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NEARMAP 1H FY20 RESULT TRANSCRIPT

Dr. Rob Newman, Managing Director & Chief Executive Officer

Good morning and welcome to the Nearmap 1H FY20 result conference call. I have with me Andy Watt, our Chief Financial Officer.

As we have communicated a trading update just a few weeks ago, we will take the opportunity today to outline our results and performance in more detail and provide an outlook for 2H FY20. But before we do that I would like to dive deeper into the positive dynamics that are driving our business.

As you know, Nearmap has invested significantly in recent years in our technological capabilities, expanding our content types and broadening our distribution channels. We have transitioned our Company from providing a single product in Australia to providing a rich set of location insights both here and in North America.

The reason we have made these investments is in recognition of the global opportunity in our industry that is significant and growing every year. To address this opportunity requires the combination of leading technology and a business model that scales.

Nearmap has invested in the technology to provide the most current, clearest and widest footprint of location intelligence. Our camera systems more efficient than any other, our processing capabilities which can seamlessly process the highest resolution imagery in days, not weeks or months, and our tools and content types are what enable Nearmap to be an indispensable asset to our customers. Off-the-shelf camera systems and non-automated processing of data, that has been the approach of other industry players, limits the value of their data; it is either old or limited in scope.

Our large scale, high value dataset served to our customers via subscription provides a compelling alternative to the bespoke offerings of others. For existing customers of geospatial data; the benefit is it is immediately available at much lower cost. More importantly, our offering opens the market to many more users who would never have considered or could never have afforded a bespoke offering.

For the other players in our industry they can only sell their bespoke data to one customer, which limits their ability to scale. And as we have seen in other industries, transitioning from an enterprise bespoke solution to a subscription business is difficult and typically is measured in years. Nearmap has led the industry in building this subscription business model, and we have a significant first mover advantage, with a subscription portfolio many orders of magnitude larger than any other similar offering. Others will try to replicate the same model but without the technological capabilities that Nearmap has, they will struggle.

This is why I am so confident that Nearmap will become the clear global leader in the provision of location intelligence content derived from aerial imagery. We are positioning our Company to take advantage of this opportunity, and there is a significant runway in front of us to deliver on this opportunity over the years ahead.

Whilst our results in the first half in many respects reflected the positive trends in our business, those results also showed we are still susceptible to large deals in North America. As we outlined in January, there were a small number of unforeseen events in December which impacted our first half performance. Three churn / downgrade events had a combined impact on our incremental ACV of A$6.9m. One of those churn events was due to a permanent court injunction against a partner, and the other two events were related to a slowdown in providing mapping content into the autonomous vehicle industry. It's important to call out that neither pricing nor competition had a material impact on any of these deals, or our Company in general, in the first half.

Despite the impact of those larger deals in the first half, we did see that the investments we are making in Sales & Marketing in North America delivering improved performance, particularly in our second quarter. We are also seeing the increasing adoption of our premium content, with now over 42% of our ACV including that content as part of their subscription. Specifically, 3D is finding adoption in a wide range of use cases and we continue to deliver new tools and formats to allow easier adoption of 3D by more users. Our AI derived content has been deployed in a variety of commercial use cases and has contributed ACV in 1H while still in beta. And partnerships with OpenSolar and CityWorks has allowed our content to be more deeply embedded into customer workflows.

We also completed our first acquisition in 1H FY20, which provides the technology to semi-automatically generate roof geometry from our 3D content. We already have two industry leading partners accessing this content, and already foresee a very strong return on investment from this acquisition.

Before I talk more about our outlook, I will hand over to Andy to take you through the financials for the first half.

Mr. Andy Watt, Chief Financial Officer

Thanks Rob and good morning everyone.

As we announced three weeks ago and as shown on slide nine of the investor presentation, 1H20 saw our primary metric ACV grow by $6.4m to close at the end of December at $96.6m. 23% growth year-on-year was generated by strong performance in sales to new customers as well as continued growth to our existing customer base. At the Group level we added $8.6m from new subscribers, up 10% on prior year, with another $4.6m added through net customer upsell.

The three churn and downgrade events mentioned previously had a material impact on 12 month rolling churn, sales team contribution ratio and customer lifetime value. 12 month churn grew from 5.5% at the end of December '18 to 11.5% at the end of December '19, Sales Team Contribution Ratio was down from 117% to 44%, and customer lifetime value dropped to $571m.

If you back out the impact of the three events then underlying churn would have been just over 6%, in line with our expectation that long-term churn will be managed below 10%, reflecting the investments that we've made in customer success initiatives to build a subscription business with market leading renewal rates.

