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NEARMAP 1H FY22 RESULTS TRANSCRIPT

Dr. Rob Newman, Managing Director & Chief Executive Officer

Good morning and welcome to the Nearmap first half FY22 results conference call. I have with me Andy Watt, our Chief Growth & Operations Officer, and Penny Diamantakiou, our recently appointed Chief Financial Officer. I will begin by speaking to our first half results, then pass to Andy to delve deeper on the numbers, before I outline our outlook and priorities and then take any questions from participants on the call.

Nearmap has delivered yet another exceptional result. In the first half of FY22 our Company delivered record incremental Annual Contract Value growth, our ACV. This was both at a Group level and from our North American portfolio. We're no longer talking about a validation of our vertical go-to-market strategy in North America; this strategy is now well and truly embedded into our organisation. To be delivering 62% ACV growth from our core North American verticals of roofing, insurance, and government on the prior corresponding period (pcp) is exceptional and testament to how well this strategy is working.

Last year I spoke of the strong operating leverage we have in our business and this result continues to reflect that leverage. Our key metrics are at levels any software business would be envious of. Whether it be record levels of incremental ACV growth, Average Revenue Per Subscription or access to premium content, our key indicators are nothing short of outstanding and particularly in North America. We are consistently winning new customers and upselling existing customers because our content is not only best-in-class, it is more reliable than anything our competitors can offer. This provides our customers with the certainty they need to grow their businesses.

We have maintained our Balance Sheet strength, closing the first half of FY22 with $110 million of cash in the bank and no debt. Excluding the $3.6m litigation expense in the Utah District Court, Nearmap consumed only $9 million of cash in the first half. This was during a period where we increased our investment in support of our leading Research & Development (R&D) initiatives. This ensures we will continue to maintain our market leadership position and deliver new and valuable content for our customers, further embedding our content into their workflows. In North America we generated positive cashflow for the first time, and in addition to our profitable and cash generative ANZ business, puts our Company in an incredibly strong cash position. We will continue to manage our cash position in a selective and disciplined way

Looking beyond the strength of our ACV performance and cash position, in the first half of FY22 our business achieved a number of significant milestones and there are three in particular I would like to call out today.

Firstly, we moved from successfully completing the design of our next generation of world leading aerial camera systems, HyperCamera3, to the testing phase which took place throughout the half . During this phase we have been optimising the camera system and its different component parts, at variable altitudes and in variable conditions, so that this camera system can deliver the maximum efficiency possible. The outstanding work from our leading team of camera system engineers means that we're now well underway in the process of commercially manufacturing custom components, which is a significant milestone in the process of incorporating HyperCamera3 into our capture program. More on that later.

Also in the first half, Nearmap AI delivered significant enterprise ACV growth from both new customers and upsell to existing customers. The fact that very large Enterprise customers in North America, particularly in the insurance industry, are signing Enterprise contracts and subscribing to Nearmap AI, is a validation of the investment which has been made into this industry leading content. We have continued to invest in Nearmap AI, and as we've outlined before, we have hundreds of attributes now available.

Product development of Nearmap AI has now shifted and it's no longer about the number of attributes we can identify, that race has been run. It's now about investing in the systems and processes to be able to embed Nearmap AI into customer workflows. Nearmap AI represents an enormous opportunity to grow our North America portfolio, especially within our core insurance and government verticals. It's also about increasing our capabilities in change detection and post catastrophe. Gen 5 is the next iteration of Nearmap AI and something I believe will help continue to drive our strong ACV growth.

Finally, and without stealing too much of Andy's thunder on the numbers, Nearmap delivered 76% pcp growth in the roofing vertical, with most of that growth achieved in the last six months. Roofing ACV now comprises more than 10% of the North American portfolio, and when you consider this does not include ACV generated by our insurance roof geometry partner, we have experienced phenomenal growth since integrating this industry leading technology into our business. Our strategy of partnering with market leaders in roofing and insurance solutions leaves us well positioned to drive a further acceleration of ACV growth.

