



## nearmap Ltd (NEA.ASX)

*FY18e a transitional year as obliques and 3D roll out*

### Event:

- FY17 Result; Changes to earnings and price target.

### Investment Highlights:

- NEA reported an FY17 loss of **-\$5.3M**. Underlying NPAT after stripping out non-cash tax expense was **-\$1.5M** in-line with our forecast of **-\$2.4M**. The result was largely unsurprising given the company had pre-guided EBITDA and annualised contract values (ACVs) last month.
- Key highlights were revenue growth of **32% YoY**, driven by Australia and USA, which outpaced operating costs growth of **16%**. Increasing average revenue per subscription (ARPS), upselling, and new subscribers were drivers.
- NEA continues to gain traction in US, with ARPS of US\$8.8k (A\$11.4k) up 113% YoY and much higher than Australian ARPS of A\$5.5k. US ACV was up 253% to A\$7M. Based on ACV, the US now represents 15% of NEA revenues. As expected US costs also increased as part of increase in sales and marketing which is reaping rewards.
- As we expected Australian sales growth tapered off in the 2H to 16% YoY, while EBIT margin expanded from scalability effects.
- Cash burn reduces. NEA ended the FY17 with \$28.3M cash, higher than our \$23M forecast due to a payables working capital positive. Stripping this out, net free cash flow - which we measure as subscription receipts less operating, capture, development, and capital costs - was **-\$6.4M** for FY17, down from **-\$9.3M** in pcp.
- FY18e is all about new product offering of oblique imagery and 3D. With its ten HyperCamera2 units built, NEA will focus on capturing the top 68 cities (50% of population) in US and Australian capital cities by end 1HFY18e. This should allow for full commercial launch of obliques and 3D in 2HFY18e. We expect the products to entail price premium over orthogonals, as well as provide NEA with further advantage over competitors.

### Earnings and Valuation:

- We have downgraded our earnings forecast mostly on higher amortisation expense, as well as higher US sales and marketing costs. These reflect the high capture and development costs and ramp up in US investment.
- To turn net free cash flow positive in FY20e. We have reduced our forecast NPAT to **-\$6.6M** and **-\$5.9M** in FY18e and FY19e based on higher D&A and opex. We estimate NEA to burn cash in FY18e and FY19e, and generate positive net free cash in FY20e.
- Our valuation of NEA has decreased to **\$0.82/share** from **\$0.88/share**, mostly on higher revised US sales and marketing costs, partially offset by lower tax going forward based on higher D&A.

### Recommendation:

- We maintain our Buy recommendation and reduce our 12-month price target to **\$0.82** from **\$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; materials sales of oblique imagery and 3D products.

| Recommendation               | Buy          |
|------------------------------|--------------|
| Previous                     | Buy          |
| Price Target                 | \$0.82       |
| Previous                     | \$0.88       |
| Risk                         | Medium       |
| Share price                  | \$0.595      |
| ASX code                     | NEA          |
| 52 Week Low-High             | \$0.43-0.965 |
| Capital Structure            |              |
| Shares on Issue (M)          | 388          |
| Market Cap (A\$M)            | 231          |
| Net Cash/(Debt) (A\$M)       | 28           |
| EV (A\$M)                    | 202          |
| Options on issue (M)         | 30           |
| Diluted mkt cap (A\$M)       | 249          |
| 12mth Av Daily Volume ('000) | 1,333        |

| Y/e Jun       | FY17a | FY18e | FY19e | FY20e |
|---------------|-------|-------|-------|-------|
| Sales \$M     | 40.6  | 54.0  | 70.2  | 89.6  |
| EBITDA \$M    | 5.6   | 5.8   | 12.9  | 23.7  |
| NPAT Adj. \$M | -1.5  | -6.6  | -5.9  | 2.1   |
| EPS adj c     | -1.3  | -1.6  | -1.4  | 0.5   |
| PER x         | nm    | nm    | nm    | 119.2 |
| EV/EBITDA x   | 36.7  | 35.1  | 15.8  | 8.6   |

| 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 |
| Sue Klose          | Non-Executive Director |

| Substantial Shareholders       |       |
|--------------------------------|-------|
| Ross Norgard                   | 14.4% |
| Paradice Investment Management | 6.5%  |
| NAB and associated nominees    | 5.0%  |

### Share Price Graph



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The analyst owns 45,000 shares in NEA.