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NEARMAP FY20 RESULT TRANSCRIPT

Dr. Rob Newman, Managing Director & Chief Executive Officer

Good morning and welcome to the Nearmap FY20 results conference call. I have with me Andy Watt, our Chief Financial Officer.

At Nearmap, we change the way people view the world, so that they can profoundly change the way they work. That is our mission and, in many ways, FY20 was a year which validated our Company's unique subscription business model and enabled our customers to change the way they work. Nearmap has always facilitated flexible working arrangements by reducing the need for costly, time consuming site visits. With companies needing to adapt to remote working and restricted travel, Nearmap provides a solution for businesses and government organisations to continue operating during times of profound disruption. In FY20 we also provided enhanced content to our customers to enable them to maintain productivity while staying safe and working remotely during COVID-19. In a period of significant economic uncertainty, our Company's unique value proposition was strengthened, as can be seen by an improvement in our retention and continued growth in our Annualised Contract Value, or ACV, which Andy will touch on later.

During FY20 our Company and our customers have been extraordinary witnesses to the unprecedented disruption in the world we live in. We have witnessed devastating bushfires in Australia, increasing intensity and frequency of hurricanes and tornados in North America, and the biggest disruption of all, COVID-19. We have captured the testing tents, the eerie emptiness of our beaches and major landmarks, and the social distancing in our parks and green spaces.

Despite all of the challenges in FY20, our Company remained focused and achieved a number of significant milestones over the last twelve months. As such, I want to acknowledge upfront the tremendous efforts of our people who have been supporting our customers during these difficult times. When COVID-19 hit, the health and wellbeing of our people was our key priority. Their transition to completely remote working without impacting service levels to our customers is testament to their passion and dedication this year.

Some of the significant achievements in FY20 include further extending our technology leadership and passing major growth milestones. In addition to the launch of Nearmap 3D at the conclusion of FY19, which provides customers the ability to stream and export 3D imagery on-demand at an unprecedented scale, we delivered another two new significant content types in FY20. We also passed \$100m in ACV and now serve more than 10,000 businesses and government organisations in North America, Australia and New Zealand.



We also saw increasing adoption of our premium content with over 50% of our portfolio accessing those products.

Following the release of Artificial Intelligence content in beta at the end of FY19, Nearmap AI was made commercially available for all of our customers in FY20. The scalable location intelligence insight that Nearmap AI provides is transformative for both our customers and our Company and adds substantially to our value proposition given we own both the content and the analytics on top of it. Nearmap AI delivers unparalleled location intelligence insights across 80 million properties in Australia and the United States, improving efficiencies for our customers and giving Nearmap a significant advantage over any other location content provider in those markets. Initially, our sales and marketing efforts will be in support of targeting some of our core growth verticals, such as our insurance and government, but will ultimately serve a broader set of use cases as well.

We also announced the acquisition of roof geometry technology and intellectual property, providing Nearmap with the capability to semi-automate roof measurement at scale. This capability leverages our existing 3D content and I have been extremely impressed by the successful way in which we quickly integrated this technology into our business and equally impressed with the early success we have had in commercialising this content in North America. ACV from roofing now represents 8% of our portfolio in that region and it is also a strong contributor to our growth in the insurance vertical.

Following the outbreak of COVID-19 we accelerated investment in customer success, experience and retention by building out that function to increase the support to our customers. I am pleased with the early performance that group have delivered, which can be seen in the reduction of underlying churn levels below 10% and a strong second half performance in particular.

FY20 was a year we signed some important partnerships both in North America and in Australia & New Zealand. Integrating our content with Cityworks and signing re-seller partnerships with Teranet and Eagle Technology facilitates an acceleration of growth and deeper penetration into customer workflows, particularly in the government vertical. We also partnered with OpenSolar, enabling an end to end solution for the solar industry and another example of more closely integrating our content into those workflows. We will continue to evaluate partnership opportunities going forward as we provide even more enhanced content types to serve our core industry verticals.

We couldn't deliver any of our content types without our world leading camera systems and proprietary processing software. We continued to invest in developing the next iteration of these systems so that we can fly higher and faster and scale our processing to further improve the already attractive unit economics of our capture program. Specifically, our research in Hypercamera 3 has been very encouraging and I look forward to further progress in FY21.