Before I hand over to Andy to take you through the financial highlights, I want to make some brief comments on the litigation in the Utah District Court. As I outlined in today's results announcement, we continue to believe the allegations made against us in the Utah District Court are fundamentally without merit. The litigation continues to have no operational impact on our business, as demonstrated by the 57% ACV growth in North America we reported today. We are continuing to vigorously defend against these allegations and believe this is motivated by the commercial success we are experiencing in North America. Although the litigation is unrelated to the vast majority of content delivered directly into our customers' workflows via an Application Programming Interface (API) in North America, we will continue to defend our Company and our shareholders from these meritless allegations.

With that, I will now hand over to Andy.

Mr. Andy Watt, Chief Financial Officer

Thanks Rob and good morning everyone.

As Rob has already mentioned, the first half of FY22 has yet again seen strong performance across the financial metrics we benchmark our business against and demonstrates the increasing operating leverage within our unique subscription business model. Our vertical strategy in North America is now firmly embedded into our organisation and I am extremely satisfied with the strong growth that we are now delivering across our North American portfolio. I'm also pleased to see an improvement in our incremental ACV growth in Australia & New Zealand, despite a period where many of us on the east coast of Australia and in New Zealand were confined to our own neighborhoods. The resilience of our business model, the ability to provide certainty in uncertain times, the reliability of our content, these are all reasons I am standing here today delivering another record set of financial results. We have come through the first half of FY22 in a very healthy position, and I'll now talk to this in further detail.

I'll begin with an overview of our key operating and financial metrics as shown on slide 5 of the accompanying investor presentation. Our primary metric, ACV, grew to $147.7m as reported and on a constant currency basis, grew by 28% to $143.3m. This represents record incremental growth in the half of $16.5m in constant currency, driven by that record performance in North America .

As you've heard me talk about previously, the *metrics* that define the quality of our incremental ACV and the operating leverage that's within our business are just as important as our incremental ACV. I would again point you to slide 5 which clearly demonstrates the benefits of increased scale in our business. We have consistently said that targeting underlying retention greater than 90% is our goal. In the first half of FY22 this was 94% and retention rates at this level demonstrate the success we are having in not only retaining our growing customer base through the continuing improvements in our Product and Customer Success offerings, but also the positive impact of delivering deeper vertical solutions that embed our content more deeply into customer workflows.

By now most of you will be familiar with our Sales Team Contribution Ratio. This is the key metric we use to evaluate the productivity and efficiency of our sales and marketing team. It provides a guiding light as to not only the efficiency of the team but also when to adjust investment into our sales and marketing efforts. With the record performance we experienced in North America, we delivered a 97% contribution ratio for the Group in the first half of FY22. For the third consecutive half year period the contribution ratio exceeded 100% in North America, delivered once again at a time when we have been investing in our sales and marketing efforts. This really demonstrates the strong operating leverage within our business, the returns we can generate from our content and the future growth opportunities that we can generate from growing portfolio.

The final ratio to call out from slide 5 is the pre-capitalisation gross margin which, as a reminder, reflects the efficiency of the capture program relative the size of the revenue base. As you will note, there has been a reduction from 77% to 73% on the prior corresponding period. As a reminder, in the first half of FY21 we optimised the cost base of our capture program through a combination of scale efficiencies and a targeted coverage plan as part of COVID-19 cash management initiatives. In the first half of FY22 we announced an expansion of our coverage to 80% of the population in the United States and it's this step up in coverage, driven by customer demand, that accounts for the change in gross margin.

As also outlined on slide 5 and something Rob touched on earlier, during a period of investment in the business we have maintained our Balance Sheet strength and disciplined cashflow management. In the first half of FY22 we consumed only $9m of cash excluding costs related to the litigation in the Utah District Court. This cash investment was largely in support of our R&D initiatives. We are in an extremely healthy financial position with $110m of cash on the Balance Sheet and no debt. Our Balance Sheet strength will allow us to continue deploying capital into our FY22 growth initiatives in a disciplined manner, and I'll let Rob talk to those initiatives in more detail shortly.

