



## Nearmap Ltd (NEA.ASX)

*Cash to maintain momentum and seize opportunities*

### Event:

- Equity placement; Revision to earnings, valuation, and price target.

### Investment Highlights:

- Earlier this month NEA completed an equity placement of 43.8M shares at \$1.60 to raise \$70M.** The purpose of the raise was ensuring the company had ample funds to exploit product and geographic opportunities, as well as to ramp-up sales and marketing of its existing businesses, particularly the USA.
- Accelerating sales and marketing in US to capture the long tail.** NEA will spend \$5M to \$10M of the proceeds on sales and marketing in the US, Australia, and NZ in FY19e & FY20e. We expect most will be directed towards ramping up its marketing and sales in the US, especially in adding more personnel and targeting more of the SME long-tail of the market. We do not expect any change in the marketing approach or channels.
- Geographic expansion.** The company is contemplating new markets and we expect the cash raised will allow NEA to be readily able to prepare and rollout a capture program once it has identified a new market entry opportunity.
- NEA to leverage relationships with large US clients as a platform for expansion.** Existing US multinational customers may likely assist NEA identifying countries with readily available clients who may flag an intention or commit to subscribe for imagery, facilitating new market entry and mitigating risk. Canada, Europe, and UK were cited as potential examples.
- Further product development.** NEA will continue its spend on R&D to maintain the competitive advantage of its technology, which may include adding further tools to enhance data quality as well as giving customers more insights and value from images. The funds raised also provide NEA with the ability to acquire any IP or product portfolio that may complement or add value to its existing asset base, when such occasions arise.

### Earnings and Valuation:

- Our NPAT forecasts have increased due to lower interest expense to \$0.4M, \$9.1M, and \$18.5M (previously -\$0.6M, \$8.2M, and \$17.0M).** At this stage we have left our sales and costs forecasts unchanged, as we have already factored some ramp up in costs to drive sales. We estimate NEA cash to now be \$85.5M.
- Placement only modestly dilutive to valuation: \$2.03/share (down from \$2.08/share).** Our NPV<sub>10</sub> for NEA has reduced to \$2.03/share from \$2.08/share, being only mildly dilutive given the size of placement and our prior valuation.
- On relative valuation terms, NEA trades at discount on FY19e EV/sales of 9.3x vs 16.1x for ASX SaaS peers,** a 44% discount despite having comparable sales growth and gross margin. We expect as the company further demonstrates strong sales growth and enters new markets that the discount will reduce.

### Recommendation:

- Buy, price target \$2.03/share.** We maintain our Buy recommendation with our 12-month price target cut to \$2.03/share (prior \$2.08), in-line with our revised NPV<sub>10</sub> valuation.
- Catalysts** for the stock include continuing strong sales growth in USA and Australia; new products; geographic expansion.

Recommendation	Buy			
Previous	Buy			
Price Target	\$2.03			
Previous	\$2.08			
Risk	Medium			
Share price	\$1.79			
ASX code	NEA			
52 Week Low-High	\$0.57-1.935			
Capital Structure				
Shares on Issue (M)	441.3			
<b>Market Cap (A\$M)</b>	<b>789.9</b>			
Net Cash/(Debt) (A\$M)	85.5			
<b>EV (A\$M)</b>	<b>704.4</b>			
Options on issue (M)	19.2			
<b>Diluted mkt cap (A\$M)</b>	<b>824.3</b>			
12mth Av Daily Volume ('000)	1,515			
Y/e Jun	FY18a	FY19e	FY20e	FY21e
Sales \$M	53.6	75.5	96.1	117.7
EBITDA \$M	5.2	20.4	35.4	50.0
<b>NPAT Adj. \$M</b>	<b>-8.0</b>	<b>0.4</b>	<b>9.1</b>	<b>18.5</b>
<b>EPS adj c</b>	<b>-2.8</b>	<b>-0.1</b>	<b>2.0</b>	<b>4.0</b>
<b>PER x</b>	<b>nm</b>	<b>nm</b>	<b>90.2</b>	<b>44.4</b>
EV/EBITDA x	135.0	34.4	19.9	14.1
EV/sales	13.2	9.3	7.3	6.0

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
Sue Klose	Non-Executive Director

Substantial Shareholders	
Ross Norgard	14.4%
NAB and associated nominees	5.0%



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The analyst owns 45,000 shares in NEA.  
 Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 45,000 NEA shares.  
 Cranport Pty Ltd does not own NEA shares.  
 Refer details at end of report.