Investor briefing

FULL YEAR RESULTS TO 31 MARCH 2017
Important notice

This presentation is given on behalf of Xero Limited (NZX/ASX:XRO)  
(Company number NZ 183 0488, AU ARBN 160 661 183)

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 annual report for the period ended 31 March 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, and

- 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.

All information in this presentation is current at 31 March 2017, unless otherwise stated.

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

See Page 39 for a glossary of the key terms used in this presentation.
CEO update

Rod Drury
1,035,000 subscribers

318,000 added in one year

500,000 added in two years
$360m

Annualised committed monthly revenue

$102m added in one year
Balanced investment

Growth with operating efficiencies

<table>
<thead>
<tr>
<th>ANNUALISED COMMITTED MONTHLY REVENUE</th>
<th>OPERATING REVENUE</th>
<th>NET LOSS AFTER TAX</th>
<th>EBITDA MARGIN EXCL. SBP</th>
<th>TOTAL GROUP SUBSCRIBER LIFETIME VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$360m</td>
<td>$295m</td>
<td>($69m)</td>
<td>(6%)</td>
<td>$2.2b</td>
</tr>
<tr>
<td>+45% YoY¹</td>
<td>+51% YoY²</td>
<td>Improved 16% YoY</td>
<td>+16pp YoY Positive in H2</td>
<td>+49% YoY¹</td>
</tr>
</tbody>
</table>

¹ Constant currency based on 31 March 2016 FX rates
² Constant currency based on respective 12 month prior FX rates
³ SBP are a non-cash cost to Xero
Disciplined execution on unique global SaaS model

<table>
<thead>
<tr>
<th>DELIVERING RESULTS</th>
<th>INVESTING IN LONG-TERM GROWTH</th>
<th>DRIVING OPERATING EXCELLENCE</th>
<th>EXPANDING THE ADDRESSABLE MARKET</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriber growth</td>
<td>AWS migration completed</td>
<td>Improving gross margin</td>
<td>New geographies – South East Asia</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>Next generation tools for advisors</td>
<td>CAC efficiencies</td>
<td>Machine learning to open up new segments</td>
</tr>
<tr>
<td>Operating efficiencies</td>
<td>Accelerating machine learning and automation</td>
<td>EBITDA performance</td>
<td>Financial web and data services</td>
</tr>
<tr>
<td>Reduced cash usage</td>
<td>Expanding partner channel</td>
<td>Optimising operating cash flows</td>
<td></td>
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<tr>
<td>Delivered on guidance</td>
<td></td>
<td>LTV growth</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Churn improvements</td>
<td></td>
</tr>
</tbody>
</table>
Creating significant lifetime value

<table>
<thead>
<tr>
<th>Improved key underlying drivers of lifetime value</th>
<th>March 2017</th>
<th>Progress from March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribers net adds</td>
<td>318,000</td>
<td>↑</td>
</tr>
<tr>
<td>ARPU</td>
<td>$29</td>
<td></td>
</tr>
<tr>
<td>CMR churn %</td>
<td>1.15%</td>
<td>↓</td>
</tr>
<tr>
<td>Gross margin</td>
<td>77%</td>
<td>↑</td>
</tr>
<tr>
<td>LTV per subscriber</td>
<td>$2,121</td>
<td>+4%²</td>
</tr>
</tbody>
</table>

Total group subscriber lifetime value (LTV)

- FY16: $1.5b
- FY17: $2.2b
- Added in the year to 31 March 2017
- Constant currency based on 31 March 2016 FX rates

² Added in the year to 31 March 2017
³ Constant currency based on 31 March 2016 FX rates

$688m added³
Financial results

Sankar Narayan
Financial performance

Constant currency operating revenue growth of 51% YoY

H2 FY17 gross margin was 78%. Gross profit affected by AWS migration completed in Q3 FY17

EBITDA loss of $(2.7m) in H2 FY17 from $(26.1m) in H2 FY16 – through improved gross margin and CAC efficiencies