Before delving more deeply into our business performance I would like to call out one financial milestone as shown on Slide 6. Premium content uptake continues to grow, and we now have 70% of our ACV portfolio tied to customers who are accessing our premium content. That's more than $100m of our portfolio who are accessing wide-scale 3D, oblique, AI and roof geometry content that our competitors, particularly here in Australia, do not offer. We will continue to help our customers understand the value this content delivers, and our ambitious goal is to eventually have our entire portfolio accessing our premium content types.

Moving to cash flow on slide 9. The trend that you see on the chart is significant. Record ACV performance and growing operating leverage saw North America deliver positive cash flow for the first time since our expansion into the region. A positive contribution of $7.2m for the half, and $28.9m from ANZ delivered a total segment cash flow surplus of $36m. We maintain a heavy focus on cash discipline and driving strong and improving cash returns from each of our operating segments as we continue to scale our business using the substantial capital resources that we have at our disposal following the September 2020 capital raise.

Strong business performance translates to strong statutory results as shown on slide 10. For ease of comparison, I'll talk to constant currency in this section, except for the litigation where there is no pcp. Revenue growth of 24% was delivered by that record expansion of the North American portfolio we've talked to. As we're in a period of investment to build out and support our North American strategy, operating expense growth of 29% on the pcp reflects the step up in those investments. There has been a 45% increase in headcount across all functional areas in support of this strategy which will further enable us to build out our scale and increase operating leverage. As Rob called out earlier, we incurred a litigation expense of $3.6m in the half, which directly contributed to a reduction in EBITDA from $13.5m in 1H21 to $10.9m in 1H22. This also impacted EBIT with losses increasing from $9.4m in 1H21 to $13.3m, and NPAT which went from a loss of $9.4m in 1H21 to $11.9m in 1H22.

I'll now move to our segments beginning on slide 14. The main driver of growth was the repeated record performance in North America which saw incremental ACV grow by $10.6m USD in the half. This compares to $6.3m in 1H21 and $2.3m in 1H20, a material step change in growth. That growth has been driven by our core verticals – insurance, government, and roofing – which delivered a combined 62% ACV growth on the pcp, driving overall North American portfolio growth 57% higher. These three verticals now make up 71% of our North American portfolio, with insurance alone at almost 40%. Our growth through these verticals means that there is a robustness and defensibility that was previously not as evident.

Our key efficiency and retention metrics are also in excellent health in North America. 12 month retention rates above 95% and a STCR of 114% are metrics which clearly indicate how well we are executing our strategy. We've also seen another significant step up in Average Revenue Per Subscription, with growth of 29% demonstrating the increasing value that very large Enterprise customers are deriving from our unique content types. This now means that the average contract size we sign has a subscription value of more than $22,000 USD, which translates to more than $30,000 in AUD.

The ANZ business, per slide 15, further enhanced its market leadership position with a step up in incremental portfolio growth of $2.8m in 1H21, representing 8% growth on the pcp. Pleasingly, this was the highest incremental ACV growth since 2H FY20. New business of $3.2m demonstrates continued penetration of the ANZ market and represents 39% pcp growth. SME and Mid-Market segments also continued to perform well, with an encouraging improvement in Enterprise. A STCR of 55% and retention of 93.1% demonstrated an improved half on half performance and we will continue to optimise our sales and marketing efforts to increase future growth opportunities in the ANZ region.

In closing, 1H22 has seen yet another strong performance across the metrics we benchmark our business against, reflecting the strength of our underlying business model and the rapid scaling and operating leverage within the North American business. We are delivering on our growth aspirations, we are delivering returns on our investments, and we are executing our successful go-to-market strategy. Nearmap has had an outstanding half year performance and the momentum in our business leaves us in an incredibly strong operational and financial position.

