

Corrected Note

## TeleNav, Inc.

F3Q11 Results: Stabilizing, Resuming Growth;  
Increasing Ests. and PT

TNAV reported F3Q results that beat expectations, even adjusting for a one-time revenue benefit from a change to automotive revenue recognition. Gross margins appear to be stabilizing notwithstanding the shift to fixed revenues for the Sprint bundling solution, and revenues from strategic growth initiatives (enterprise solutions, premium services, auto, and Ad-based) continue to grow faster than the overall business. We believe TNAV will resume sequential growth now, and with a moderating decline in gross margins, there is potential for upside to our upwardly revised estimates. Solid execution, ever since the Sprint contract shock in July 2010, warrants a higher multiple in our view. **Price Target goes to \$13.00. Maintain Neutral; we believe the stock is close to full value.**

- **TNAV beat F3Q11 expectations**, reporting PF EPS of \$0.27 on revenue of \$57.1mm (JPM prior est \$0.18/48.6mm, Street \$0.18/\$49.2mm). Adjusting for a one-time \$6.6mm revenue benefit relating to a change in the revenue recognition for the Ford contract, the company still beat expectations, and the high-end of guidance, slightly. TNAV ended F3Q with over 23 million subscribers. Revenue at Sprint has now stabilized, revenue in all other categories continues to grow, with the strategic growth initiatives (enterprise solutions, premium services, auto and Ad-based) growing to about 8% of revenue (excluding the \$6.6mm one-time). The balance sheet remains in excellent shape, buoyed this quarter by a very significant increase in deferred, largely relating to Sprint.
- **Other positives.** TNAV repurchased 640K shares intra-quarter (at an average price of \$11.56 p/share) and is still authorized to purchase \$10.3mm of shares. The balance sheet supports expansion of this program. China Mobile has now launched with TNAV navigation services in multiple regions, revenues should grow starting in late 2011. TNAV has also launched with Nextel in Mexico. Applications have been developed for the Apple and Android platforms, in the latter case focused on Verizon. TNAV continues to ramp sales and software development resources in pursuit of future growth opportunities; 40% of the development resource is focused on international markets.

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

	2010A	2011E (Old)	2011E (New)	2012E (Old)	2012E (New)	2013E
EPS - Recurring (\$)						
Q1 (Sep)	0.22	0.29A	0.29A	0.16	0.17	0.17
Q2 (Dec)	0.28	0.24A	0.24A	0.15	0.17	0.18
Q3 (Mar)	0.34	0.18	0.27A	0.15	0.16	0.18
Q4 (Jun)	0.31	0.16	0.19	0.15	0.16	0.19
FY	1.15	0.86	0.99	0.61	0.67	0.72
CY	1.18	0.64	0.80	0.58	0.68	0.76
EBITDA CY (\$ mn)	86	61	73	58	64	74
Revenues FY (\$ mn)	171	197	208	210	217	238

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

GAAP EPS estimates: FY09A=\$1.02; FY10A=\$1.07; FY11: 1QA=\$0.27, 2QA=\$0.22, 3QA=\$0.25, 4QE=\$0.17; FY11E=\$0.92; FY12E=\$0.60

## Neutral

TNAV, TNAV US

Price: \$11.47

Price Target: \$13.00

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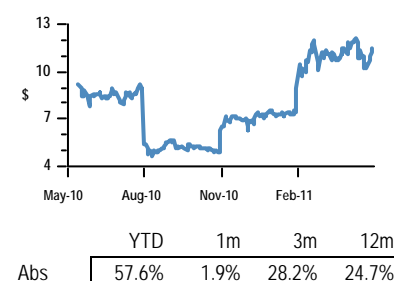
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## Price Performance



## SMid Cap Research

THINK BIG, BUY SMALL

We updated our summary  
financials page for quarterly 2011  
estimates.

## Company Data

Price (\$)	11.47
Date Of Price	28 Apr 11
52-week Range (\$)	12.56 - 4.65
Mkt Cap (\$ mn)	514.93
Fiscal Year End	Jun
Shares O/S (mn)	45
Price Target (\$)	13.00
Price Target End Date	31 Dec 11

See page 5 for analyst certification and important disclosures.

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- **Guidance is ahead of expectations.** TNAV looks for F4Q PF EPS of \$0.18-\$0.20 on revenue of \$52-\$54mm (JPM prior est \$0.16/\$49.4mm, street \$0.17/\$50.2mm). We are adjusting estimates to align, and we are taking up estimates through CY12, primarily because gross margins are not declining as rapidly as we anticipated, notwithstanding the shift to fixed revenues at Sprint.
- **We maintain a Neutral Rating for TNAV**, but we believe an upward re-rating to the multiple is justified by three quarters of solid execution following the disappointing revision to the Sprint contract that took place in July 2010. Our Price Target goes to \$13.00 based on 6 times revised CY12E EV/EBITDA of \$64.3mm, a one-turn increase to the multiple.

## Valuation

**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 auto, premium and ad-based navigation services, and better visibility into re-accelerating revenue and earnings growth.

