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NEARMAP FY19 RESULT TRANSCRIPT

Dr. Rob Newman, Managing Director & Chief Executive Officer

Good morning and welcome to the Nearmap FY19 result conference call. I have with me Andy Watt, our Chief Financial Officer.

As you will see from our announcement this morning, FY19 has been the transformational year we set out for Nearmap 12 months ago. We saw record growth in our subscription portfolio, delivered a suite of revolutionary new products, saw increasing traction in our North America business and expanded to Canada. We also made strong progress toward accelerating our strategic growth initiatives which we outlined at last year's capital raise.

Before discussing the results, let me review the unique position of our Company and what we have achieved to date.

At its heart, Nearmap is a technology company founded on the principle that we change the way people view the world, so they can profoundly change the way they work. Over the last 12 years, we have created and own a rich, continually expanding data set about the real world, providing high value insights to a diverse range of businesses and government organisations. This benefits not only them, but our employees, our stakeholders and the broader community.

Our Reality as a Service business model has democratised access to aerial imagery, bringing the power of its insight to new customers and use cases. This business model, when combined with the continually improving efficiency of our technology and capture program, generates scalable gross margins. This generates effective unit economics across our sales, our capture program, and through our customer retention, our customer lifetime value. And we are now uniquely positioned to be the global market leader in location intelligence derived from aerial imagery.

The aerial imagery market has evolved in its sophistication, and Nearmap remains focused on maintaining our position at the forefront of this evolution, by bringing new content and features to market. When we announced our capital raise in September last year, we outlined a number of initiatives we wanted to focus on and I will provide an update on those initiatives.

Firstly, we committed to expanding our product and content. Over the course of FY19 we delivered on that commitment. In June we launched Nearmap 3D, which provides customers the ability to stream and export 3D imagery on-demand at an unprecedented scale through our MapBrowser web application. Nearmap 3D gives customers a fully-immersive 3D experience and allows them to measure distances and export custom areas in a variety of 3D formats. This fundamentally changes how industries such as urban planning, architecture, construction, governments and councils, can view and shape cities across Australia and North America. Nearmap 3D is now in general availability and we are again leading the market by providing this content via a streaming service.

We continued our investment in machine learning and launched a beta release of our Artificial Intelligence content in the second half of FY19. We have built highly accurate machine learning models and deployed them at scale. This turns our millions of aerial images, captured multiple times a year, into valuable datasets. These datasets can be used to more accurately and efficiently measure change and quantify attributes, such as solar panels, pools, roofs or construction sites. I was pleased to announce to the market last month the first commercial sale of this content. Artificial Intelligence technology is transformative for our business, and for our customers.

This expanded product and content set has been made possible by the investment in our people and in FY19 we added 43 people into our product, technology and survey operations team to deliver on this commitment.

Secondly, we earmarked expansion of our sales and marketing team, particularly in North America as a key priority. As part of that goal we opened a fully staffed New York office in April this year, specifically targeting the Construction and Engineering sector. Andy will touch more upon our successes in North America later on the call today.

Finally, we added a fourth geography to our capture program when we expanded to Canada, exceeding our initial 60% coverage target. We have successfully leveraged our existing US infrastructure in this market, and we will continue to invest to support our team in developing opportunities in that region.

Through continued investment in our camera systems, our processing, and our technology, Nearmap has positioned itself as a top three pure play aerial imagery company globally, delivering a broad range of imagery, data sets and insights to a growing list of businesses and geographies. The FY19 results released to the ASX this morning reflect delivery on this investment, and before I talk about the outlook for FY20 I will hand over to Andy to take you through the financial highlights for FY19.

Mr. Andy Watt, Chief Financial Officer

Thanks Rob, and good morning everyone.

As always, I'll begin by discussing our FY19 performance with the metric which best demonstrates the value placed on our content – the Annualised Contract Value of our subscriptions.

As we pre-announced in July, FY19 saw the group portfolio grow to $90.2 million, a $24 million increase over the course of the financial year and 36% growth year-on-year.

This growth was generated by strong performance in sales to new customers as well as continued growth to our existing customer base. In FY19 we added another $17.4 million from new subscribers to Nearmap, a 40% increase on FY18 which of itself was a 39% increase on FY17, highlighting the market opportunity that continues to exist for new users of our content.

