



nearmap Ltd (NEA.ASX)

US gradually reaping benefits

Event:

- Company review post 1HFY17 Result.

Investment Highlights:

- NEA's interim report showed sales revenue growth up 39% YoY, with Australia growing at 30% and the USA 615%. Annualised contract value (ACV), average revenue per customer (ARPC), and number of customers all grew double-digit YoY without any increase in product pricing. US ARPC of US\$6,334 now well exceeds that of Australia.
- We believe the change in to sales and marketing strategy in the USA is beginning to reap benefits. Marketing is more targeted on customer lead lists and trade shows, and less dependent on paid digital ads although these remain an important part of the mix. Based on ACV, we estimate the US now accounts for 10% of Group revenues.
- Australia achieved >30% YoY organic growth after nearly a decade of operation. We believe this is a testimony to the uniqueness of the NEA subscription model, currency of images, and lack of competition. It also highlights the continuing ability to upsell to existing customers. We estimate the company has 42% share of the domestic traditional aerial imagery market.
- While we agree with NEA on the size of the traditional aerial imagery market reaching US\$3.3bn in 2023 (Transparency Market Research), the company believes the total addressable market, at least in Australia, is much larger. NEA has noted that many of its customers were not buyers of imagery previously. We are more conservative and adhere to the traditional market size in our assumptions. However there is an element of truth in NEA's observations which implies risk to market size lies on the upside.
- We expect full production of HyperCamera2 to be mostly completed by end CY2017, ramping up from one to circa nine camera systems. This will enable NEA to capture both orthogonal and oblique images across 50% of US population by early CY2018. This provides the ability to offer 3D images which opens up the market.

Earnings and Valuation:

- We have downgraded our earnings forecast to reflect the higher marketing, sales, and capture costs NEA is undertaking to accelerate growth especially in the USA. This was the underlying reason for the November 2016 equity raise. Our EBITDA forecast of \$5.6M for FY17e lies within the \$4.5M-\$6.5M range of company guidance. We now forecast NPAT of -\$2.4M for FY17e and \$6.8M for FY18e (previously \$3.9M and \$12.0M).
- Our valuation of NEA has reduced to \$0.88/share from \$1.18/share, based on the dilutive impact of the November 2016 equity raising and the increase in marketing, sales, and capture costs.

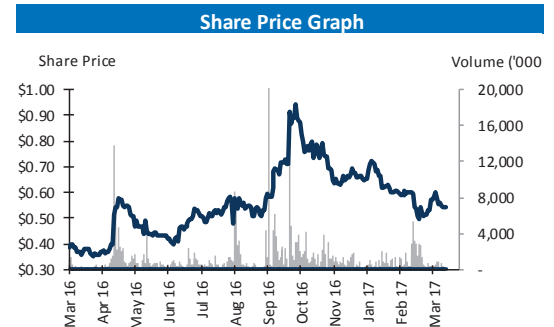
Recommendation:

- We maintain our Buy recommendation and reduce our PT to \$0.88, in-line with our valuation. Catalysts for the stock include continuing strong sales growth in USA and Australia; generation of positive net free operating cashflow; and major customer wins.

Recommendation	Buy			
Previous	Buy			
Price Target	\$0.88			
Previous	\$1.18			
Risk	Medium			
Share price	\$0.545			
ASX code	NEA			
52 Week Low-High	\$0.35-0.965			
Capital Structure				
Shares on Issue (M)	388			
Market Cap (A\$M)	211			
Net Cash/(Debt) (A\$M)	28			
EV (A\$M)	183			
Options on issue (M)	36			
Diluted mkt cap (A\$M)	231			
12mth Av Daily Volume ('000)	1,269			
Y/e Jun	FY16A	FY17e	FY18e	FY19e
Sales \$M	30.7	41.3	52.2	66.4
EBITDA \$M	0.5	5.6	14.1	24.1
NPAT Adj. \$M	-3.2	-2.4	6.8	12.8
EPS adj c	-0.9	-0.6	1.6	3.0
PER x	nm	nm	34.0	18.1
EV/EBITDA x	nm	30.2	11.9	7.0

Board of Directors	
Peter James	Non-Executive Chairman
Dr Rob Newman	Managing Director
Cliff Rosenberg	Non-Executive Director
Ian Morris	Non-Executive Director
Ross Norgard	Non-Executive Director

Substantial Shareholders	
Ross Norgard	14.4%
Paradise Investment Management	6.5%
NAB and associated nominees	6.1%



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The analyst owns 50,000 shares in NEA.