**Our December 2011 price target is \$13.00** based on an assigned multiple of 6 times revised CY12E PF EBITDA of \$64.3mm (previously \$58.1m). Our revised multiple is one turn closer to the mean for the comms software/services peer group current median multiple of ~7x, but with a discount that takes into consideration significant shifts and risks 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	3Q11A	4Q11E
Revenues	171	208	217	238	Revenues	51	48	57	52
Cost of products sold	29	41	56	67	Cost of products sold	9	9	13	11
Gross profit	142	167	160	171	Gross profit	42	39	44	41
SG&A	32	44	52	55	SG&A	8	11	12	13
R&D	42	56	63	69	R&D	13	13	14	15
Stock based comp.	5	4	6	7	Stock based comp.	1	1	1	1
Non-cash charges	-	-	-	-	Non-cash charges	-	-	-	-
Operating Income	68	67	44	48	Operating Income	21	15	18	13
EBITDA	78	83	64	69	EBITDA	24	19	23	17
Other income / (expense)	(0)	0	(0)	(0)	Other income / (expense)	0	0	(0)	(0)
Pre-tax income	68	68	46	50	Pre-tax income	21	15	18	13
Income taxes	27	26	19	20	Income taxes	9	5	7	5
Net income - GAAP	41	42	28	30	Net income - GAAP	12	10	11	8
Net income PF	45	45	31	34	Net income PF	13	11	12	9
Diluted shares outstanding	39	45	47	48	Diluted shares outstanding	45	45	45	46
EPS - GAAP	1.07	0.92	0.60	0.63	EPS - GAAP	0.27	0.22	0.25	0.17
EPS PF	1.15	0.99	0.67	0.72	EPS PF	0.29	0.24	0.27	0.19
Balance Sheet and Cash Flow Data	FY10A	FY11E	FY12E	FY13E	Ratio Analysis	FY10A	FY11E	FY12E	FY13E
Cash and cash equivalents	113	200	241	280	Sales growth	54.4%	21.7%	4.1%	9.7%
Accounts receivable	37	40	42	46	EBIT growth	72.1%	(3.9%)	(29.0%)	9.2%
Inventories	0	0	0	0	EPS growth	11.0%	(14.3%)	(32.1%)	7.4%
Other current assets	5	10	10	10	Gross margin	82.8%	80.1%	74.0%	72.0%
Current assets	155	250	293	336	EBIT margin	43.0%	34.0%	23.2%	23.1%
PP&E	10	7	5	6	EBITDA margin	45.9%	39.8%	29.3%	29.0%
Long-term portfolio investments	-	-	-	-	Tax rate	39.1%	38.7%	40.0%	40.0%
Goodwill and intangibles	-	-	-	-	Net margin	26.2%	21.5%	14.5%	14.5%
Total assets	175	263	304	348	Debt / EBITDA	0.0	0.0	0.0	0.0
Accounts payable	3	3	4	5	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Deferred revenues	7	52	57	62	Return on assets (ROA)	36.4%	20.5%	11.1%	10.5%
Total debt	0	0	0	0	Return on equity (ROE)	58.9%	26.7%	15.4%	14.4%
Total liabilities	26	76	84	90	Return on invested capital (ROIC)	77.4%	81.2%	60.5%	61.1%
Shareholders' equity	149	187	221	258	Enterprise value / Sales	1.6	0.9	0.7	0.4
Net Income (including charges)	41	42	28	34	Enterprise value / EBITDA	-	-	-	-
D&A	5	11	13	14	Free cash flow yield	11.1%	24.5%	10.2%	9.5%
Change in Working Capital	(7)	45	6	3	P/E	10.8	12.5	19.3	18.2
Other	-	-	-	-					
Cash flow from operations	44	103	53	54					
Capex	(7)	(7)	(11)	(15)					
Free cash flow	37	96	41	39					
Cash flow from investing activities	(10)	(179)	(11)	(15)					
Cash flow from financing activities	45	(7)	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

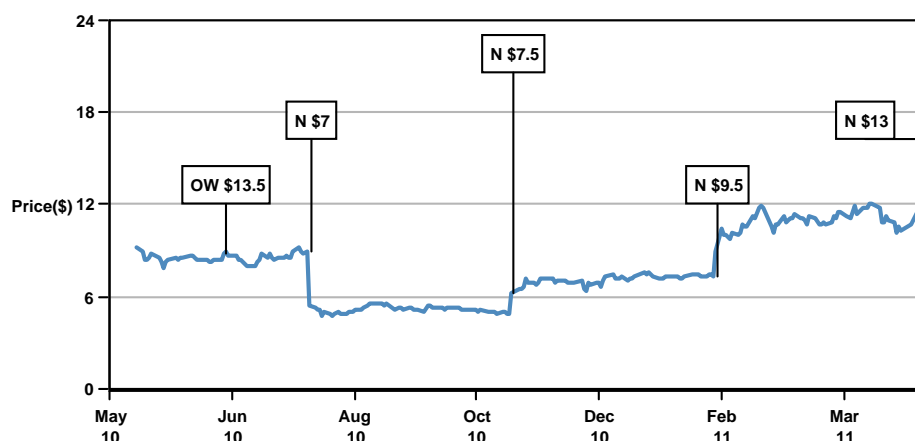
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### TeleNav, Inc. (TNAV) Price Chart



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	6.29	7.50
28-Jan-11	N	7.37	9.50
29-Apr-11	N	11.47	13.00

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