

ASX release

23 August 2017

NEARMAP (ASX:NEA) FY17 RESULTS – CEO & CFO CONFERENCE CALL TRANSCRIPT

Dr Rob Newman, CEO & Managing Director

We have released our results, an investor presentation and an accompanying analyst pack to the ASX this morning. We will be referring to pages in the investor presentation on this call.

I'll begin the call with the highlights of our performance in FY17 and our achievements in the year. Andy Watt will then take you through the results for the full year in detail. I will then provide an overview of Nearmap's outlook and key priorities for the FY18 financial year. After our presentation, we will open the call to take questions.

I am pleased to report that FY17 has been a year of significant progress for Nearmap. We have designed proprietary market leading imaging technologies and are now deploying these to deliver an expanded product suite. Our US business is entering the growth phase of its development, with a solid operational base and an accelerating subscription portfolio.

Our Australian business continues to grow strongly under new leadership, which brings focus to both sales and marketing. Our cash generative business model continues fund our growth. All the while, we continued to deliver on the key metrics by which our business is measured, including delivering on our EBITDA guidance provided at the time of the capital raise.

I would now like to discuss some of these key achievements in further detail.

Perhaps the most significant achievement of Nearmap in FY17 has been the advances in our product and technology, which have taken us from a one product to a multiple product company. This is shown on page 4. Consistent with the capital raise, we have manufactured our next generation HyperCamera2 systems and are now capturing, and making available to our customers, oblique imagery from them.

We have already captured and published content from 12 major US cities from our target of 50% US population coverage. Over the next few months, we will also have captured the five major metropolitan cities in Australia.

nearmap.com

Level 6, 6-8 Underwood Street, Sydney NSW 2000
PO Box R1831, Royal Exchange, NSW 1225
Telephone +61 2 8076 0700 Facsimile +61 2 8076 0701
Email queries@nearmap.com Twitter @nearmap
ABN 37 083 702 907



We are excited about the opportunities and use cases which this oblique imagery brings to our customers, and even more excited about the 3D products which this imagery will enable. I will talk about these more later in this call.

Our HyperCamera2 capture in the US has also increased the frequency with which we are capturing areas of the United States from 2 to 3. In Australia, we increased the frequency of our capture in regional centres and expanded our capture footprint to areas of urban development on the fringes of major metropolitan cities, in response to clear demand from our customers.

In addition, we have enhanced our product delivery platforms to improve both the customer experience, but also to provide a scalable platform for growth. This is important as our customer portfolio expands and as we start to deliver higher value products from our oblique imagery.

These enhancements have been enabled by our investment in FY17 in building the skill set of our people to support this growth. Please turn to page 5.

We have restructured the Australian sales and marketing operation with the commencement of new Vice Presidents of Sales and Marketing, as we increase the sophistication and focus of our sales and marketing efforts. This is targeted at not just continuing the growth in the 2D market, but to rapidly capture the significant opportunity in the Australian market which oblique imagery and 3D content provides.

Our US sales and marketing team has continued to grow, as the efficiency of their effort scales and demonstrates return on our investment. Andy will talk more about this return shortly.

Pleasingly, we have also recruited several senior staff in the US from our competitors, as the disruptive nature of our business model really begins to impact the broader market there.

Just as our product and technology are core to Nearmap, so are the people who develop and maintain that competitive advantage for us. We have continued to add to our skill sets that area, but also to take advantage of the opportunities which our expanded product suite brings.

As these changes have been taking place, the value our customers place on our content has continued to grow, as shown on page 6. As a subscription business, the size of our portfolio is best measured by ACV (or Annualised Contract Value). At any point in time this represents the annualised value of all subscription contracts for Nearmap content.

As at 30 June, our Group ACV was \$47.0M, up 29% on the prior comparative period. Growth in ACV is a good leading indicator to revenue growth.

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This growth has come in part from 9% growth in the number of subscriptions relative to the prior comparative period. This represents not only our ability to retain customers, but also to add new customers in both Australia and the US.

The ACV growth has also come from increasing the Average Revenue Per Subscription by 18%. This reflects our customers increasing use of our product and our ability to close larger deals. It also reflects that we continue to succeed in our 'land and expand' sales strategy, with \$5.5M of our portfolio growth coming from upsell to our existing customers in Australia and the US.

Our group churn as measured by ACV value fell from 13% to 10% in FY17 which reflects that our products are increasingly a key part of our customers workflow. This has resulted in our group portfolio lifetime value increasing to \$365.5M, from \$223.9M at 30 June 2016.

