

February 15, 2021

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Nearmap Ltd. (NEA AX)

Supersize Me

Tim Murray

Nearmap's response to our report avoids addressing key issues:

- ▶ Nearmap did not dispute that the Eagleview camera system is twice as efficient.
- ▶ No attempt was made to demonstrate market-share improvement in the U.S.
- ▶ Then company obfuscated pricing strategy with obtuse language that does not refute any of our statements.
- ▶ The company did not address allegations of aggressive revenue recognition and end-of-period upselling with an auto renew that inflates sales but loses clients.
- ▶ Sales structure problems were overlooked
- ▶ Nearmap's roof-measurement business has quality and legal problems not addressed in the reply report.

Nearmap's H1 2021 report shows slowing growth across markets. Incremental new business contracted by 50% in North America and 32% in Australia and New Zealand.

Meanwhile, despite a lot of bluster, the company confirmed the conclusions in [our report of February 11](#) by failing to rebut allegations, including our assertions that revenue recognition is excessively aggressive and that Nearmap's camera technology is both expensive and inefficient.

We continue to believe that Nearmap cannot compete in North America. We now also believe that the company is losing share in Australia and New Zealand.

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Questions to ask

Investors should demand straight answers from Nearmap:

- ▶ Can Eagleview's camera capture twice the area on the same flight, same altitude and at the same resolution as Nearmap's? Nearmap should show the flight paths of its aircraft in the U.S. and compare them with Eagleview flight paths in the same area.
- ▶ What is the risk that Nearmap is infringing Eagleview patents in the insurance sector, specifically for roof measurement?
- ▶ What is Nearmap's market share in each segment in the U.S.?
- ▶ Why, after seven years in the U.S., does Nearmap not lead in even one segment?

Cramming contracts into the last quarter

Nearmap's North American operations are struggling to gain new clients. Incremental new business contracted from \$4 mln H1 2020 to \$2 mln in H1 2021, a fall of 50%. Australia and New Zealand operations saw net incremental new business fall from \$3.1 mln in H1 2020 to \$2.1 mln in H1 2021, a decline of 32%.

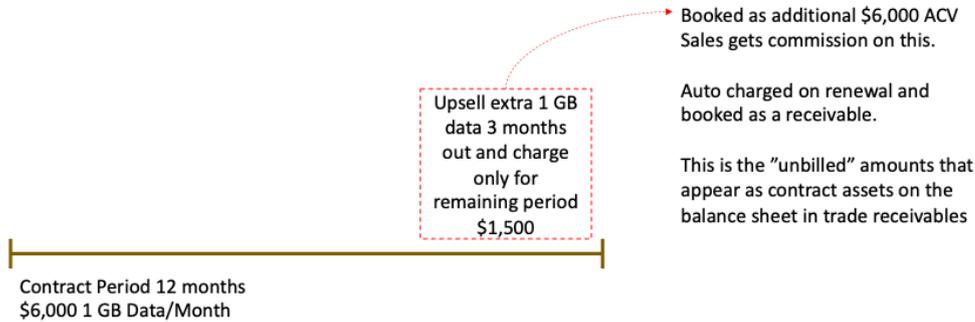
Net incremental growth for Nearmap is coming from predatory upsell. Brace for churn and customer downsizing.

Interviews we conducted in the last two days with former salespeople confirm that Nearmap sales staff push clients to upgrade at the end of each reporting period to push up sales numbers. A former salesperson offered this example: three months ahead of renewal, a customer on a 1-gigabyte data plan for 12 months at a cost of \$6,000 is asked to upgrade to 2 gigabytes for an additional \$6,000. Salespeople target customers who are not fully aware of data use. The customer pays only \$1,500 for the last three months, but Nearmap books the contract as a new ACV of \$6,000. The salesperson is commissioned on the full \$6,000.

Former sales told us that they have to stay in the office for the last week of the period to pound the phones and get the upgrades to meet targets at the end of the period. Two former salespeople told us that clients subsequently reduced their payments once they realized they had purchased more data than they needed.