The other key element of this growth to highlight is churn, which at $3.5 million in FY19 was lower in absolute dollar terms than in FY18. As a percentage of ACV, 12 month rolling churn has fallen from 7.5% of the Group portfolio to 5.3%. This reflects both our content becoming more embedded into customer workflows, as well as the customer centred focus of our sales and marketing. You don't deliver the margins that we do without attracting competition and so whilst we're obviously pleased to see churn continue to fall, we also know that we need to continue to invest deeper into our customer experience and product content offering to manage churn effectively.

We measure the productivity of our sales and marketing efforts through the Group Sales Team Contribution Ratio, which stood at 106% this year. This means that for every dollar invested in direct sales and marketing, we generate over a dollar in incremental annual subscription value from our customers in the same period.

With an average customer life exceeding 18 years, this equates to a near 20:1 return on our sales and marketing investment.

As we've always said, we'll invest more heavily into sales and marketing where we see line of sight of returns, and the second half of FY19 has seen us invest in further building out our sales and marketing team in the US including the opening of a second North America sales office in New York. Given the large and expanding market in which we operate and our compelling unit economics, we're willing to accept near term pressure on the Sales Team Contribution Ratio given the returns that this investment is expected to generate.

Looking at growth in each territory, the combined North American portfolio of the United States and now Canada has increased more than four-fold in the last two years. ACV grew by a record US$9.8 million in the year to US$22.7 million. This was driven by a US$7.9 million increase in new business ACV, with growing traction from both the SME and the International and Partners businesses. Churn continued to fall, with 12 month rolling churn levels now at just 4.4%, an outstanding result and, for the first time, churn in North America is lower than the ANZ business.

A continued focus on broadening the North American subscriber base saw the number of subscriptions increase by more than 50% over the course of the year, to 1,425. Nearmap continues to sign up new SME customers in North America, delivering our content to more and more businesses that hadn't purchased aerial imagery before.

Our ANZ business further enhanced its market leadership position and recorded another strong period of ACV growth of $9.1 million, a 19% increase on FY18. This growth was driven by $6.2 million from new Nearmap customers, and expansion to the existing portfolio of $2.9 million. 12 month rolling churn fell again to 5.6%, down from 7.3% at the end of FY18.

Reflecting the importance of our content in customer workflows, 40% of our group portfolio have subscribed to Nearmap on multi-year deals, up from 35% last financial year. By ACV, almost 30% of our customers are now accessing enhanced oblique, panorama or 3D content as part of their subscription, highlighting the value customers receive from this content and significantly aiding customer retention and renewal.

With subscriptions globally increasing 11% to 9,800, our customer base is diversified across a range of industries and use cases. Despite a potentially uncertain economic outlook, there has been very little change to the make up of our customer base and subscription growth remains resilient across our core customer segments.

Given the change in accounting estimates for capture costs and the impact on accounting gross margins which I will discuss shortly, we are now calculating our portfolio lifetime value using pre-capitalised gross margins, to reflect the cash cost of capture in this metric without the impact of accounting adjustments. Portfolio growth, the reduction in churn and an improvement in pre capitalised gross margins has seen the lifetime value of our subscription portfolio grow by 115% to $1.2 billion at the end of the financial year.

Reflecting this growth, total revenue excluding other income grew 45% to $77.6 million. North American revenues of $24.5 million in our sixth year of capture are more than double the revenues generated in Australia in the equivalent year.

Reflecting disciplined cost management and further demonstrating the scale in our business model, the rate of growth in the operating cost base was less than two thirds that of revenue growth. Group operating expenses increased by 29% and we closed the year with EBITDA of $15.5 million representing a margin of 20%. Whilst raising $70 million in September last year, the Company has been disciplined and strategic when deploying capital and assessing the returns investments might provide. Our focus very much remains on driving these returns.

I mentioned before the change to accounting estimate. As you all know, since 2013 we have capitalised capture costs and amortised these costs on a straight-line basis over 5 years. We review the appropriateness of the amortisation period and methodology on a regular basis and, in light of the growing need for the most recent imagery, we concluded that the business has evolved such that a change in accounting estimate be applied to reduce the amortisation period from 5 years to 2 years.

The change is prospective from January 2019. In other words, we accelerate the amortisation of the capture asset from this period. This does not mean that we write off anything that is older than 2 years from this date. Rather we calculate what the amortisation would have been on the original asset over 2 years, and then apply this to the written down asset value as at the date of the change.