But before I hand back to Rob to discuss what this means for the remainder of FY22, alongside me is our recently appointed Chief Financial Officer, Penny Diamantakiou. Penny joins Nearmap with a background of extensive leadership experience working at high growth digital and technology-led businesses. Penny and I are already working very closely together to ensure a seamless transition of the Group finance function and you'll see and hear from Penny in the investor engagements over the coming days.

Rob, back to you

Dr. Rob Newman, Managing Director & Chief Executive Officer

Thanks Andy and I would like to reiterate Andy's remarks that we are pleased to have Penny on board and am looking forward to working closely together as we grow and expand our Company.

Now to our priorities and outlook on slide 20. We will continue executing our successful go-to-market strategy in North America, adding industry specialists and targeted marketing programs into our core growth verticals. We now have the operational systems and data in place to support go-to-market strategy and it's about using these systems to our advantage. Capitalising on our improved performance in ANZ is important and we will target further adoption of premium content types in this region. All of this will drive increased operating leverage in our business and drive returns on investment into our unique product and content types.

From a technology perspective, we are focused on completing HyperCamera3 prototype testing and initial HyperCamera3 system manufacturing in the fourth quarter of this financial year. As we've said before, given the scale of the opportunity in North American capture programs, initial deployment of these systems will be focused on the significant opportunity in that region. This can enable us to both improve our capture efficiency as well as open up new use cases which require higher resolution content at altitudes currently flown with HyperCamera2. I am extremely proud of our team for their amazing achievements to date, enabling us to extend our already industry leading technology position.

Our other priorities remain focused on this technology leadership position. We will continue development of customised Nearmap AI packs and tailored industry solutions for our core government and insurance industry verticals, where we've seen the strongest interest and adoption of our premium content types. We are also anticipating a Beta release of our first government industry tailored solution, delivering on our commitment to go further up the value chain and offer not just content but *solutions* for our customers. We will also continue the enhancement of our industry leading roof geometry content, to capitalise on the phenomenal growth we are experiencing.

Now to our guidance. I am pleased to provide an update to the guidance range set at the time of last year's Annual General Meeting (AGM). Our Group ACV portfolio is now expected to close FY22 at the upper end of the $150m-$160m guidance range set at the AGM, based on constant currency. This is a significant increase from $128.2m in FY21 and driven by that record growth we've experienced in North America in the first half.

We expect to consume up to $30m of proceeds generated by the capital raise, which will continue to be deployed into the FY22 growth initiatives I've just outlined. We have always said we will be consuming cash through FY22 and FY23, with a turn towards cash generation in FY24. Cash consumption in any period depends on growth in that period and as we've demonstrated today, we are continuing to have success growing our portfolio and maintaining a very strong cash position. We have the cash resources to continue the growth path we are on.

We will continue to target 20-40% ACV growth medium to long term, and underlying retention greater than 90%.

Evaluation of geographic expansion will continue, but for now our focus remains on accelerating growth from the North American market and extending our market leadership position in Australia & New Zealand. The market opportunity in North America remains significant for our content.

In closing, Nearmap has had an exceptional half of growth, delivered by a passionate and committed team of people who continue to inspire our Executive every day. We are well positioned to capitalise on the momentum in our business and our investment and innovation will ensure we are an increasingly valuable partner to our customers. I am confident in our growth outlook given the significant opportunity in front of us.

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

Authorised by:
Dr. Rob Newman, Managing Director & Chief Executive Officer

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Nearmap (ASX:NEA) provides easy, instant access to high resolution aerial imagery, city-scale 3D content, AI data sets, and geospatial tools. Using its own patented camera systems and processing software, Nearmap captures wide-scale urban areas in Australia, New Zealand, the United States and Canada several times each year, making current content instantly available in the cloud via web app or API integration. Every day, Nearmap helps thousands of users conduct virtual site visits for deep, data driven insights—enabling informed decisions, streamlined operations and better financial performance. Nearmap was founded in Australia in 2007 and is one of the largest aerial survey companies in the world.

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