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Upselling as ACV: The source of unbilled amounts



Source: J Capital

We believe this end-of-period upselling is the reason why contract assets have been growing. These represent unbilled amounts from sales contracts where revenue is recognized that exceeds the amount of revenue billed to a client. These contract assets are recognized as revenue and held as trade receivables when the sale becomes “unconditional.” A former salesperson said “Customers got upset particularly if they thought it was just temporary for a project.”

Nearmap points out in its 2020 Annual Report “Typically, subscriptions automatically renew at the end of the subscription period, unless the customer specifically terminates it prior to the end of the period.” If a customer was upsold in June 2020 on a contract that ended in September, that customer would be automatically renewed at the higher annual rate. Customers may not be aware of the rate and may dispute the charge, but this is recorded as revenue in the subsequent quarter and held on the balance sheet as a trade receivable. This could explain how contract liabilities can be falling as a share of revenue.

Downward price pressure in Australia

The decline in incremental revenue in Australia and New Zealand is unsurprising, given price pressure from competition. Aerometrex (AMX AX) is showing significant market-share gains in those markets, partly a result of lower pricing. Former Nearmap salespeople say that customers in Australia are, on average, utilizing only 50% of their data allocation. As salesperson said to us:

“We had big contracts priced at \$200,000 but only using about \$51,000 of data.”

And

“There is a high churn risk when they realize they have been overcharged.”

These customers often ask for a cheaper plan, which Nearmap resists. Aerometrex is offering

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the same service for 30% less, causing Nearmap to counter by providing up to 60% in discounts to retain existing customers. A former salesperson said,

“We had a customer paying \$40,000 that was discounted to \$16,000 on renewal to avoid signing with Aerometrex.”

Another salesperson commented this practice was targeted at “some big-label clients” “to retain them.”

Sound and fury

Nearmap’s response is well structured to avoid making any statements that may be unhelpful in a class-action lawsuit. The company asserts that an allegation is false then presents alternative and unrelated facts.

Camera efficiency

In our report, we stated that “Eagleview’s camera system captures twice the ground area of Nearmap’s on the same flight.”

Nearmap did not deny the allegation. On the earnings call, an analyst asked for an efficiency comparison with competitors. CFO Andrew Watt responded: “Our capture efficiency due to gross margin, again, we’ve spoken about many times in the efficiency of that, the fact that our \$4 million cost base in Australia can support our \$66 million portfolio.” In other words, waffle and more talk about total costs. Nearmap knows its camera technology is outdated.

Nearmap spent no capex on camera systems in H1 2021 and almost nothing in H2 2020.

U.S. sales: still just 5% of market

In response to our claim that “Nearmap has failed to succeed in any sector in the U.S.,” Nearmap quotes ACV growth by sector. The company did not address market share, which is a standard measure of success in a market.

The fact is, Eagleview has 26x Nearmap’s revenue in insurance and 10x its revenue in government. After seven years in the U.S., the highest market share Nearmap has in any segment is around 14%, for insurance.

Patent woes

Nearmap fails to address our claim that its sales to the insurance sector face patent-infringement risk.

Google’s free service is better

Nearmap has quality issues in metropolitan areas. We have been told the 3D content in places like New York City is terrible. Images for the key Hudson Yard area cannot be used by architecture clients. The stitching together of images has problems. Nearmap captures images two to

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three times per year, compared with six times in metropolitan areas of Australia. Google's free service is updated at least every six months in metro areas, often with aerial photography as good or better than Nearmap's.

Pricing Strategy Hampers US Sales

In response to our statement that "Nearmap is trying to lure in new U.S. clients with discounted rates, ramping price once the clients are on contract," Nearmap offered a cute legalism: "The Government pricing model referred to in the Report is outdated." Which pricing model? They then say "...Nearmap changed its pricing model in late 2017."