Net loss improvement of 16% YoY. D&A increased with investment profile

<table>
<thead>
<tr>
<th></th>
<th>FY16 ($000s)</th>
<th>FY17 ($000s)</th>
<th>YoY % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>207,060</td>
<td>295,389</td>
<td>43%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>157,179</td>
<td>226,004</td>
<td>44%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>76%</td>
<td>77%</td>
<td>+1pp</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(59,931)</td>
<td>(28,614)</td>
<td>(52%)</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>(29%)</td>
<td>(10%)</td>
<td>+19pp</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>(82,464)</td>
<td>(69,057)</td>
<td>(16%)</td>
</tr>
<tr>
<td>EBITDA excl. SBP</td>
<td>(44,784)</td>
<td>(16,891)</td>
<td>(62%)</td>
</tr>
<tr>
<td>EBITDA margin excl. SBP</td>
<td>(22%)</td>
<td>(6%)</td>
<td>+16pp</td>
</tr>
</tbody>
</table>
Growing ACMR with subscribers

12 month subscriber additions

- 222k (12 months ended Sep 15)
- 242k (12 months ended Mar 16)
- 269k (12 months ended Sep 16)
- 318k (12 months ended Mar 17)

Indexed 12 month ACMR growth

- 100 (12 months ended Sep 15)
- 160 (12 months ended Mar 16)
- 220 (12 months ended Sep 16)
- 280 (12 months ended Mar 17)
- 340 (12 months ended Sep 17)

1. Subscriber net additions
2. Change in constant currency ACMR indexed to a base of 30 September 2014 FX rates
Strong gross margin

Delivered further improvements in gross margin following transition to AWS in Q3 FY17

Gross margin of 77% for FY17, +1pp over prior year. Gross margin of 78% for H2 FY17

Expect continued improvement of gross margin

Gross margin

Gross profit as % of revenue

Gross margin excl SBP and D&A

Gross margin

1 Employee SBP and D&A are non-cash costs to Xero

2 Duplicated costs due to transition to AWS
Customer acquisition efficiencies

Acquisition mix weighted towards partner channel with more than 100,000 business advisors ¹

Continued efficiencies in sales and marketing

89% of Xero subscribers connected to a business advisor ¹

CAC months declined to 12.8 in FY17 from 14.5 in FY16 for the group

¹ Accountants, bookkeepers, or advisors who have worked with their clients' data on Xero in March 2017
Leveraging product investment

Next phase of investment in realising benefits from AWS migration

Single global platform is driving investment efficiency and capability

Focus on:

- Expanding TAM (sole trader and medium-sized businesses)
- Artificial intelligence/machine learning
- Enhanced partner tools
- Add-ons to existing core product

Excluding SBP, D&A and net of government grants

Product costs including opex and capex as % of revenue

1 Excluding SBP, D&A and net of government grants
Improved EBITDA

EBITDA excl. SBP\(^1\) was positive in H2 FY17 at $1.6m compared to a $(17.4m) loss in H2 FY16

Significant improvement in EBITDA performance driven by:

- High gross margin
- Improved CAC efficiencies
- Product specific economies of scale
- Improved efficiencies in general and administration costs

\(^1\) Employee SBP is a non-cash cost to Xero
Reducing cash usage

Operating cash outflow in FY17 reduced to $4.4 million from $34.8 million in FY16.

Operating cash flow positive for the first time in H2 FY17. Cash outflow of $11.4 million for H2 FY16.

Operating and investing cash outflows declined from $88.6 million in FY16 to $70.8 million in FY17.

