



ASX RELEASE

15 February 2021

NEARMAP RESPONDS TO ERRONEOUS SHORT SELLER REPORT

Nearmap Ltd (NEA:ASX) is aware of a recent report by short-seller firm J Capital Research Limited ("**the Report**"). The Report contains many inaccurate statements and makes unsubstantiated allegations of a very serious nature.

The Report was created without prior consultation or discussion with Nearmap and follows a pattern of overseas domiciled funds making speculative claims in order to generate uncertainty through adverse publicity and directly profit from such claims.

Nearmap has reviewed and rejects the Report. The consistency and fullness of Nearmap's market disclosures ensures market participants have a great deal of information against which to assess the merit, or lack thereof, of claims such as those in the Report.

Nearmap is in compliance with its continuous disclosure obligations and the Company remains highly confident and committed to its long-term strategy and outlook. Nearmap does not wish to engage in detail with each individual erroneous, self-serving and unsubstantiated opinion contained within the Report and therefore will only focus on addressing the Report's key factual misstatements ("**False Claims**").

False Claims re: Nearmap's US market strategy

Nearmap has been in the North American market for over six years and has used its time in that market to continue to refine its go to market strategy to the point where Nearmap announced six months ago that it would increase its focus on three key verticals due to the strong success experienced to date. As can be seen from the record North American results announced today, this strategy is clearly working.

1. Sales strategy

Claim made: *"Nearmap has failed to succeed in any key sector in the U.S."*

The facts: As highlighted in today's 1H21 results, the North American ACV portfolio increased by 41% to US\$35.1m (1H20 vs 1H21). This also represents a record half for the North American business with growth in 1H21 greater than in the whole of FY20.

The success of the strategy to focus on 3 key vertical markets - Insurance, Government and Roofing – is evidenced by the strong ACV growth rates in these markets:

- Insurance: 43% growth (1H20 vs 1H21)
- Government: 53% growth
- Roofing: 198% growth

Conclusion: **THE REPORT'S CLAIM IS FALSE**



2. Churn

Claim made: *"The company misrepresents the churn"*

"We estimate Nearmap has churned 28% of its current clients since entering the North America market"

"The attrition problem is worst in the critical government sector"

The facts: The Report attempts to calculate Nearmap's North American churn using a combined number of subscriptions lost over a four-year period between FY17 to FY20 relative to the number of subscriptions as at June 2020. This method of calculation is inaccurate and misrepresents churn.

Nearmap presents churn on an ACV basis to reflect the variable \$ value of subscriptions. Churn is calculated on a rolling 12-month retrospective view, a methodology that is standard for most subscription businesses.

As highlighted in today's 1H21 results, Nearmap's North American ACV churn at 31 December 2020 was 6.5%. Government churn has been 20% less than overall North American churn over the last three years.

Conclusion: **THE REPORT'S CLAIM IS FALSE**

3. Pricing

Claim made: *"Nearmap is trying to lure in new U.S. clients with discounted rates, ramping the price once the clients are on contract"*

"key reason that Nearmap has been unable to capture government clients and build an image library in the United States is its short-sighted pricing policy"

The facts: Through the refinement of the go-to-market strategy Nearmap has been able to adapt its pricing model to suit each vertical market.

The Government pricing model referred to in the Report is outdated. In response to customer feedback about the appropriateness of Nearmap's standard data-based pricing model for Government use cases, Nearmap changed its Government pricing model in late 2017. Nearmap's subscription model allows capture costs to be shared across many customers allowing more frequent updates at a lower price to all customer including Government. In addition to this pricing change, Nearmap has delivered additional product specific to local Government agencies enabling them to access, at-scale, 2D, and 3D data offline, as well as display Nearmap's imagery in public-facing applications.

Since the change to the pricing model, Nearmap has recorded 66% ACV CAGR in its Government accounts over a three-year period.

Conclusion: **THE REPORT'S CLAIM IS FALSE**

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False Claims re: Nearmap's technology

The Report makes comments which are fundamentally flawed with regards to the state of Nearmap's technology. Nearmap has a strong track record of innovation, both with respect to its bespoke camera systems, the fourth generation of which is in current development, and in its development of new content types including wide-scale 3D and Nearmap AI which provides differentiated high-value solutions to its customers.

1. Technology

Claim made: *"Nearmap lost its technological edge"*

The facts: The basis of comparison for the competition's current technology is a patent for a camera system developed by Nearmap seven years ago. Additionally, the Report's understanding of the patent is flawed. It also fails to recognise that Nearmap has delivered a significant new generation of camera technology (also covered by patents) since that time and is now in operational testing of a further significant technological innovation of camera technology.

Since the initial development of Nearmap's first system, HyperPod in 2007 by Stuart Nixon, Nearmap has performed 3 entire technology refreshes of its capture technology including:

- HyperCamera – Nearmap's highly efficient ortho imagery capture system;
- HyperCamera2 – Nearmap's industry leading efficient oblique/ortho/3D capture system; and
- HyperCamera3 – Nearmap's highly anticipated refresh for its high-fidelity efficient capture technology.