Sales team contribution ratio would have been closer to 100% and LTV would have remained above $1bn. We don't want to mask the fact that these events had a material impact on our first half performance - indeed this is part of being a subscription business and we need to be cognisant of the volatility, both positive and negative, which large deals can bring – but we also re-emphasise that outside of these events the underlying business remained strong and grew largely as we'd expected.

Reflecting the importance of our content in customer workflows, 42% of our Group portfolio subscribed to Nearmap on multi-year deals, up from 36% at the end of 1H19. With subscriptions globally increasing to more than 10,000, our customer base is diversified across a range of industries and use cases. Outside of autonomous vehicles there has been little change to the make-up of our customer base and subscription growth remains resilient across our core customer segments.

I'll run through the operating metrics for each region in a moment, but turning to the statutory numbers as shown on slide six, Group revenue grew 31% to $46.3m reflecting the growth of the ACV portfolio over the past 12 months. Operating expenses increased 61% on pcp, in line with the investment strategy outlined at the time of the 2018 capital raise. In 1H20 we added 55 new heads to the business, expanding capacity and capability across all areas to provide the foundations for sustainable future growth. The period of stepped investment is now largely complete with the focus now on optimisation and driving returns from investments already made. As such 2H20 operating costs will increase only marginally.

This is reflected in the capital resources at our disposal. Cash outflow in 1H20 of $26m leaves us with nearly $50m of cash on the balance sheet as at the end of December. Although we'll continue to consume cash in 2H20, this will be at a reduced rate, leaving us fully funded to execute on the growth opportunities that lie ahead. We'll continue to evaluate inorganic growth opportunities should they align with our strategic priorities.

An EBIT loss of $18.9m reflects the scaling of business operations but also includes the impact of accelerated amortisation per the previously announced change to capture cost amortisation period.

Turning now to the dynamics in each of our core markets as shown on slides ten and eleven. The North American business added US$2.3m of incremental ACV in the half to close at December 31st with a total portfolio of US$24.9m. This represents 41% portfolio growth over a 12 month period, with growth in new business and upsell ACV broadly consistent with prior periods. Indeed, looking at the chart on slide ten of the investor presentation, if it wasn't for the large downgrade in the autonomous vehicle space then our net upsell would have been significantly higher, validating the investments made in our new content types and proving that our expansion strategy continues to drive strong returns.

It's also worth noting the change to the structural composition of the North American portfolio. We added 457 net new accounts over a 12 month period. This is a big step up on prior periods and shows the success that the core business is having at penetrating deeper into the SME market. This is also reflected in the Average Revenue per Subscription which grew year-on-year but dropped over the last six months. Even without the large churn and downgrade events you'd have seen a slower rate of ARPS growth than previously recorded. This is in line with our expectations and shows the success that we're having at building out the scalable, repeatable part of our Sales & Marketing engine, bringing more balance to the portfolio and reducing concentration risk.

We completed our second capture of our fourth geography, Canada, covering 64% of the Canadian population. We've continued to successfully leverage our existing US infrastructure in that market, and have now sold Canadian content directly to domestic Canadian customers as well.

The twelve-month rolling churn rate in North America increased from 6.1% to 20.6% as at December 31st, with the Sales Team Contribution Ratio at 34%. Excluding the churn and downgrade events, Contribution Ratio would have again been above 100%, and twelve month rolling churn would have actually decreased over the period, further emphasising the previous comments made on the impact of the investments made into the scalable, repeatable part of our North American business. The fundamental aspects of core business performance remain intact and the market opportunity continues to grow.

In ANZ we added $3.1m of incremental ACV in the half, closing with a total portfolio of $61.0m. This represents year-on-year growth of 14%. As with the North American business, new business acquisition remained strong and it was the increase in churn from 5.3% in 1H19 to 7.2% at the end of 1H20 that impacted overall growth rates. Most of this increase was due to a combination of subscription consolidation events and internal Nearmap execution issues whereby a lack of focus meant that a small number of accounts failed to renew. The Sales Team Contribution Ratio was 69% and we've made changes to strengthen our focus on sales leadership in ANZ to return to normalised growth rates.

In conclusion, we reiterate that we remain confident in our outlook for the Company. Our North American core business continues to build momentum, with the returns on our investments beginning to show through strong ACV growth in the second quarter. The ANZ business continues to build on its market leadership position, outgrowing the competition significantly, and with the execution issues outlined previously within our control to rectify. The churn and downgrade events experienced show our susceptibility to large deals but, just as these can go against you, they can just as easily go in your favour, as they have previously. With all of this in mind we remain confident that we will return to delivering year-on-year ACV growth of 20-40% in the medium to long term.

