Investor briefing
Half year results to 30 September 2017
Important notice

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Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, purchase, or recommendation of securities in Xero Limited

- should be read in conjunction with, and is subject to, Xero’s latest and prior interim and annual reports, including Xero’s interim report for the period ended 30 September 2017, and Xero’s market releases on ASX and NZX

- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero’s control - Xero’s actual results or performance may differ materially from these statements

- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance

- may contain information from third parties believed to be reliable; however, no representations or warranties are made as to the accuracy or completeness of such information, and

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All information in this presentation is current at 30 September 2017, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

See page 31 for a glossary of the key terms used in this presentation.
Agenda

Business update

Operating results

Outlook

Q&A
Business update

Rod Drury
Chief Executive Officer and Founder
Positive EBITDA with continued strong growth

- **ACMR**: $417m, + $114m YOY
- **Subscribers**: 1.2m, + 337,000 YOY
- **Positive EBITDA**: $5.4m, + $31m YOY
- **Total LTV**: $2.8b, + $1b YOY
- **Operating Revenue**: $188m, 38% YOY

1 Constant currency based on FX rates for the 6 months ended 30 September 2016. Increased 37% YOY in nominal terms.
Next chapter: self-sustained growth

**Prior years**
- Using investor capital to grow
- Proving sustainable business model
- Market leading beautiful accounting software
- ANZ focussed tech investment
- Early stage risk profile

**Next chapter**
- Growth in future to be funded by free cash flows
- Continuing gross margin and EBITDA improvements
- Global small business platform in an underserved TAM
- One of few listed global platforms
- Appeal to diverse group of growth investors
Stand-by bank facility established

$100 million two-year stand-by debt facility established with BNZ and ANZ as part of ongoing risk management

Improves overall liquidity position

There are no current plans to draw down on the facility
Consolidating listing on ASX

Xero is in the process of consolidating its listing on the ASX, expected Monday, 5 February 2018

Xero will remain a New Zealand domiciled company – headquartered in Wellington – but will delist from the NZX, with the last NZX trading day expected Wednesday, 31 January 2018

Broader platform for long term growth:

- Consolidates stock liquidity into one exchange
- Increases relevance to a more diverse range of large investors
- Broader analyst and broker coverage

Xero believes that this transition is in the best interests of the company and its shareholders

Expecting a seamless transfer for all shareholders

See www.xero.com/investors/listing for details

\(^1\) Chart based on Xero internal top 50 register analysis of shareholdings and scaled to market capitalisation at respective time periods
Listed ASX & NZX tech companies by revenue growth and market capitalisation

Source: FactSet
Note: Analysis excludes companies under A$50 million market capitalisation and share registry companies.
Delivered accelerated product cadence

Win accountants & bookkeepers

Front office applications

Leverage Amazon platform

Invoice account code suggestion accuracy in October 2017

LIFELONG LEARNING PLATFORM

90%+ MACHINE LEARNING ACCURACY

1 Invoice account code suggestion accuracy in October 2017
Xerocon events: momentum of global community

“Stop looking at Xero as a product. Look around it to the 600+ apps. You can’t compare it to product X-Y-Z because Xero is not a product, Xero is a platform!”

Sam Wood, ACA
Blusky Chartered Accountants, U.K.
Operating results

Sankar Narayan
Chief Operating and Financial Officer
1,199,000 subscribers

337,000 added in 12 months
$417m

Annualised committed monthly revenue

$114m added in 12 months
Financial performance

Operating revenue growth of 37% YOY and 38%\(^1\) in constant currency

ARPU is stable in H1 without major price increases and reflects stronger revenue management disciplines

Positive EBITDA through economies of scale and cost efficiencies

Net loss more than halved YOY

<table>
<thead>
<tr>
<th></th>
<th>1H FY17 ($000s)</th>
<th>1H FY18 ($000s)</th>
<th>YOY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenue</td>
<td>137,247</td>
<td>187,797</td>
<td>37%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>103,405</td>
<td>150,360</td>
<td>45%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>75%</td>
<td>80%</td>
<td>+5pp</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(25,897)</td>
<td>5,387</td>
<td>n/m(^2)</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>(19%)</td>
<td>3%</td>
<td>+22pp</td>
</tr>
<tr>
<td>Net loss</td>
<td>(43,920)</td>
<td>(21,083)</td>
<td>52%</td>
</tr>
<tr>
<td>EBITDA excl. SBP</td>
<td>(18,507)</td>
<td>14,029</td>
<td>n/m(^2)</td>
</tr>
<tr>
<td>EBITDA excl. SBP margin</td>
<td>(13%)</td>
<td>7%</td>
<td>+20pp</td>
</tr>
</tbody>
</table>

\(^1\) Constant currency based on rates for the 6 months ended 30 September 2016

\(^2\) Not meaningful
Creating significant lifetime value

<table>
<thead>
<tr>
<th></th>
<th>September 2017</th>
<th>Progress from March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$29.00</td>
<td></td>
</tr>
<tr>
<td>CMR churn %</td>
<td>1.11%</td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>LTV per subscriber†</td>
<td>$2,306</td>
<td>+9%</td>
</tr>
</tbody>
</table>