As a company with a business model which enables customers to remotely detect change and observe truth on the ground, Nearmap has been in a unique position in FY20. As a result of that, in Australia we made a commitment to capture every populated area impacted by the bushfires and we delivered that content to the people involved in the recovery efforts. Nearmap is committed to recapturing those areas to show how our communities recover over time. In North America, we formalised a post catastrophe capture program, delivering valuable and timely content to insurers who can quickly assess property damage and expedite



claims for distressed homeowners. And we provided our imagery free of charge for COVID-19 relief planning to health officials and government agencies to help them better prepare their relief plans. These commitments are ongoing in FY21 but before talking more about the outlook next year I will now hand over to Andy to take you through the financial highlights for FY20.

Mr. Andy Watt, Chief Financial Officer

Thanks Rob, and good morning everyone.

FY20 was yet another landmark year for Nearmap. It was a year that saw us deliver more content, product enhancements and tools than ever before. It was the year that saw us hit key operational milestones in the form of ACV, subscription numbers and average deal size. But it was also the year where we faced new challenges: in the first half we were impacted by a small number of churn/downgrade events as a result of sectoral structural change; and in the second half we were all impacted by the unique set of circumstances that COVID-19 brought to our lives. But as I'll talk to now, the strength, resiliency and scalability of our business model are shown in the results that we published today.

I'll begin by discussing our FY20 performance with the metric which best demonstrates the value placed on our content – the Annualised Contract Value of our subscriptions. During FY20 we added \$16.2m of incremental ACV to close the year at \$106.4m, 18% YoY growth and well within the \$103-107m range guided to in the May market update.

FY20 was very much a story of two halves. The first was impacted by three material churn/downgrade events totalling US\$4.85m relating to structural change in the autonomous vehicle industry and the cancellation of a contract by a partner that was subject to a permanent court injunction. The second half saw a renewed focus on sales leadership, both in Australia and North America, and on continued investment in customer success. Second half incremental ACV of nearly \$10m shows success on both fronts, and we would have delivered an even stronger outcome had COVID-19 not slowed certain parts of the sales cycle.

As slide 5 of the Investor Presentation shows, 12 month rolling churn for the year was 9.9%. Whilst this was an increase on the 5.3% posted at the end of FY19, if the results are normalised for the two material H1 churn events then underlying churn was 5.4% which is a strong result and substantiates the ongoing investments made in customer success initiatives to build a subscription business with market leading renewal rates. The result is all the more pleasing given the challenges posed by COVID-19 and demonstrates the increasing utility that Nearmap brings to customers as they adapt to remote working models.

Slide 5 also shows the key metric that we use to measure sales and marketing efficiency, the Sales Team Contribution Ratio. We benchmark this at 100% and set expectations this year that we would see a short-term dilution of this ratio as we ramped investment in sales and marketing in North America. The Group ratio for FY20 was 54% which, when again normalised for the three churn/downgrade events, comes out at 78%, in line with expectations and providing further confidence as to the underlying scalability of the core North American business.



Slide 6 shows the statutory results. Group Revenue grew 25% on the prior year to \$96.7m, reflecting the growth of the ACV portfolio over the preceding 12 months. North American revenues of \$36.5m in our seventh year of capture are more than double the revenues generated in Australia in the equivalent year, and you'll see that growing trend between the two businesses presented later in the investor presentation.

Costs of revenue grew 63% as the capture program was extended and amortisation was accelerated through the P&L following the prior year change to amortisation period. Operating expenses grew by 47% to \$98.2m with significant increases across Sales & Marketing and Product & Technology as investments were made into the core business in support of sustainable future growth.

The onset of COVID-19 led to the decision in April to bring the business to a cash flow breakeven position and in doing so bring stability to the Balance Sheet. This was achieved through a range of measures including a 10% reduction in permanent headcount, a 25% reduction to the Board and CEO's compensation for a 6-month period from May 1st, and a 20% reduction to salaries for all other employees for the same period. Offsetting the employee salary reduction is an equity incentive scheme in the form of Restricted Stock Units that makes good the foregone salaries in the form of equity. The changes were made with minimal impact to business operations and were targeted to ensure the Company's strategic growth initiatives remained unaffected.

The increase to the operating cost base reflects the ramp in headcount which began in the second half of FY19 and then continued through to the first half of FY20. Closing headcount of 284 is only 12 higher than it was at the end of FY19 but is 94 higher than it was 18 months ago, illustrating that all areas of the business have scaled significantly and that critical mass exists to support sustainable growth through FY21 and beyond.

