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NEARMAP H1 FY18 RESULTS CEO & CFO TRANSCRIPT

Dr Rob Newman, Managing Director & CEO

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

We will highlight the significant achievements in the first half, including record growth and a new suite of products. We will take you through the financial results in more detail, then outline Nearmap's priorities for the second half of FY18. After our presentation, we will open the call to take questions.

Before I get into the detail of the results, let me highlight four key points upfront:

1. First, in 1HFY18 we delivered record portfolio growth in Nearmap's history.

2. Second, we have had ongoing strong organic growth, with our oblique and 3D commercial roll out generating very encouraging responses.

3. Third, our highly scalable model continues to show attractive financial metrics and free cash flow; and

4. Fourth – we have upgraded our ACV guidance given our strong first half performance and with momentum building for the most exciting time in Nearmap's development.

I'll begin by briefly reiterating the unique features of Nearmap's business.

The global aerial imagery market we operate in is significant and expanding, with our new products, obliques and 3D, a key component of this growth.

Nearmap has a proven track record of bringing innovative products to market, the latest demonstration of this being our 3D content and our subscription access obliques.

We have a competitive, scalable business model with a growing customer base of loyal, recurring subscribers and high margins from providing our content to these customers.

Our content has clear competitive advantages for our customers, and the capital dynamics of our business are strong.

These elements drive everything we do here at Nearmap, and we will come back to these points during the course of the presentation.

Turning to page 3, the value our customers place on our content is best measured by our Group ACV, or the Annualised Contract Value of our current subscription contracts. This key metric saw record growth in Nearmap's history in this half, with the portfolio growing by $7.2 million to $54.2M.

This growth has been generated by strong increases in both subscribers and their average subscription value as shown on page 4. Growth came from new subscribers as well as upsell to our existing customer base. Highlighting the value our customers derive from our content, Group churn is now below 10%, and over 20% of our Group portfolio is backed by multi-year subscription contracts.

With the strong ACV performance in the first half and growing momentum from our new product suite, we are upgrading the full year guidance for incremental ACV. As shown on page 5, we now expect incremental ACV in both the United States and Australia in the second half to be broadly consistent with that generated in the first half.

With our investment in sales and marketing in both territories now in place, we also expect the second half sales team contribution ratios to be broadly consistent with H1.

I'll now hand over to Andy to take you through the financial highlights for the half.

Andy Watt, CFO

Thanks Rob, and good morning everyone.

The financial highlights are shown on Page 6. The continued growth in ACV which Rob highlighted has translated into a 27% increase in Group revenues when compared to the first half of FY17. The continuing operating leverage of our business model is reflected in a Group gross margin of 80% and an improving Group Sales Team Contribution Ratio of 97%.

Our Group Expenses increased 31% and our cash balance closed the half at $20.6M. It is important to note that these two metrics reflect the investment program which has been underway at Nearmap for the past 18 months. Our expenses are now at a level consistent with what was communicated at the time of the capital raise and our focus is very much on driving investment returns.

Recapping the market dynamics which have driven that investment program, the aerial imagery market in both of our key markets is significant and growing. Our model of capturing, processing and delivering 2D content has revolutionized the market in Australia. With our entry to the United States three years ago, the necessity to revolutionise the market for oblique imagery in the same way was clear, together with the market expansion capability of 3D content.

The investment program which Nearmap has undertaken has been driven by these dynamics:

- Firstly, expanding the breadth of our capture program to meet customer and market needs;
- Secondly, expanding our sales and marketing skill base to capitalize on the significant opportunity;
- Thirdly, delivering high resolution, regularly captured oblique products made as easily available to our customers as our 2D product, and
- Lastly, expanding the market with 3D products on an unprecedented scale to commercial customers.

I'll talk about these in more detail in a moment. First I will outline their impact on our cash balance.

The waterfall on page 8 highlights that the Australian business generated a healthy $11.4M of net cash inflows, which fully funded the US cash investment of $11.3M, with our opening cash reserves funding product and technology growth initiatives. Total cash outflow in H1 was $7.7M which meant that we ended the half with a cash balance of $20.6M. Of this $7.7M outflow it is worth noting that $4.1M relates to increases to the operating and investing cost base as the business continues to grow, with the remaining $3.6M comprising non-recurring payments and the timing impact of receivables and payables.

We delve into this further on page 9 where you can see the components of the increase in cash payments. When compared to our cash cost base from the second half of FY17 of $29.3M, disciplined cost management saw our business-as-usual costs increase by only $1.6M, primarily relating to the maintenance of our existing systems and software as the business continues to expand and grow.

We also invested an additional $2.5M in the expanded capture program, in sales & marketing, and in product development, as has been previously communicated. It is important to note that this intensive investment phase is now complete. These expenditure levels are now largely in place and our main focus in the second half and beyond is in generating the strong free cash flow from these investments which our scalable business model enables.

So taking BAU and investment expenditure together, we added $4.1M to the cost run rate in H1. But during this period there were also $2.1M of non-recurring cash payments relating to the relocation of our head office in Sydney, including $1.2M of fit-out costs which have been fully reimbursed by the landlord in January, and the rental bond deposit. Add to this the net effect of the increase to the trade receivables/payables balance and you can see that our cash balance is in a very strong position.

Looking now at each of the investments in more detail. As outlined on page 10 we expanded our capture footprint in both the United States and Australia in response to customer input to areas of urban development at the fringes of populated areas. We also completed a significant proportion of our oblique capture program to enable the product suite enhancements that will be discussed shortly. This resulted in cash capture costs of US$4.6M in the United States, and $1.3M in Australia for the half. This combined investment now broadly reflects the anticipated ongoing half yearly level of spend for that program.