The US ACV portfolio now represents approximately 15% of the total group portfolio, and as the US business begins to generate positive gross margins, the US portfolio should show an increasing contribution to group portfolio lifetime value.

The diversity of the group ACV portfolio is demonstrated on page 7. The largest customer segment for the group is in the Architecture, Construction and Engineering sector, which accounts for just over one quarter of our group portfolio. Other significant industry segments include our focus sectors of utilities, government, insurance & property, and solar.

Importantly, 30% of our customers come from other industry sectors, demonstrating both the range of application of Nearmap's content and the lack of Nearmap's reliance on any one industry or economic sector.

I would now like to hand over to Andy who will take you through the financial results for FY17, as well as more detail on the ACV portfolio in each market.

Mr Andy Watt, Chief Financial Officer

Thanks Rob, and good morning everyone. Let me walk you through the financial results for FY17, starting at page 9.

Rob highlighted strong growth in our key customer metrics, and this is also reflected in strong performance in each of our key financial metrics. Group revenues in the year grew 31% to \$41.1M reflecting the growth in our ACV portfolio. A focus on disciplined cost management means that this revenue growth was delivered with only a 13% increase in group expenses. Further evidence of the operating leverage of our business model is demonstrated by our gross margins and group sales team contribution ratio which remain above 80% and 90% respectively. As the summary P&L shows, we delivered EBITDA in the year of \$6M which was within guidance, and following our capital raise during the year we closed with a cash balance of \$28.3M.

Before turning in detail to our financial results, let me outline the growth in our ACV portfolio by territory. Page 10 shows that the US ACV portfolio more than tripled in size to US\$5.3M, as the productivity of the sales and marketing efforts doubled during the year.

The majority of this growth was generated through new customer acquisitions, but we also saw the positive impact of our land and expand sales strategy, with a near 50% upsell on our opening ACV portfolio. Overall, our average revenue per subscription doubled to more than US\$8,700 providing a key indicator to the considerable success that we've had in establishing growth and scale in our US operations.

Turning to the composition of the US ACV portfolio on page 11 - our portfolio is diversified among our focus industry sectors in the US, those being Architecture Construction & Engineering, Solar, Local Government and Insurance & Property.

I spoke before about the growth in our average revenue per subscription and you can see from the chart that this is reflected by the fact that of over half of our ACV is derived from large enterprise customers. This highlights the size and established nature of the US market which allows us to land further up the value chain, and also shows the success of our sales strategy to target large enterprise clients.

Turning to Australian ACV on page 12, FY17 saw our portfolio grow 16% to \$40M, with growth in the second half of the year exceeding that in the first half. Pleasingly, our growth was generated through both an increase in the number of subscriptions and an increase in the average value of those subscriptions to over \$5,500. Incremental ACV in the period comprised \$9M of new business and net upsell, split evenly between the two, whilst portfolio churn reduced to below 10% for the year reflecting an increased focus on managing customer retention.

The Australian portfolio diversity is shown on page 13, with the largest industry segment of Architecture Construction & Engineering accounting for just over a quarter of the portfolio, and with strong representation in utilities and government. The range of applications for which the Nearmap product is used is reflected by the Commercial & Other segment which accounts for one third of the portfolio size but nearly 60% of total customer subscriptions.

ACV portfolio growth is a forward indicator to our group revenue and page 14 shows the growth in our Australian and US revenues rebased to the first year of capture. In FY17 Australian subscription revenues grew 22% to \$36.3M, whilst US subscription revenues more than quadrupled to \$4.3M. The chart demonstrates that the US is already tracking ahead of Australia in the 4th year of capture. Our closing US portfolio of US\$5.3M, which translates to AU\$7M, gives us a run rate that is already ahead of the Year 5 Australian revenue figure.

Before turning to the segment results, I'd like to outline the two main efficiency metrics that we use to manage our distribution businesses. The first is our gross margin as set out on page 15. Cash spend on capture costs increased in both the US and Australia as we expanded the capture footprint in both territories, we commenced HyperCamera2 capture in the US and we undertook a pilot commercial capture of New Zealand. Gross margins of 90% were maintained in Australia, and the US approaches gross margin breakeven as revenue growth outpaces the cost of revenue growth. This signifies that we're approaching a key milestone in the US whereby our ACV will cover the fixed cash costs of capture, meaning that our net investment in the US focusses on sales and marketing to further grow ACV.