The strength of each technological refresh has been backed up with having multiple patents covering core intellectual property of each system granted in multiple jurisdictions.

Conclusion: **THE REPORT'S CLAIM IS FALSE**

2. Capture efficiencies

Claim made: *"Double the costs for the same images"*

"Eagleview's camera system captures twice the ground area of Nearmap's on the same flight."

The facts: The camera efficiency claim is based on a hand selected image in one of Nearmap's older technology patents (dated 2015) which doesn't enable accurate assessment of the as-built system and its actual method of operation. Nearmap has since delivered a significant new generation of camera technology in 2017 which flies at altitudes above 10,000 feet capturing high resolution orthogonal and oblique imagery which is then processed into wide-scale 3D content. The cameras enable an update frequency of the North American capture footprint of up to 3 times per annum which is unequalled in the industry. It delivers this at a low fixed cost of US\$13m per annum, including image processing, enabling strong and growing gross margins. The pre-capitalised gross margin is now above 50% meaning that Nearmap effectively generates US\$2 of ACV for every US\$1 spent on capture.

Conclusion: **THE REPORT'S CLAIM IS FALSE**

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3. Artificial Intelligence (AI)

Claim made: *“Inferior machine learning”*

The facts: The Report demonstrates a fundamental misunderstanding of the content delivered by Nearmap, with confusion between imagery (pictures), roof geometry, change detection and property characteristics derived by AI.

There is a very clear difference between imagery content (pictures taken from planes) and AI derived insights (property characteristics). Using the Nearmap developed AI processing pipeline Nearmap has processed its full 90 million parcels globally and is committing to updating those insights for every survey flown.

To compare the insights gained from AI derived processing with the number of pictures taken by a plane is an irrelevant comparison and does not understand the unique technology stack or value and use cases served by each content type.

Sales of Nearmap AI are growing strongly, particularly to key Government and Insurance verticals in North America as evidenced by the growth rates of these verticals in today’s results announcement.

Nearmap AI has been fully developed in-house with a team of nearly 20 data scientists and machine learning experts and this technology was not acquired from Pushpin, as outlined below.

Conclusion: THE REPORT’S CLAIM IS FALSE

4. Pushpin

Claim made: *“Since acquiring Pushpin, Nearmap has been promoting its parcel-change detection service as a “next generation” change-detection service used to recruit county government clients”*

“It takes Nearmap / Pushpin 24 hours to process roof measurements”

The facts: The December 2019 purchase was of Pushpin’s roof measurement technology, not Pushpin the company nor Pushpin’s change detection technology, as falsely asserted. Pushpin continues to operate its change detection service independently, at times using Nearmap imagery.

Nearmap applies the unique roof geometry technology acquired from Pushpin to its widescale 3D content to provide highly accurate roof geometry which partners, not Nearmap as falsely claimed, then use to generate high quality roof reports within 1 hour, compared with their competitors that can take 1-3 days to produce a report of the same quality. This content and technical approach is unique to Nearmap and has very quickly gained traction via partners in both the Insurance and Roofing verticals.

As shown in today’s 1H21 results, Nearmap reported 198% ACV growth (1H21 vs 1H20) in the North American Roofing Contractor vertical. Roof Geometry content is also sold to Insurance customers meaning that, one year on from the acquisition, this content type already represents approximately 15% of the North American ACV portfolio.

Conclusion: THE REPORT’S CLAIM IS FALSE



False Claims re: Nearmap's accounting practices

Nearmap is recognised by institutional investors and investment analysts for the transparency and quality of its financial reporting. That combined with a long track record of clean audits and an award for its investor communications demonstrate the accuracy and insight provided by Nearmap in its financial reporting.

1. The accounting

Claim made: *"Nearmap is apparently trying to hide its U.S. failure with accounting tricks to pull forward revenue"*

The facts: Nearmap accounts for and recognises revenue in accordance with the applicable Australian Accounting Standard (AASB 15) and in compliance with International Financial Reporting Standards (IFRS 15). Revenue, including unearned revenue, is subject to review procedures as part of the half year review and tested in the full year audit by the Company's independent auditor, KPMG. The review report and audit opinion have always been unqualified, meaning that the auditors obtained reasonable assurance about whether the financial report taken as a whole is free from material misstatement, whether due to fraud or error.

Nearmap initially records the billings for subscription fees as unearned revenue and then recognises revenue over the subscription period. Unearned revenue is impacted by the timing of sales and invoicing.

Conclusion: **THE REPORT'S CLAIM IS FALSE**

Conclusion

Commenting on the Report, Chief Executive Officer and Managing Director, Dr Rob Newman, said "This Report demonstrates a deep misunderstanding of our business and the industry in which we operate. The Report contains many inaccurate statements, makes unsubstantiated allegations and presents a misleading representation of our business. Our Company has delivered a very strong result which clearly demonstrates the strength of our business and the high levels of engagement of the Nearmap team. All members of the Board are resolutely committed to the Company's long-term growth."

Authorised by:
Board of Nearmap Ltd

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VIEW THE WORLD, SO THEY CAN
PROFOUNDLY CHANGE THE WAY THEY
WORK.**

NEARMAP.COM

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