Secondly, we've invested in our sales and marketing in both territories to capitalize on the market opportunity and the growth potential which our new product suite provides. Efforts have focused on targeted awareness of the Nearmap product and its many use cases to target customers, and the ongoing nurturing and retention of our significant customer base.

And we're seeing the results of these investments already, as detailed on page 11, with sales team contribution ratios in the United States of 95% and in Australia of 101%. This means that on a Group basis, we recover the cost of generating an incremental dollar of ACV in one year. We use this ratio to determine the rate at which to invest in sales and marketing, and expect that this ratio in the second half of the financial year will be broadly consistent with that of the first half in both territories.

On page 12, we've set out the investment in expanding our product suite. In October we launched our new MapBrowser in the United States and this is now also being rolled out to our Australian customers, enabling the delivery of our oblique products to our global customers through a web interface.

Utilising our oblique images, we've also reached production of 3D reconstructions on an unprecedented scale and Rob will talk to the exciting growth opportunities which these new products bring for Nearmap.

Rob Newman

Thanks Andy. Let me turn first on page 13 to our new products, Nearmap Panorama and Nearmap Oblique, which we launched to our US customers in the second quarter and are now rolling out to Australian customers.

These allow us to not only provide products which are expected in the US market, but we will revolutionise their delivery through subscription access.

Significant customer interest has already been generated to date, and the use cases of customers deploying these products demonstrate the market expansion which they enable.

For local governments, particularly in the United States, remote inspections are conducted by our customers to determine property heights and structure changes. This is used for property appraisals in land tax valuations. Insurance customers are utilizing oblique images for insurance risk assessment. Emergency response customers utilize our obliques to highlight access routes and obstructions for first responders. The applications in construction range from anyone requiring measurement of the side view of structures, from painters, scaffolders, crane operators or telecommunications companies.

Our go-to-market strategy for these new products is initially focused on established use cases and target segments, with our sales relationship managers leveraging our existing customer base as well as key target customers. Nearmap Panorama and Oblique have been launched to customers, with the revenue uplift from increased usage expected to be greater than 50% of their existing subscription value.

Also exciting is the generation of 3D content on an unprecedented scale from our oblique images. Having reached production of digital surface models and textured mesh during the half, we already have customers utilizing our content.

With such content never before available to commercial customers on this scale, Nearmap is truly creating a new market. We are working with our customers to identify the varied applications for which it can be used.

Our trial solar industry customers are using our 3D models to determine roof dimensions, as well as the shadowing of surrounding areas and solar radiation of a roof. Telecommunications companies are utilizing 3D content in network planning, obstruction analysis and radiation hotspots. We are also having discussions about many additional use cases, ranging from applications as diverse as infrastructure design, smart cities, airport management, urban planning and even the optimum placement of outdoor advertising.

Our initial focus is on large enterprise customers, and as we learn more we will release our 3D product and pricing strategy later in the second half.

I'll now hand back to Andy to provide more detail to our first half results.

Andy Watt

Breaking out the growth in our ACV portfolio, our US growth is shown on page 16, with incremental ACV of US$3.2M in the half being the largest in the history of Nearmap's US operations. As well as generating $2.3M worth of new subscriptions, we also upsold our existing customer base by US$1.1M, representing a 20% uplift on the opening portfolio in the half. Our US churn of 15.9% reflects the impact of the acquisition in the second half of the last financial year of a partner by a competitor. Adjusting for this impact, churn is 12% and trending towards the rate that we see in Australia.

Turning to look at Australia, enhanced sales and marketing efforts and strategic leadership delivered accelerated incremental ACV of $3.3M, again reflecting a combination of new subscriptions of $2.7M, and upsell to our existing customers of $2.2M. The increased focus on customer retention through customer webinars and education events has seen 12 month churn reduce to 8.3%, from 9.8% at 30 June 2017.

The growth in ACV is reflected in the Group revenue numbers shown on page 17, with a 27% increase to $24.7M when compared to the same half last financial year. Gross margins of 80% reflect the scalability of the business model, even as the expanded capture program is rolled out.

Group expense growth reflects the income statement impact of the investments outlined.

Most importantly, our cash resources enable us to organically fund the next stage in our growth.

I'll now hand back to Rob for our priorities and outlook for the second half of the financial year.

Rob Newman

Thanks Andy.

In summary, we are now entering perhaps the most exciting phase in Nearmap's development.

We have made the investments in our technology, product, capture program and sales & marketing. We have an expanded product suite and a range of new content. Our expenditure is now at the level required and we have the team in place to deliver scalable growth.The theme for the second half of the financial year is to continue to drive ACV growth realizing the benefits of the investments we have made in the first half. Our new products and new content will become part of growth, with our sales and marketing investment largely set at the right level.

We will launch our 3D products both in the United States and Australia. We have now launched our new MapBrowser in the US and Australia, expanding our ease of use to mobile platforms. It supports the availability of Nearmap Panorama and Nearmap Oblique products.We will complete the first pass of our HyperCamera 2 capture program, whilst our technology and engineering efforts will focus on increasing the efficiency of our capture and processing systems, to enable us to fly higher, faster, and capture and process larger amounts of imagery with greater efficiency.

With our investments now in place, we will focus on generating returns. Based on our performance in the first half of the financial year, we have upgraded our incremental ACV guidance for the full year, and expect our Sales Team Contribution Ratios in the second half of the financial year to be broadly consistent with the first half.

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

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