It is worth restating that this change in accounting estimate has no impact on ACV, Cash or EBITDA. In FY19 an additional $8 million of amortisation was accelerated through the P&L with a consequent impact to accounting gross margin and EBIT.

If we strip out the accounting treatment for capture costs then we see that the pre-capitalisation Group gross margin increased from 62% to 69% over the year, with Australia and New Zealand flat at 91% and North America growing from minus 55% to plus 20%, reflecting the continuing leverage and operational efficiency of the capture program in support of a growing customer portfolio.

The evolution of our capture program has been driven by the ongoing investment in our capture technology. The North American footprint has been expanded to cover more than 430 urban areas in the United States and we completed our first full capture of Canada in HyperCamera2 in June, covering 60 urban areas, 64% of the population and more than 20,000 square kilometres. We have now commenced our second capture of that region and we expect to have that capture completed next month.

Separating out the growth initiatives highlighted as part of the equity raising, core business net cash inflows were $0.3 million in FY19, delivering on our commitment to achieve cash flow break even from core operations in FY19. We closed the year with a cash balance of $75.9 million which includes the net proceeds of the capital raise.

I want to remind you all that the reason we raised capital is to invest for future returns; $9.0 million was deployed last financial year into the initiatives identified at the time of the capital raise, including the expansion into Canada, opening a second North America sales office in New York, and accelerating new product and technology initiatives.

FY19 has been another standout year for Nearmap with operating and financial milestones delivered on or ahead of target. The strength of our customer proposition, the strength of our balance sheet and the strength of our unit economics demonstrate the scalability and efficiency of the business that we've created. We've invested a significant amount across all areas of the business in pursuit of future growth opportunities and FY20 will see us focus on executing and generating returns on those investments.

With that in mind, I'll hand back to Rob to discuss our strategic priorities and outlook for the upcoming financial year.

Dr. Rob Newman, Managing Director & Chief Executive Officer

Thanks Andy.

In looking forward to the strategic priorities and outlook for FY20, let me reiterate our Company's unique position at the end of FY19.

Aerial imagery is a key component of the global location intelligence market, a large and growing market impacting many parts of business life. The companies that win will create and own rich location data and invest in the insights that can be derived from that data. That is why Nearmap has spent years investing to deliver these insights across multiple formats in a scalable and efficient way.

FY20 will be the year in which our business capitalises on the content and insights which our investments generate for our customers. I will now talk to three key strategic priorities for our business over the next twelve months.

North America represents the biggest opportunity for our Company today and we will accelerate our presence in that market. We will do this by stepping up our investment into sales and marketing, and invest in greater brand awareness, to more effectively promote our content and data offering to prospective customers in that market.

Secondly, after a milestone year for our product and technology in FY19, FY20 is our opportunity to commercialise and expand upon this new content. We will continue to improve our product offering in line with customer feedback. Our objective of adding further tools and improving customer access to our 3D content is a reflection of this.

In June Nearmap announced the beta roll out of our Artificial Intelligence content after a number of years of investment. We initially started by identifying six physical attributes, and have now doubled this and intend on more than doubling this again in FY20. Commercialisation of our AI content can be accelerated by its availability in MapBrowser and the team is focused on having this tool in the hands of our customers in FY20.

And to that point, our third strategic objective for FY20 is solely focused on our customers and our relationship with those customers. 12 month rolling churn of 5.3% is an outstanding achievement for our Company but we operate within a competitive market in Australia, New Zealand and North America and we assume this competition will evolve over the next twelve months. In the past we have spoken about deepening and broadening the customer experience, and this process will accelerate in FY20.

With our Company's vision in mind, we continue to assess opportunities for organic growth and for acquisitions. However, our focus remains on continuing to deliver the scale emerging in our business to our customers.

The ability to create 3D information, and the opportunity to apply machine learning to our data, not only opens up additional, larger components of the global location intelligence market, they enable Nearmap to provide further insight and solutions to our customers, rather than just data and content. As important as our expanded location content offering is to our customers, providing them with rapid insight from that data is the natural step in our evolution.

Nearmap is 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 FY20 we will continue to invest in our team, our product and our sales and marketing to generate strong ACV portfolio growth. With that, I will now open up the call for questions from the conference call participants.

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