The Group recorded an NPAT loss of \$36.7m, up \$21.8m from the \$14.9m loss posted in the previous year. Note that D&A increased by \$20m in the year, reflecting the change to the amortisation policy mentioned previously, the transition to the AASB16 leasing standard and also reflecting the \$50m invested into the creation of capture, software, hardware and corporate assets with long term value to the business. This also includes the investment made in Primitive LLC (Pushpin) which was a small but successful acquisition of technology and assets used to serve the roof geometry market, more of which Rob will talk to later.

The stepped investment across all areas of the business is reflected in the cash flow waterfall shown on slide 7. Cash outflow in H1 of \$26m was followed by a reduced outflow of \$16m in H2, leaving \$33.8m of cash excluding bank guarantees on the Balance Sheet as at 30 June. This is within the range of \$32-35m set during the May business update and is the balance that the business expects to show on its Balance Sheet in 12 months time.

There was minimal impact to cash as a result of COVID-19. Cash receipts as a proportion of ACV were broadly consistent with prior years and whilst there were some customers to whom we extended payment terms or offered to split invoices, these were relatively small in number. As a growing business, Nearmap did not qualify for any of the salary incentive schemes offered by the Australian or U.S governments but did take advantage of the ATO's GST and Payroll Tax deferral scheme, in line with other Australian businesses. These deferrals total just over \$1m and are recorded in Trade and Other Payables on the Balance Sheet.



Returning now to look at ACV performance. As well as crossing the \$100m ACV threshold during the year, we also hit key milestones with regard to subscription numbers and the average revenue derived from each subscription. Both exceeded 10,000. In other words, we added 658 net new subscriptions to close at 10,458, whilst at the same time growing ARPS by 11% to \$10,178. A contributing factor to both was the roll-out of new content types and the deeper penetration of these content types into the customer base, with 54% of the portfolio now accessing premium content as opposed to 29% a year ago.

Looking at growth in each territory as shown on slides 10 and 11, the combined North American ACV portfolio of the US and Canada grew by 27% to US\$28.8m. The number of net new subscriptions grew by 30% to 1,896 whilst ARPS dropped marginally to US\$15,511 reflecting the broadening of the acquisition strategy to focus on mid-market businesses which is a key driver for the continued scaling of the business.

Churn and sales team contribution ratio were impacted by the events described previously. Reported STCR was 46% and reported churn was 16.9%. Adjusted figures were 82% and 4.5% respectively, firmly in line with expectations and giving confidence of the scalability of the US business.

Our ANZ business further enhanced its market leadership position and recorded another strong period of ACV growth of \$6.6m to \$64.5m, an 11% increase on FY19. Incremental ACV from new customers remained strong vs prior year and particularly when considered against the COVID-19 backdrop. In the first half results we called out that there had been a softening of existing portfolio management largely due to internal sales execution and leadership issues. Second half performance was much stronger with a significant focus on customer retention ensuring that full year churn closed at similar levels to FY19. Without the impact of COVID-19, the ANZ business was trending back towards prior year growth rates, demonstrating not only the continuing growth potential of the domestic market but also the significant scale advantage that Nearmap has over any competitors.

In summary, FY20 wasn't the year that we all expected. But as I said in my introduction, the strength, resiliency and scalability of our business model and the results announced today mean that we emerge from it in a much stronger position than when we entered. We've invested significantly across all areas of the business to build operational scale that will sustain growth through FY21 and beyond, and we can see the returns on those investments beginning to emerge in the form of strengthening underlying unit economics and the increasing monetisation of new content types as we embed ourselves deeper into customer workflows.

And we've learned valuable lessons along the way. First half performance highlighted a susceptibility to large deals in cyclical sectors in North America and execution risk if leadership is spread too thin, both of which were course corrected in H2 and evidenced by stepped improvement in performance in the North America and Australia & New Zealand businesses.

In the second half we learned about the resiliency of our own business to deal with the exceptional circumstances created by COVID-19. But we also learned about the resiliency of our customers and the growing importance that Nearmap plays as a critical business tool as they evolve to remote working models. The market opportunity is evolving at an increasingly rapid rate and our highly differentiated offering puts us at the forefront of being able to take advantage of this.

With that I'll hand back to Rob to discuss what this means for FY21.



Dr. Rob Newman, Managing Director & Chief Executive Officer

Thanks Andy.