The other key driver of the returns in our distribution businesses is our sales team contribution ratio which we've spoken about at length before. We run targeted marketing strategies in both territories focused on key channels, and combine these with direct sales efforts aimed at both winning new customers and expanding our penetration with existing customers.

As noted on page 16, the contribution ratios in the US and Australia are both well above 80% meaning that we recover the costs of generating an incremental dollar of ACV in just over a year. We use the sales team contribution ratio to determine the rate at which to invest in sales and marketing, and we'll continue to invest progressively as we see positive returns.

Turning now to the segment results on pages 17 through 19, the US had a very strong FY17 with revenue quadrupling, gross margins approaching break even, sales team contribution ratio doubling, and overheads remaining broadly consistent with prior year. The US now constitutes more than 10% of our group revenues and with the efficiency and growth metrics as previously mentioned, there exists a strong platform upon which we can layer further investment to accelerate growth opportunities.

Australia's segment results on page 18 highlight continued revenue growth and operating leverage throughout the cost base, generating strong EBIT growth and free cashflows which, as we'll see shortly, allow us to generate positive group operating cashflows.

Outside of our two distribution businesses, our corporate segment comprises product and technology, and the general corporate functions. The table on page 19 shows that these expenses increased by only 6% in the year to \$14.3M. This compares to 31% revenue growth, highlighting disciplined cost management and yet more evidence of the operational leverage within our business model.

Our product and technology investment as shown on page 20 shows a continuing commitment to maintain and enhance our technology leadership position. Investment in capital development initiatives grew to \$9.5M in FY17 primarily relating to the development and construction of HyperCamera2 and related software, whilst the relatively low cost of maintaining existing software and systems reflects the capital light nature of the business model.

The cashflow waterfall on page 21, is a chart we've shown previously to demonstrate the benefits of the subscription model and to highlight the strength of our cash position. It also highlights the different lifecycle stages between the Australian and US businesses.

Net cash inflows from the Australian business were a healthy \$21.8M, up from \$19.2M in FY16. Cash investment of \$14.5M in the US was slightly below the cash investment in FY16. Significantly, we are able to use the operating cashflows from the Australian business to self-fund US and Corporate operations, with the proceeds of the capital raise available to fund product and technology growth initiatives. We ended the year with a cash balance of \$28.3M, which includes the net proceeds of the November capital raise and the associated shareholder purchase plan.

So looking at page 22 and summarising our FY17 performance:

- We saw continued positive trends in our key operational metrics in both Australia and the US. The Australian business continues to grow, with a market leading position and strong free cashflows. Our US business is developing well in a larger and more established market, with momentum building and key milestones delivered;
- Scalability and operational leverage are demonstrated through gross margin management and strong sales team contribution ratios;
- Revenue growth, combined with a continued focus on cost management discipline, delivered EBITDA within guidance; and
- The strength and security of our balance sheet following the capital raise gives us the confidence, and the flexibility, to invest in future growth opportunities.

nearmap.com

Level 6, 6-8 Underwood Street, Sydney NSW 2000
PO Box R1831, Royal Exchange, NSW 1225
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We exit FY17 in a very strong operational and financial position and Rob will now talk about what the future holds for our company.

Dr Rob Newman, CEO & Managing Director

If you turn to page 24 in the results deck, I would like to start by outlining the broader structural trends in our world which support Nearmap's market growth opportunity.

There are a number of key forces changing the world we live in which provide strong tailwinds to Nearmap's business model.

The world, and our knowledge of it, is increasingly being made available in digital form, allowing previously unimagined insights into the world around us. Coupled with the growth in the internet and the explosion of cloud based services, business users are demanding anytime, anywhere access to a digital model of reality.

More broadly, the world is becoming increasingly urbanised. More than half of the world's population now lives in urban areas, a trend which is forecast to continue as the century progresses. This presents urgent challenges for anyone interacting with the urban environment and ensuring it meets the needs of those who inhabit it. Hand in hand with this, climate change and the sustainability of our environment are challenges which need to be addressed.

At Nearmap, we believe if we change the way people view the world, we can profoundly change the way they work. We have already done this by disrupting the existing bespoke and arcane industry of aerial imagery. We have unlocked location content and brought the real world to a much broader set of users.

The location markets in which we operate are already significant and rapidly growing. We believe that our oblique imagery provides the opportunity to increase our addressable market - all before the market growth brought about by our 3D products.