† 9% increase both in nominal terms and in constant currency based on 31 March 2017 FX rates

Total group subscriber lifetime value (LTV)

- $1 billion +
- added in 12 months

- $1.7b
- $2.2b
- $2.8b

Sep 16
Mar 17
Sep 17
Increased gross margin

Gross margin of 80% for H1 FY18, +5pp over prior year

Gross margin improvements seen since completing AWS migration in H2 FY17

Expect continued improvement of gross margin through economies of scale and automation

1 Duplicated costs due to transition to AWS
Improved acquisition efficiency

CAC months for the group declined to 12.6 in H1 FY18 from 14.6 in H1 FY17

Driving more efficient customer acquisition by continued focus on the partner channel and improving digital marketing effectiveness

Operating expenses include targeted investments to establish new markets in Asia

Reduced cost per gross add and CAC months across both segments - ANZ and International

Value added acquisition – group LTV to CAC improved from 4.7 in H1 FY17 to 6.3 in H1 FY18
Continuing scale in product investment

Launched a wave of significant new products at Xerocon this year

Investment targeted towards:

- Strengthening platform and leveraging machine learning and artificial intelligence
- Development of the financial web
- New ARPU generating products
- New partner tools

Product costs including opex and capex as % of revenue

1 Net of government grants
Positive EBITDA

EBITDA milestone: positive for the first time in H1 FY18 at $5.4m compared to $(25.9m) loss in H1 FY17

EBITDA excl. SBP\(^1\) was $14.0m in H1 FY18, an improvement of $32.5m YOY

EBITDA improvements driven by growing ACMR per FTE and efficiencies across all parts of the business

Continuing investments to drive and support growth

\(^1\) SBP is a non-cash cost to Xero
Positive operating cash flows

Positive operating cash flow of $6.1m in H1 FY18, an improvement of $19.4m YOY

H1 cash flows are seasonally lower

Investing cash flows increased $8.3m to $40.7m for the interim period and impacted by new 700+ person headquarters in Wellington

Total cash usage declined YOY. Total operating and investing cashflows improved $11.2m YOY

Cash outflow¹ as % of revenue

Improvement in operating cash flows

¹ Operating and investing cash flows
Contribution margins improving

Contribution margins improved 84% YOY for H1 FY18 in ANZ, even with growth investments in the region.

Moderating investment in international segment with increased scale.
Australia and New Zealand

Market leader in small business accounting

New Zealand extending penetration through targeted segments eg. rural advisors and business-to-government initiatives

Australia investing for long-term growth

- Small Business Insights report launched with KPMG Enterprise in September 2017
- Xero Connect, an enterprise e-invoicing initiative, launched with Reece and Caltex in July 2017
- Winner of Canstar Blue’s "Most Satisfied Customers Award for Small Business Accounting Software" for three years in a row
United Kingdom

Leading cloud accounting software provider for small businesses

Strong subscriber growth with quality revenue growth of 49% – 61%¹ in constant currency YOY

Working with 45 of the 50 largest accounting firms

Highest number of banking and Fintech integrations. HSBC and Santander went live in October 2017

Market adoption of cloud expected to accelerate with digitisation of U.K. SME initiatives such as HMRC Making Tax Digital

¹ Constant currency based on FX rates for the 6 months ended 30 September 2016

Graph source: Google trends of competitor products
North America

Moderating investment consistent with slower market adoption of cloud accounting

Strengthening accounting partner integrations with focus on lower CAC, lower churn and higher LTV

Continued investment in deep bank partnerships – Capital One, Silicon Valley Bank and Wells Fargo

Building scale from Denver, Colorado
Expanding global footprint

SOUTH EAST ASIA

Gaining traction with accounting partners

• Over 1,000 attendees at partner training sessions in Singapore and Hong Kong
• Launching automated competitor conversion tools

Broadening financial partnerships and integrations

Continued advances in localising the product for Singapore

SOUTH AFRICA

Engaged with major accounting bodies and hosted first joint event with South African Institute of Chartered Accountants
Outlook
Operating efficiencies

Operating metrics are expected to improve in FY18 as the Company drives efficiencies through automation and economies of scale.

Cash usage

Cash usage in FY18 (based on FX rates at 1 April 2017) is forecast to reduce from FY17.

Xero is managing the business to cash flow break-even within its current cash balance (without drawing on the debt facility).

