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NEARMAP 1H FY21 RESULT TRANSCRIPT

Dr. Rob Newman, Managing Director & Chief Executive Officer

Good morning and welcome to the Nearmap first half FY21 results conference call. I have with me Andy Watt, our Chief Financial Officer. Andy and I will begin by speaking to our first half results, then I will address the J Capital report before opening to Q&A.

Today I am pleased to report a strong performance from our Company in the first half of FY21. Nearmap delivered a record half of incremental Annual Contract Value growth, our ACV, in North America. To underline the strength of this result our incremental ACV in North America in the first half of FY21 surpassed what we added in incremental ACV growth in North America for the full prior fiscal year in FY20. This is a particularly strong performance and good validation that our refined strategy in North America is working well.

Our first half result also demonstrates the resilience and strong operating leverage we have in our business. Whether it be retention, sales efficiency or gross margins; the key metrics across almost every area of our business have improved and are trending in the right direction. There is no doubt Nearmap has been a beneficiary of the shift to remote working, but when I look at the growth our Company experienced in the first half of FY21, this is primarily a reflection of our continued deeper understanding of the NA market and the value of the vertical solutions we are delivering. Our growth has continued because we are providing content which allows businesses and government organisations to change the way they view the world so they can profoundly change the way they work. This means we will continue to deliver ACV growth in our business over the short, medium *and* long term.

The decision to raise capital in September last year has placed Nearmap in a position of financial strength. We have the resources in place to enable us to invest into new growth initiatives and deliver accelerated ACV growth. Our industry is always evolving, remains dynamic and it's important we continue to invest into new growth initiatives, reinforce our market leadership and take advantage of the large global opportunity that we are addressing.

This leadership position is only possible because of our people. We have a world class team of talent at Nearmap who have ensured our Company has been able to provide certainty for our customers in what remains a very uncertain time in our world. This certainty and reliability is why we have such a resilient business model and can continue to deliver a market leading and trusted service to our customers. Every day I am inspired by our people and always appreciate the passion everyone at Nearmap has for our Company.

This passion demonstrates why, despite a challenging period, our business continues to achieve a number of significant milestones.

The successful integration of roof geometry content, our first significant acquisition, has seen Nearmap become a highly differentiated content provider into the roofing industry in North America. ACV associated with this acquisition has now surpassed the acquisition price itself, a fantastic milestone given the acquisition occurred a little over twelve months ago and capitalises on our investment in delivering wide-scale 3D content.

ACV associated with our Artificial Intelligence (AI) content has continued to increase and is driving strong growth, particularly in our core insurance industry and local government verticals. We have continued to invest in our AI content as we expand the uses cases and the number of attributes available for our customers. I am pleased to report customer demand is such that we will now run AI on all our imagery going forward rather than just on an annual cycle, which demonstrates the value our customers are deriving from the investment we have made in providing AI content.

In recent days our market leading team of camera system designers have been testing critical component parts of our new camera system, HyperCamera3, in aerial flight. A significant amount of research and development has put us in this position, and I am very pleased with the progress the team are making in turning research into reality and expanding our already market leading position in aerial camera system technology. We remain on track to be in production with HyperCamera3 in FY22.

A strong Balance Sheet and accelerating growth gives our customers and shareholders confidence that we will continue to maintain this market leadership position and deliver new and valuable content. As I mentioned, the decision to raise capital in September was to ensure we could build on our market leadership position and accelerate our growth initiatives. But before talking more about the outlook and these initiatives, I will now hand over to Andy to take you through the financial highlights for the first half of this fiscal year.

Mr. Andy Watt, Chief Financial Officer

Thanks Rob, and good morning everyone.

As Rob has already mentioned, the first half of FY21 was a period of strong growth for our business, not only through our top line but also through the key operating metrics that we guide our business to. It was the first full reporting period where the North American business operated fully under the vertical operating structure and the results, as I'll talk to in detail in just a moment, were very pleasing. And just as satisfying was the continuation of growth in both of our key markets at a time when the world continues to navigate the challenges presented by COVID-19, demonstrating the resilience of our business model and the critical role that Nearmap plays in helping our customers to continue operating during this period of disruption.

I'll begin with an overview of our key operating and financial metrics as shown on page 6 of the accompanying investor presentation. And as always, I'll begin by talking about our primary metric ACV which grew to $112m as reported and on a constant currency basis, grew by 21% to $117m. This represents incremental growth in the half of $11.1m in constant currency and was driven by that record performance in our North American business.