Cash and short term deposits balance at 31 March 2017 was $113.7 million.
Contribution margin improving

Group contribution improved $50.7m YoY in FY17

Australia and New Zealand contribution for FY17 improved 91% over FY16

International contribution loss declined – driven by revenue growth and efficiencies in international investment
Market leader in small business accounting and continue to win share from incumbents

One third of New Zealand small businesses on the platform and clear market leader in Australia

Strong advisor channel with over 90% of subscribers connected to a business advisor\(^1\)

Brodest account feed coverage from major banks

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1 Accountants, bookkeepers, or advisors who have worked with their clients’ data on Xero in March 2017
United Kingdom

Extending market leadership in subscribers and ACMR

Highest number of banking integrations in the U.K.

Strongly positioned to capitalise on regulatory changes: HMRC Making Tax Digital and Payment Services Directive (PSD2)

Survey of accounting firms: 70%+ expect new HMRC digital tax laws will accelerate adoption of cloud software in U.K.¹

New technology collaborations with the U.K.’s three largest accounting practice software vendors, IRIS, Wolters Kluwer & Thomson Reuters

¹ Xero UK study 2017
North America

Made key product improvements including launch of reporting centre and templates. Strengthened mobile offering across Android and iOS apps.

Building scale and recognition in accounting channels with leading advisors such as H&R Block and Carr, Riggs & Ingram (CRI).

Successfully migrated leadership to Denver and building strong execution team.

New and strengthening relationships with key banking partners, Capital One, Wells Fargo and Silicon Valley Bank.

92,000 subscribers

Cloud transition still in early phase

Small businesses not on cloud

1 Estimated English speaking addressable cloud accounting market and based on publicly available data.
Expanding global footprint

**SOUTH EAST ASIA**

Building momentum in fast growing markets with approximately two million subscribers TAM

Broadening strategic bank collaborations:

- DBS launching soon
- CIMB Malaysia launched in April 2017
- HSBC Hong Kong and Singapore launched in March 2017
- UOB Singapore launched in July 2016

**SOUTH AFRICA**

Almost 1,000 South African accountants attended two roadshow events in February 2017

First bank feed partnerships now underway
Outlook
Operating metrics are expected to improve in FY18 as the Company drives efficiencies through automation and economies of scale.

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.
Strategic update

Rod Drury
AWS migration complete

24 MONTHS AGO
- Discovery
- Prototype
- Build
- Team re-training
- Test

12 MONTHS AGO
- Migrate
- Optimisation

TODAY
- Innovation
- New applications
Global scale of the platform and data

- 3.5 million hours of AWS usage in March 2017
- 3 petabytes of data on AWS
- 220 million + bank feed transactions in March 2017
- $1.4 trillion + transactions recorded in the year to 31 March 2017
- $320 billion + invoiced by subscribers in the year to 31 March 2017
- $4.1 billion + payroll processed in March 2017
- 4,800 AWS servers used
- 20 million + connections have done business on platform

1: Incoming and outgoing transactions
2: Unique recipients of an online invoice since launch of online invoicing
Accounting is ideal for machine learning

- Access to vast amounts of training data
- High value domain
- A clearly defined target structure
- Many scenarios to apply machine learning

Xero has a unique data set to apply machine learning to accounting

Xero is getting smarter!

We now suggest accounts based on what you’ve entered before. Any defaults you’ve setup will apply and you can override the suggestions.

Got it!
We can deliver code-free accounting

Small business owners no longer need to understand the technical aspect of accounting
Code-free accounting unlocks the addressable market further
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
Continuing our accounting leadership

- Double-entry accounting system
- Multi-perspective general ledger
- Relational reporting
- Currency in the core
- Cross practice reporting
- Code-free accounting
The network effect of a cloud business platform

- 1 million + subscribers
- 2.5 million + employees paid by subscribers
- 20 million + connections have done business on platform
- 40 million + connections on the platform

Since the launch of Xero Payroll product

Unique recipients of an online invoice since launch of online invoicing

Unique contacts on Xero since 2006
Global platforms will win

- Small businesses increasingly connected to global marketplaces
- Global platforms are motivated to connect for scale
- Compelling economics of a single global platform delivers R&D investment efficiencies across multiple geographies
- Platforms are consuming applications

