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US rival sues Nearmap for alleged patent infringement

By **Colin Kruger**

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Legal action by a US rival has clouded the future of Nearmap's fast growing US business despite the aerial mapping provider saying it will vigorously defend itself against allegations of patent infringement.

Shares crashed more than 23 per cent on Thursday to a low of $1.79 on the news that Eagleview, which dominates the US market for aerial mapping, has commenced legal action in the US District Court in Utah, alleging Nearmap has infringed its patents relating to aerial roof reports - a lucrative market in the US.

"These reports are used, inter alia, to estimate the costs of roof repairs, construction, and insurance. EagleView's roof reports are used by a wide range of organisations, large and small, across a number of industries, including the government, construction, insurance, and solar industries," Eagleview said in court documents.

Reports based on aerial roof imaging are at the centre of the legal action taken against Nearmap by US rival Eagleview. ISTOCK

Eagleview is claiming Nearmap has infringed eight patents.

Nearmap's chief executive Rob Newman dismissed the claims. "Nearmap has always taken the subject of intellectual property rights and patent protections seriously and believes the allegations

are without merit," he said. "We will vigorously defend against the complaint. The business remains unaffected by the complaint."

Nearmap was forced into a trading halt on Wednesday, when the legal action came to its attention, just as its shares had rocketed 14 per cent in price after the announcement of an upgrade to its 2021 financial year outlook.

The company, which offers 2D and 3D aerial image services to customers such as government planning agencies, architects and solar providers, increased its forecast for the company's 2021 annual contract value (ACV) target to between $128 million and $132 million, up from a previous range of $120 million to $128 million.

"On the back of a strong [first-half] performance, the company has seen momentum continue with growth across its core industry verticals from both new and existing customers," said Nearmap.

"This performance validates our strategy to focus on our core growth verticals of insurance, government and roofing, with the adoption of premium content types particularly strong from these verticals, driving returns from the investments we made into new and expanded content," Mr Newman said.

He said the company remains on track to deliver on its FY22 guidance for 20 per cent to 40 per cent ACV growth from next financial year onwards.

Morgan Stanley said continued execution in the US market was a key feature of the upgrade, "especially in key verticals of insurance, government and roofing. This upgrade comes before the seasonal June peak, implying confidence and de-risking the FY22 [expected] growth profile".

Morgan Stanley has a $3.20 price target on the stock.

The upgrade appeared to enhance its case against a short seller attack earlier this year by Beijing-based J Capital Research, which alleged the company had used accounting tricks to boost its sales figures. Nearmap has been backed by several analysts who played down the claims.

But the short report also predicted a potential legal battle with Eagleview over patent infringement as one of the issues Nearmap faces.

According to J Capital, this threatens Nearmap's toehold in the US insurance market. The broker said these roof reports account for about 41 per cent of Nearmap's sales in North America.

RBC Capital estimated Nearmap's contract value in this market segment to be much smaller, accounting for less than 5 per cent of its total group revenue - and around 10 per cent in North America.

But the uncertainty of the legal action could weigh on Nearmap and seep into other parts of its business, the bank warned.

"The greater risk in our eyes is how this may leak into other segments which may impact future [contact value] growth, eg [the] US government sector may be hesitant to procure work from a company which may be seen as infringing on Eagleview's technology."

Mr Newman said that none of its business was affected by the Eagleview claims.

"If you look at our business in North America, we consider it business as usual," he said., adding that the company would have "no impact on the core technology of how we produce our products, or the content that we sell to our customers."

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Colin Kruger is a business reporter. He joined the Sydney Morning Herald in 1999 as its technology editor. Other roles have included the Herald's deputy business editor and online business editor.