Nearmap enters FY18 with the clear capability to grow both our existing business and grow the overall market. We have large and growing subscription base in Australia providing high quality recurring revenues. The sales in our US business will more than cover our capture costs in that geography in FY18. This means our net investment in the US is focused on our sales and marketing, which is targeted to grow our portfolio. This is an important milestone as we are now able to control our investment in the US to drive our rate of growth.

The other positive event in the US is the extended product range as a result of our technology investment in FY17. It is these additional products which I would now like to focus, on page 25.

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Level 6, 6-8 Underwood Street, Sydney NSW 2000
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Our 2D product is already the market leader in Australia and in a growing market. We also expect continued growth in the size of the 2D market in the United States. Expanding our product set with oblique imagery now increases our strength in the Australian and US markets. In the US, there are a number of existing use cases for oblique imagery, particularly in the insurance, local government and roofing markets, where oblique imagery is expected. We can now compete in these markets with a superior product. In Australia, the use cases for oblique imagery are not yet well established, so this is an opportunity for Nearmap to take a leadership position again in creating this need.

By progressively making this imagery available to our customers, and being the first in that market to offer that imagery through our unique subscription platform, we enter FY18 with a new competitive strength in the market. This also brings with it the opportunity to leverage our understanding of the US use cases into the Australian market.

Having our oblique imagery available enables us to provide a third product set, namely derivative 3D products created from that imagery. Whilst 3D products have been available for some time, never has their availability been at the scale which we are now able to provide, and accessing these through a subscription platform rather than through a bespoke service will effectively see us create a new market in both the United States and Australia.

On page 26, we have set out some of the uses cases which that 3D content will enable. 3D visualisations of the reality of the ground can be incorporated into virtual reality and augmented reality applications. Digital surface models will enable customers to model solar performance or model wireless signal propagation for telecommunications. Point clouds will enable the extraction of data such as building features and footprint. And measurable oblique images will allow the manual extraction of building dimensions for use cases such as insurance and property tax assessment.

However, these are just some of the early uses cases we are aware of, and, as with the establishment of any new market, many will only become apparent as our customers begin to consume this content. We are aiming to deliver some of the early 3D product features to our customers during H1 of FY18. We are concurrently developing the pricing and delivery models for these products and will announce these in due course.

The availability of oblique imagery and 3D content is only one further step in Nearmap's evolution as shown on page 27. In November this year, we will celebrate the 10th anniversary since our first capture of imagery in Perth – imagery which is still available to our subscribers on our platform. From the adoption of a cloud based subscription business model, the development of HyperCamera1, the expansion into the US and the development of HyperCamera2 – the delivery of oblique imagery and derivative 3D products are simply the next step in the continuing growth and evolution of Nearmap.

nearmap.com

Level 6, 6-8 Underwood Street, Sydney NSW 2000
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As we move into FY18, we will continue our focus on taking those next steps in our evolution, whether through in-house capabilities or through partnerships. We have shown some of these areas on the chart on page 27 and are excited about the growth opportunities which these present.

To summarise as shown on page 28, Nearmap in FY18 will maintain a core focus which ensures that our growth continues. We will continue to innovate and increase the value of our content, complementing our 2D imagery with obliques and 3D and data analytics. And by delivering this content through the cloud it is easier for our customers to adopt.

We will utilise this broader product set to drive increased penetration into our business customers in both Australia and the United States, expanding our overall market opportunity. We will acquire world class talent to drive a global and scalable business, whether that is in sales & marketing, product & technology, or in our finance and operations. Above all, we are in a strong financial position based on the operational leverage of our business model and the funding base now available following our capital raise. But we will continue to be disciplined in the investments in our business.

As we have demonstrated in FY17, we will continue to execute on our growth priorities, deliver higher value products to our customers, and further disrupt the large and growing global market opportunity. We will have ongoing strong growth in ACV in the United States and Australia, consistent gross margins in Australia and becoming positive in the US. We will manage our investment in sales and marketing to maintain our sales team contribution ratio at a consistent level and commercialise our first mover advantage in 3D products.

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Nearmap Brings the Real World to You

We capture, manage and deliver the most frequently-updated location content in the world, allowing businesses and governments to explore their environment easily. With Nearmap, organisations unlock opportunities that consistently inform decision making and transform the way they work. Delivered within days of capture, our imagery is much higher resolution than satellite imagery and shows changes over time. Nearmap helps users save time and money, reduce site visits and make better informed decisions with current, clear imagery. Nearmap is delivered through our web-based MapBrowser or accessed via third party applications.

Further Information

Investors

Telephone +61 2 8076 0700
investor.relations@nearmap.com