We wish to be very clear. Our report says:

"Nearmap's subscription-plus-data-usage model works out to be too expensive for local governments by Year 2. Four previous Nearmap salespeople told us that, if a county looks at the same land parcel several times, it is charged for each view. This quickly eats up data with no benefit to the county. Salespeople wanted to move to fixed pricing, but senior management in Australia would not budge."

We confirmed with three former executives that this practice continued into 2019. In 2020, this pricing model was still in use, but some clients could elect fixed data usage. This applies to image downloads of certain defined areas, with approximate pricing of \$20,000 to \$30,000 per 1,000 square miles. As we said in our report, management changed its pricing policy.

Nearmap was careful to say that pricing strategy has changed only for the government sector. All other categories are still sold subscriptions based on data usage. Former U.S. sales staff told us this is the single biggest impediment to sales.

Capture costs

Nearmap highlights that the company spent \$3.1 mln less on capture costs in H1 2021 versus H1 2020, reducing losses. We believe this resulted from grounding flights to save money. The lower loss came at the expense of frequency of capture, an attribute Nearmap considers a key differentiator. The U.S. percentage of population covered declined slightly, to 70%.

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No response on chaotic sales management

Nearmap did not address the personnel issues that erode sales. Since publishing our report, we have spoken to a number of people who confirm these problems. Former Australian salespeople have said there is a toxic culture and a revolving door for salespeople. As one person put it,

“Customer churn is not encouraged, but salespeople churn is.”

Top-performing salespeople have left, and several have told us that aggressive sales practices and increasing competition indicate that sales now will be on a downward trajectory. A former U.S. salesperson we spoke with yesterday complained about sales management, noting three major changes in under 18 months.

The two most senior sales managers responsible for pushing predatory upsells have left, one early last year and the other in January of this year.

The screenshot shows two LinkedIn profiles side-by-side. On the left is Shane Preston, 2nd, with a blue profile picture. His bio reads: "Culture first leader. Specialist in accelerating revenue. SaaS and Technology. Sydney, New South Wales, Australia · 500+ connections · Contact info". He is currently at Black Wallaby and La Trobe University. On the right is Alex Doyle, 2nd, with a blue profile picture. His bio reads: "Vice President, Asia Pacific & Japan Sales at Bigtincan Sydney, New South Wales, Australia · 500+ connections · Contact info". He is currently at Bigtincan. Below the profiles are two job history entries for Nearmap. The first entry is for Shane Preston: "Executive Vice President Sales, Nearmap - Full-time, Mar 2017 - Jan 2021 · 3 yrs 11 mos, Sydney, Australia. Leading the Global Sales Team across all segments including Enterprise, Government, Mid-Market, SMB, Partner/Channel as well as world-class Sales Enablement, Sales Engineering, Customer Success and Sales Development. ...see more". The second entry is for Alex Doyle: "Director of Sales, ANZ, Nearmap - Full-time, Aug 2014 - Feb 2020 · 5 yrs 7 mos, Sydney, Australia. At Nearmap I led the Enterprise, Government and Mid-Market sales teams, taking the business from \$18m to \$60m ACV in Australia. Developed the sales organisation structure delivering above growth goals. Coached, developed and promoted team members, and built Nearmap's SDR ai ...see mo".

Nearmap 3D—and roof measurements—are terrible

Former executives and Nearmap clients describe Nearmap 3D imagery as “unusable.” We spoke to a salesperson who said he sent a client a sample data set of a 3D building in New York. The customer opened it and said, “Are you joking?” and he never heard from that client again. The building image had holes in it, and many surfaces were blobs. Nearmap 3D images are the basis for roof measurements. The problem is with Nearmap’s 3D stitching technology.

Nearmap’s response was careful to dodge patent-infringement questions. The company pointed out that “partners”—third parties—provide high-quality roof reports. We note that we clearly stated that roof reports were produced by Corelogic, not by Nearmap. Nearmap gives Corelogic a wire diagram providing roof measurements, apparently to avoid infringing Eagleview patents. The problem for Nearmap and Corelogic is that the Digital Surface Mapping (DSM) models that Nearmap provides for roof measurements are not high-quality.

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