With that I'll hand back to Rob to tell you more about why we feel confident about the future growth trajectory of our business.

Dr. Rob Newman, Managing Director & Chief Executive Officer

Thanks Andy.

Before talking to the mid to long term outlook for our Company, I would first like to discuss the key strategic priorities for our business over the next six months.

Our clear focus for the second half is to continue to drive returns from the investments we have made in our business. This includes continuing to strengthen the return from the investment made in Sales & Marketing in North America, continuing to extend our leadership in the Australian market, and accelerating the adoption of our premium content. We will also ensure that we continue to invest in core technology that separates our business from other industry players.

As I noted earlier, our North American core business has seen a step up in sales performance as a result of our investment in that market. We will continue to focus on delivering results from that part of our business, as that team will allow us to scale over the medium to long term in North America and reduce our dependence on large deals.

The Australian market remains a long-term growth opportunity for us and we have established a clear leadership position that others have struggled to penetrate. In Australia, we have a deep history of data, market leading camera systems and, above all, a capture program built out over the last decade that is reliable and trusted by our customers,. This, combined with an unequalled investment in technology, tools and content, and now a refocusing on Sales & Marketing in ANZ, will see us continue to grow our leadership in this market.

In the second half of FY20 we are on track to commercially release our AI content within MapBrowser, making this content generally available to all our customers. We have already delivered beta AI content to several customers, ranging from local governments to multinationals, and the feedback we received from those customers was hugely encouraging. Today we can identify more than 30 attributes within our AI content, and it's expected these will be available when we launch this product in the second half of FY20.

Also adding to our growth will be our recently acquired roof geometry technology. This technology leads the market in combining both speed and scale of generating roof geometry. As we did with our AI content, we will start with a small number of enterprise customers using this technology and will scale this part of our business as we approach and go into FY21. We believe this is a US$100m-$200m market opportunity and enables us to go deeper into industry verticals such as roofing, insurance and solar.

Underpinning all of these new capabilities is the continued development of next generation camera systems to further accentuate the technology leadership position and competitive advantage we possess. We want to fly higher, faster and more efficiently, and the team is focused on designing a camera system that will deliver on those objectives.

Importantly, as our Company grows and scales, we need to ensure we create a great environment for our people so that they can grow with our business. To assist me in leading that effort, we hired a Chief People Office, Simone Shugg, into our Company. Simone has considerable experience in high growth and subscription-based companies such as Carnival Cruises and Foxtel. Simone's appointment re-emphasises the Company's commitment to evolving its people strategy, organisational structure and talent management as we scale for future growth.

In January's trading update we announced that we had hired a Chief Revenue Officer to strengthen the overall leadership of the sales organisation. I am pleased to announce that Jeff Adams will be taking on this responsibility as of next week, based in Salt Lake City. Jeff's career has spanned more than 27 years working with a broad spectrum of companies from start-ups to organisations with tens of thousands of employees. The majority of this time has been spent in sales and operations leadership, primarily in the tech sector–the last eight specifically in SaaS. I have known Jeff for two years and we share similar views as to building a great company. I really look forward to working closely with Jeff when he joins our executive team, as I already do with Simone today.

Now to our outlook. Last month we revised our guidance for our ACV portfolio to end FY20 between $102m-$110m, and to continue to deliver 20-40% ACV growth in the medium to long term. I want to talk to these two points and make clear the reasons for this guidance.

The first half result for FY20 shows that we can still be impacted by a small number of larger customers in the short term, particularly in North America. We had a confluence of events in December which we hadn't expected and, in recognition of the fact that there are large deals both positive and negative in every half, we've broadened the FY20 guidance range. Combining the worst-case outcomes then you get to the bottom of our guidance range, $102m of ACV. This obviously represents a conservative number and we're managing the business to deliver incremental ACV more in line with previous periods. If some of those big deals play out in our favour then we can deliver to the top end of the range.

Projecting forwards, we expect 20-40% ACV growth in the medium to long term with large deals being the swing factor. Giving this range allows our investors to understand that there is still sensitivity to large deals, at this point in time, and that these can have an exaggerated impact both up and down. We continue to build out the scaleable, repeatable sales engine such that the potential for a small number of larger customers to impact our results will become less as we grow.

We will continue evaluating geographic expansion opportunities, both through direct and partnership channels, but our near term priority remains firmly on driving deeper into the North American market and extending our leadership in Australia.

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. Through the rest of FY20 and into FY21, we will again deliver new content types for our customers, as we continue to target strong growth across our ACV portfolio.

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

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