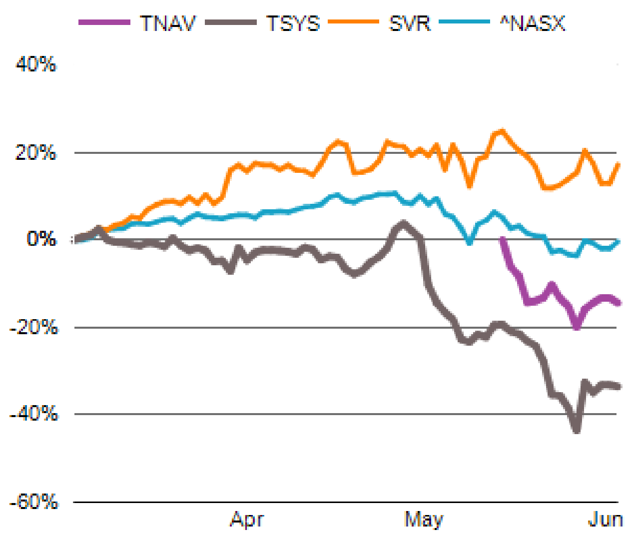
IPO Performance Data

First Day	23%
Aftermarket	-14%
Total Return	5%
Quiet Period Release	6/22/2010
Lock-up Release	11/8/2010
Days to Lock-Up Release	159
Shares Available for Sale	34,929,220
Percent of Total Shares Outstanding	76%

TNAV vs Key Publicly-Traded Peers vs Index



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Publicly - Traded Peer Group

Key Peers	*Ticker*	*Stock Price*	*1-Mo. Return*	*3-Mo. Return*	*YTD Return*
TeleCommunication Systems	TSYS	$5.12	-26%	-34%	-47%
Syniverse Holdings	SVR	$19.73	-2%	17%	13%
NeuStar	NSR	$21.03	-14%	-12%	-9%
Garmin	GRMN	$33.10	-11%	0%	8%
TomTom	TOM2 NA	€5.33	-13%	-8%	-15%
Openwave Systems	OPWV	$2.11	-5%	-22%	-7%
Indexes					
Nasdaq Composite Index	CCMP	2,281.07	-7%	0%	1%
S&P 500 Index	SPX	1,098.38	-7%	-2%	-1%
FTSE Renaissance IPO Index	IPOS	212.35	-5%	-2%	-2%

Stock prices as of 06/02/10

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Outperform	20%
Marketperform	74.9%
Underperform	5.1%

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