Before I speak to the strategic priorities and our outlook for FY21, let me reiterate our Company's unique value proposition to our customers today. Nearmap serves an incredibly diverse set of use cases and business needs across a wide variety of different industry verticals. But the one thing that all of our customers have in common is simple; that is certainty. Nearmap provides every customer with the certainty that they will receive regular and frequently updated content at high quality resolution so that they can profoundly change the way the work. Our customers place an enormous value on the certainty we deliver. And beyond that, understanding how our technology leadership can best serve the needs of our customers is at the heart of every decision we make at Nearmap.

Nearmap saw particularly strong ACV growth from three core industry verticals in FY20. As can be seen on slide 13, Roofing, Insurance and Government now account for 40% of Group ACV. These verticals have benefited from the increasing attractiveness of our premium content types and have demonstrated increased demand for remote working in the current environment.

In FY21 these three verticals will continue to be a key focus for Nearmap. Our expanded content and ongoing investment in our technology capabilities will enable deeper integration of our content, either directly or via our partners, in these industry verticals. Let me touch on these now in greater detail.

Roofing has been an industry which up until today has been categorised within Architecture, Construction & Engineering. Following the successful acquisition and integration of roof geometry technology in FY20, roofing, particularly in North America, represents a core growth opportunity for Nearmap. Our technology can expand the market and we can empower our partners by serving quick, accurate and cost-effective roof geometry in the roofing and insurance industries. We believe the market opportunity in roofing to be US\$100m to US\$200m per year and our investment in FY21 will be focused on further product enhancements and improvements to the efficiency of content generation, enabling an acceleration of growth as we scale our product offering.

Nearmap has seen increased success in serving the insurance industry and particularly in North America, where ACV from insurance grew from 26% in FY19 to 38% in FY20. Our different content types provides for a number of use cases within insurance, whether it be imagery to manage and assess underwriting risk, AI to understand property attributes on an unprecedented scale, and now an established post catastrophe capture program to enable insurers to quickly assess damage caused by severe weather events such as hurricanes. Recognising the success we've had and what our content can offer the insurance industry, we now have dedicated insurance sales, marketing and product teams to ensure we are maximising our ability to serve our existing insurance customers and partners and grow our footprint in that vertical.



Government delivered strong growth for Nearmap in FY20 and like insurance we have established dedicated government sales, marketing and product teams for the government industry vertical as well. Nearmap serves many use cases for government both in ANZ and North America and this has been enhanced in FY20 by increasing the integration of our content into government workflows and with the commercial launch of Nearmap AI in June. Several partnerships that were signed in FY20 have strong links to government in all the countries we now capture. Whether it be those indirect channels or by selling directly to government, we see this as a core growth vertical in future years, particularly in North America.

As we refine our go-to-market strategies following the appointment of a Chief Revenue Officer in FY20, FY21 will be a journey of realigning our product, sales and marketing efforts to our core industry verticals, particularly those I have spoken about today. This will enable us to better target increased penetration of those verticals and improve the integration of our content with those customers. In the past we have tended to talk to our new content types. Going forward our strategy will be to focus on using our technology leadership to deliver solutions for our customers and partners in our key industry verticals as we drive growth and returns from the investments we have made.

Now to our outlook. While we recognise there will be uncertainty associated with COVID-19 in the global macro-economic environment, as evidenced recently in Victoria, our business is well positioned to support our customers in this time and to continue to grow. We have seen ACV growth continue into FY21, with trading in the first seven weeks of this financial year consistent with the same period in FY20. While it is early in our new fiscal year, I am encouraged by the start we have made in FY21 and we continue to target 20-40% ACV growth medium to long term, and underlying churn <10%. And as Andy mentioned earlier, excluding bank guarantees we expect a closing FY21 Group cash balance to be between \$32m-\$35m, within the range set during the May business update. As we continue to grow, our proceeds will be reinvested into growth initiatives over the course of this financial year.

We will also continue evaluating geographic expansion, but our near-term priority remains firmly on driving deeper into the North American market and extending our market leadership in Australia. And we will continue to assess opportunities for organic and inorganic growth, however our focus remains on driving returns from the investments made and new content types which have been developed over prior financial years.

Nearmap remains uniquely positioned to be the global leader in the location intelligence market derived from aerial imagery content. Our scalable, subscription business model, clear technology leadership and a world class team have put us in this strong position. In FY21 we will continue to support and focus on our customers and the different use cases our expanded product suite can offer those customers. As I said earlier, understanding how our technology can serve the needs of our customers is at the heart of every decision we make here at Nearmap.



With that, I will now open up the call for questions from the conference call participants.

Authorised by:

Dr Rob Newman, Managing Director & Chief Executive Officer

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