Following cash flow break-even, it is intended that surplus cash flow will be reinvested, subject to investment criteria, to drive long term value.
Q&A
Glossary

Subscribers
Subscriber means each unique subscription to a Xero offered product that is purchased by an accounting partner or an end user and is, or is available to be, deployed

ACMR
Annualised committed monthly revenue represents monthly recurring revenue at 30 September multiplied by 12. Accordingly, it provides a 12 month forward view of revenue, assuming that any promotions have ended and other factors such as subscribers, pricing and foreign exchange remain unchanged during the year

ARPU
ARPU is calculated as annualised committed monthly revenue at 30 September divided by subscribers at that time (and divided by 12 to get a monthly view)

CMR churn
CMR churn is the value of committed monthly revenue (CMR) from subscribers who leave Xero in a month as a percentage of the total CMR at the start of that month. The percentage provided is the average of the monthly churn for the previous 12 months

Total lifetime value
LTV is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (1 divided by CMR churn) multiplied by ARPU multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by segment subscribers, divided by total Group subscribers

CAC months
CAC months or months of ARPU to recover CAC represent the number of months of revenue required to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the 12 month period less conference revenue (such as Xerocon) divided by new subscribers added (gross) during the same period, divided by ARPU

Opex
Operating expenses
SBP
Share-based payments
D&A
Depreciation and amortisation

FTE
Full-time equivalent
TAM
Total addressable market
GAAP
Generally accepted accounting principles

Capex
Capital expenditure
CAC
Customer acquisition costs
Investor enquiries

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Investor Relations
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https://www.xero.com/investors
Xero overview
Unique platform that connects small businesses and their advisors

**Xero**
Using Xero, small businesses can manage their day-to-day finances with software that’s smart and easy-to-use. Always having instant access to their data and files.

**Connected apps**
Over 600+ connected business apps integrate with Xero. Connecting these solutions gives small businesses a view of their entire business in real time.

**Xero HQ**
Accounting partners can connect their clients’ data with practice software like Practice Manager, Workpapers and Tax. All on one platform in the cloud.

**HQ apps**
HQ apps helps accountants and bookkeepers do their work efficiently and brings various work streams of their practice, such as reporting and marketing, on one platform in the cloud.
Rewire the global economy, connecting millions of businesses to their banks, advisors and each other

- Advisor Accountants / Bookkeepers
- Business customers
- Larger businesses
- Small business employees
- Financial and government
Xero has a global ecosystem of 600+ partner solutions
Global scale of Xero and platform

- 220 million + bank feed transactions in March 2017
- $1.6 trillion + transactions recorded in the year to 30 September 2017
- $320 billion + invoiced by subscribers in the year to 31 March 2017
- 180 + countries
- 1,199,000 Subscribers at 30 September 2017
- 1,853 FTEs at 30 September 2017

1 Incoming and outgoing transactions
The power of the Xero platform

- Global cloud platform connecting the small business economy
- Built on a single code base optimised for AWS
- Compelling economics of a single global platform delivers R&D investment efficiencies across multiple geographies
- A unique comprehensive system of record for small businesses to view the operating performance of the business
- Integrated applications delivering wide range of business solutions
- Machine learning unlocks new addressable segments
Xero’s accounting channel is a global competitive advantage

- 90% of Xero subscribers are connected to an advisor

1,000,000+ SMALL BUSINESSES

- Connected to an advisor: grow net profit 23% faster
- Using cloud apps: grow net profit 30% faster

100,000+ ACCOUNTING PARTNERS

- Providing cloud accounting: grow revenue 80% faster
- Providing app advice: grow revenue 60% faster

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1 As at July 2017
Source: Xero surveys, analysis and estimates
TAM potential in a large global unserviced market¹

¹ Estimated English speaking addressable market based on publicly available data
Rapidly evolving competence in machine learning

**LEARNING**
- Bots
- 3rd party expertise
- Marketing noise

**EXPERIENCE**
- Some ML experiments
- Disparate data
- Separate applications
- Niche capability
- Core application not predictive
- First in-house champions

**IMPLEMENTING**
- Platform migrated to public cloud
- Proliferation of ML and automation in product
- Multiple models in use
- Initial application features predictive
- Broad training available to teams
- Capability in core product teams
- Data driven identification of scenarios and monitoring

**ACCELERATING**
- Realtime management of multiple models, with reinforcement learning and deployment
- ML integrated with single application code base
- ML seamlessly integrated into product lifecycle
- Chaining together multiple complex models
- Majority application features predictive
- New workflows optimised for ML
- Capability across all teams

Realtime management of multiple models, with reinforcement learning and deployment
ML integrated with single application code base
ML seamlessly integrated into product lifecycle
Chaining together multiple complex models
Majority application features predictive
New workflows optimised for ML
Capability across all teams
Beauty of Xero's SaaS model

- Acquire subscribers economically at scale
- Price for value and grow revenue per subscriber
- Grow gross margins
- Retention at scale
- Generate long-term value
Underpinned by a strong margin model

**Strong long-term margins**

**High gross margin**
- Common global cloud platform
- AWS platform provides low marginal cost for future services
- ARPU expansion opportunities

**Low cost of retention**
- Deep business linkages
- Strong network effects
- Stickiness of small business customers
- Frequent engagement with the platform
Growth opportunities

- Back office application
- Core accounting
- Small businesses
- Subscription revenues
- English speaking
- AWS completed

As we move beyond accounting

- Front office applications
- Next generation tools for advisors
- Per employee services
- Larger businesses
- Finweb and other platform revenues
- New geographies
- Accelerating machine learning and automation
Beautiful accounting software

www.xero.com/investors