As you've heard me talk about before, the quantity of our ACV growth is important but the metrics which define the quality of that ACV and the scalability of the business overall are as important. You'll see from slide 6 that we saw positive momentum in each of these key operating metrics. Retention, the key indicator to the stickiness of our product and the lifetime value of our portfolio, returned to normal levels after the unforeseen events of the prior comparative period. Retention of nearly 94%, up from 88% 12 months ago and 90% in June, shows the strong progress that we're making with our customer success initiatives and further validates the deeply embedded nature of our content in customers' workflows, something that is only enhanced as we continue to roll-out new content and features.

We measure the productivity of our sales and marketing team through the Sales Team Contribution Ratio. It's the metric that gives an indication of how efficiently and effectively we can scale the top-line of our organisation. Following a 2-year period where we invested heavily into sales and marketing, 1H21 saw us run with a relatively stable cost base with the focus on improving performance from existing resources. The outcome was a near doubling of the Contribution Ratio, from 44% in 1H20 to 86% in 1H21. Indeed, the contribution ratio in North America exceeded 100% giving us confidence in the capabilities of the existing team, confidence that we made the right decision to focus on core industry verticals, and confidence that we're at the point where we can onboard additional resource to drive further growth in the future.

The final ratio to call out from this slide is the pre-capitalisation gross margin which, as a reminder, reflects the efficiency of the capture program relative the size of the revenue base. On the back of strong ACV growth, revenue grew 18% in the period to $55m whilst at the same time we reduced the cost base of our capture program through a combination of scale efficiencies and a targeted coverage plan in support of our core industry verticals. The result was an increase in pre-capitalisation gross margin from 68% to 77%, with margins in North America now exceeding 50% for the first time. Our capture program is the key step in the content creation engine and is an area that we'll continue to invest in, with further leverage to come in future years as we roll-out Hypercamera3.

As we've just demonstrated, business performance in absolute dollar and scale efficiency terms was very strong in 1H21. The operating metrics give us confidence in the growing strength of the scalable engine, particularly in North America, and we take further confidence from the strength of the balance sheet which will allow us to deploy capital resources into initiatives to accelerate growth opportunities. The September institutional capital raise and associated Share Purchase Plan added a net $92m to the balance sheet and we closed 2020 with $129m of cash in the bank. We have been, and will continue to be, disciplined in the deployment of these funds, ensuring strong capital governance as we invest in the specific initiatives outlined at the time of the raise.

Note that during the period the business continued to place a heavy focus on working capital management. Trade debtors have increased by $3.4m in the 6 months since 30 June consistent with the timing of renewals and new business contracts won. Debtor aging and bad debt provisioning also remain consistent with prior periods and there hasn't been a material impact on the cash collection cycle as a result of COVID-19.

Delving deeper into ACV performance – the main driver of growth was the record performance in North America which saw incremental ACV grow by $6.3m USD, compared with $3.8m in 2H20 and $2.3m in 1H20. Pleasingly, all channels and segments made material contributions, with year-on-year growth in government accounts of 53%, 43% growth in insurance, and roofing continuing its rapid rise to now comprise 10% of the total portfolio. The strength demonstrated across all key vertical markets further validates the strategic decision to narrow the sales focus and prioritise sectors where Nearmap has a differentiated offering and can monetise effectively through deep penetration into customer workflows. Net upsell of $5.5m, 12 month retention rates of 93.5% and premium content uptake of nearly 60% show the success of this strategy with existing customers.

The ANZ business further enhanced its market leadership position with portfolio growth of $2.1m in 1H20 led by strong growth in the SME space which remains the most predictable part of our overall sales engine. Retention in ANZ also remained very strong at 94% as customers continue to rely on Nearmap as a critical tool in their workflows. Similar to North America, upgrades in ANZ were strong but we did see a couple of enterprise downgrade events as a result of business restructuring and economic conditions. In these situations, Nearmap's primary focus is to ensure the impact to customers is minimised by enabling continued access to Nearmap content, with a view to the long-term relationship. Enterprise sales were less strong in the period and we will look to strengthen our sales leadership in this area over the course of 2021.

Strong business performance translates to strong statutory results as shown on slide 10. Revenue growth of 21% on a constant currency basis was delivered on a near-flat cost base, reflecting stability in the operating cost base on the back of the cash management initiatives implemented in April 2020, an ongoing focus on driving returns from investments previously made and the disciplined deployment of proceeds from the 1H21 capital raise. During the reporting period, employees agreed to a 20% salary reduction, 25% for the CEO and Board members, for the period to 31 October. This was offset by an equity compensation scheme for non-KMPs in the form of restricted stock units to the equivalent value. This had minimal impact on the statutory cost base presented, other than a reclassification of costs from salaries to share based payments, and all salaries have now been returned to 100%. It should also be noted that Nearmap has not received any form of COVID-19 related government subsidy at any time.

