



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.