Not every business trades internationally, but increasingly more accountants have clients that will
**XERO IS A UNIQUE COMPANY**

- Rare example of a true global platform
- Track record of anticipating market opportunity, market transformation and innovation
- Redefining business software in the machine learning age
- Global execution skills
- Significant growth potential with lowered risk profile
- Founder-led urgency, vision and passion
Q&A
Appendix
### Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribers</td>
<td>Subscriber means each unique subscription to a Xero offered product that is purchased by an accounting partner or an end user and which is, or is available to be, deployed.</td>
</tr>
<tr>
<td>ACMR</td>
<td>Annualised committed monthly revenue represents monthly recurring revenue at 31 March 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.</td>
</tr>
<tr>
<td>ARPU</td>
<td>ARPU is calculated as annualised committed monthly revenue at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view).</td>
</tr>
<tr>
<td>CMR churn</td>
<td>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 year.</td>
</tr>
<tr>
<td>LTV</td>
<td>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.</td>
</tr>
<tr>
<td>CAC</td>
<td>Customer acquisition costs</td>
</tr>
<tr>
<td>CAC Months</td>
<td>CAC months or months of ARPU to recover CAC (cost of acquiring subscribers) 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 year less conference revenue (such as Xerocon) divided by new subscribers added (gross) during the same period, divided by ARPU.</td>
</tr>
<tr>
<td>D&amp;A</td>
<td>Depreciation and amortisation</td>
</tr>
<tr>
<td>Opex</td>
<td>Operating expenses</td>
</tr>
<tr>
<td>Capex</td>
<td>Capital expenses</td>
</tr>
<tr>
<td>SBP</td>
<td>Share-based payments</td>
</tr>
</tbody>
</table>
Segment achievements

### Subscribers
Growth across segments

### Operating revenue
Operating revenue impacted by foreign exchange

### Segment contribution
Group contribution increased by $50.7 million

### Total segment LTV
International LTV growth of $123.1 million

<table>
<thead>
<tr>
<th></th>
<th>FY17</th>
<th>Net change</th>
<th>Net change (constant currency)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subscribers</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>1.035 m</td>
<td>+318 k</td>
<td></td>
</tr>
<tr>
<td>ANZ</td>
<td>692 k</td>
<td>+194 k</td>
<td></td>
</tr>
<tr>
<td>Int</td>
<td>343 k</td>
<td>+124 k</td>
<td></td>
</tr>
<tr>
<td><strong>Operating revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>$295.4 m</td>
<td>43 %</td>
<td>51 %</td>
</tr>
<tr>
<td>ANZ</td>
<td>$207.8 m</td>
<td>45 %</td>
<td>47 %</td>
</tr>
<tr>
<td>Int</td>
<td>$87.6 m</td>
<td>38 %</td>
<td>58 %</td>
</tr>
<tr>
<td><strong>Segment contribution</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>$60.4 m</td>
<td>n/m ¹</td>
<td></td>
</tr>
<tr>
<td>ANZ</td>
<td>$94.6 m</td>
<td>91 %</td>
<td></td>
</tr>
<tr>
<td>Int</td>
<td>$(34.2 m)</td>
<td>14 %</td>
<td></td>
</tr>
<tr>
<td><strong>Total segment LTV</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Group</td>
<td>$2,196 m</td>
<td>46 %</td>
<td>49 %</td>
</tr>
<tr>
<td>ANZ</td>
<td>$1,787 m</td>
<td>46 %</td>
<td>48 %</td>
</tr>
<tr>
<td>Int</td>
<td>$409 m</td>
<td>43 %</td>
<td>57 %</td>
</tr>
</tbody>
</table>

¹ Not meaningful
² Constant currency based on 31 March 2016 FX rates for LTV; and respective 12 month prior FX rates for operating revenue
Beautiful accounting software

www.xero.com