EBITDA grew from $3.2m in 1H20 to $13.9m, and the net loss reduced significantly, halving from $18.6m to $9.3m.

In closing, 1H21 has seen strong performance across the metrics we benchmark our business against, reflecting the strength of our underlying business model and the rapid scaling of the North American business. We maintain a disciplined approach to managing costs and driving returns from investments, and the capital raise leaves us in a very strong position to accelerate growth opportunities, driving increased returns across our ACV portfolio.

With that I'll hand back to Rob to discuss what this means for the remainder of FY21 and into FY22.

Dr. Rob Newman, Managing Director & Chief Executive Officer

Thanks Andy.

As we move through the remainder of FY21 we will continue to fine tune our go-to-market strategy in North America, adding industry specialists and introducing targeted marketing programs into our core growth verticals. In recognition of the success we have seen in North America, we will refine our go-to-market strategy in Australia & New Zealand to be aligned with the strategy in place in North America in order to drive renewed ACV growth in the enterprise segment of our domestic market.

In the remainder of FY21 and into FY22 we will commence an initial roll-out of tailored solutions targeted at our core growth verticals of insurance, government and roofing. This means we will capitalise on the value add of our premium content and increase the stickiness of our solutions. We will also invest in operational systems and data to support this strategy.

And it goes without saying we will continue development and testing of HyperCamera3 component parts, with the target of completing a successful full system prototype flight by the end of June, aligning with our expectation of building and deploying these world leading HyperCamera3 systems in FY22. As I mentioned earlier, we have been testing key component parts in aerial flight and the early signs are very positive, and reflect the significant research and development that has gone into a new camera system from our world leading team, here in Australia.

We expect up to $15m of proceeds generated by the capital raise to be deployed in the second half of this fiscal year into these key growth initiatives, and expect the Group ACV portfolio to end FY21 at the upper end of the $120m-$128m guidance range, based on the US Dollar exchange rate outlined at the time guidance was given.

Whilst we continue to evaluate geographic expansion, for now our focus remains squarely on accelerating growth from the North American market, and building on our market leadership position in Australia & New Zealand. The market opportunity in North America remains significant for our core content. Beyond this we see significant TAM expansion as we focus on delivering solutions specific to our key industry verticals. We will continue to invest into our business, enabling us to embed our content more deeply into customer workflows and positioning Nearmap for accelerated ACV growth from FY22.

The prior twelve months has not been without it's challenges globally as every business has faced a significant amount of macroeconomic uncertainty, but the value customers generate from our content, derived from our clear technology leadership, and the resilience of our subscription business model puts us in a strong position to maintain and accelerate our ACV growth. I'm pleased to say Nearmap remains uniquely positioned to be the global leader in the location intelligence market derived from aerial imagery content.

I now would like to take a moment to address the recent report published by J Capital. Whilst poorly researched and written, it attempted to make three primary assertions:

1. Nearmap's Go To Market strategy in North America has failed and we are losing market share
2. Nearmap is losing its technology leadership
3. Nearmap accounting treatment is bringing forward revenue.

All three assertions are blatantly false, and demonstrate a deep misunderstanding of our industry, our solutions and our performance.

Nearmap has been in the North American market for over six years. Nearmap has used its time in that market continue to refine our go to market strategy in North America to the point where we announced six months ago that we were having strong success in three key verticals and planned to double down on those verticals. As can be seen from the record North American results over the past 6 months and the detail in the response we released today, that strategy is working and delivering enviable results. Growth rates relative to pcp in excess of 40% need no further explanation.

Nearmap's technology leadership has rarely been questioned by independent analysts or more importantly our customers. It is a shame that the report needs to look back seven years to try find where Nearmap may be behind in camera technology, and even then misunderstand how that technology works. Equally, we question the insight of such an opinion that fails to understand the difference between a picture and location analytics derived by Artificial Intelligence. With such little understanding in the report about technology and how it is valued by our customers, we question the full credibility of the piece.

And to accounting treatment, I will let others speak for us. Nearmap is often complimented by institutional investors and investment analysts of global banks for the transparency and quality of our financial reporting. That combined with a long track record of very clean audits by KPMG, and an award for investor relations communications, demonstrates the insight and disclosure we provide in our financial reporting.

This report presents blatantly fallacious conclusions and I encourage everyone on this call to contrast that with the very strong result we have delivered today.

With that, I will now hand back to the operator for any questions.

Authorised by:
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