Annual meeting

15 August 2019
Auckland, New Zealand
Important notice

This presentation is given on 15 August 2019 on behalf of Xero Limited (Xero) (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, or purchase of, or a recommendation to invest in, 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 2019, and Xero’s market releases on the ASX
- 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, but no representations or warranties are made as to the accuracy or completeness of such information
- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero’s financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed
- includes comparative period results that have been restated to reflect the effect of three new accounting standards. See page 23 for more information

All information in this presentation is current at 31 March 2019, unless otherwise stated

All currency amounts are in NZ dollars, unless otherwise stated

Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures

See page 36 for a glossary of the key terms used in this presentation
Board of Directors

Graham Smith
CHAIR OF THE BOARD
INDEPENDENT NON-EXECUTIVE DIRECTOR
Nominations Committee (Chair)
Audit and Risk Management Committee

Lee Hatton
INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee (Chair)

Susan Peterson
INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee (Chair)

Bill Veghte
INDEPENDENT NON-EXECUTIVE DIRECTOR
Retiring 15 August 2019

Rod Drury
XERO FOUNDER
NON-EXECUTIVE DIRECTOR

Dale Murray, CBE
INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee

David Thodey, AO
INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee

Craig Winkler
NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee
Agenda

Chair's address
Graham Smith
CHAIR OF THE BOARD

Financial overview
Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

CEO update
Steve Vamos
CHIEF EXECUTIVE OFFICER

Q&A
Chair’s address

Graham Smith
CHAIR OF THE BOARD

LONDON | UNITED KINGDOM
Resolutions
RESOLUTION 1

Fixing the remuneration of the auditor

That the Board is authorised to fix the remuneration of the auditor for the ensuing year

For
91,335,072
96.96%

Against
2,774,653
2.95%

Discretionary
86,088*
0.09%

* 43,772 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 2

Re-election of Susan Peterson as a director

That Susan Peterson, retiring from office as a director of Xero at the meeting by rotation in accordance with Xero’s Constitution, be re-elected as a director of Xero

For
93,391,971
99.15%

Against
715,217
0.76%

Discretionary
83,434*
0.09%

* 42,718 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 3

Election of David Thodey as a director

That David Thodey, appointed by the Board as a director on 27 June 2019, and who will retire at the meeting in accordance with Xero’s Constitution and the ASX Listing Rules, be elected as a director of Xero

For 94,096,987
99.90%

Against 7,814
0.01%

Discretionary 87,353*
0.09%

* 45,037 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 4

Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ$800,000 from NZ$1,400,000 to NZ$2,200,000 with immediate effect.

For 65,315,557
99.61%

Against 171,636
0.26%

Discretionary 82,078*
0.13%

* 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
## Target Xero director fees

New Zealand Dollars

<table>
<thead>
<tr>
<th>Country</th>
<th>Chairman</th>
<th>Director</th>
<th>Audit Chair</th>
<th>Remuneration Chair</th>
<th>Nominations Chair</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY19</td>
<td>FY20-21</td>
<td>FY19</td>
<td>FY20-21</td>
<td>FY19</td>
</tr>
<tr>
<td>NZ</td>
<td>$180,000</td>
<td>$358,000</td>
<td>$90,000</td>
<td>$145,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>AU</td>
<td>$180,000</td>
<td>$358,000</td>
<td>$90,000</td>
<td>$145,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>US</td>
<td>$310,000</td>
<td>$358,000</td>
<td>$226,000</td>
<td>$252,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>UK</td>
<td>$260,000</td>
<td>$373,000</td>
<td>$115,000</td>
<td>$145,000</td>
<td>$30,000</td>
</tr>
</tbody>
</table>
# Director fees - by individual

New Zealand Dollars

<table>
<thead>
<tr>
<th>Name</th>
<th>Previous Fees</th>
<th>Actual @ 27 Jun 2019</th>
<th>Proposed @ 1 Sept 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Director Fees</td>
<td>Committee Chair Fees</td>
<td>Total Fees</td>
</tr>
<tr>
<td>Graham Smith</td>
<td>$310,000</td>
<td>-</td>
<td>$310,000</td>
</tr>
<tr>
<td>Rod Drury</td>
<td>$90,000</td>
<td>-</td>
<td>$90,000</td>
</tr>
<tr>
<td>Lee Hatton</td>
<td>$90,000</td>
<td>$20,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Dale Murray</td>
<td>$115,000</td>
<td>-</td>
<td>$115,000</td>
</tr>
<tr>
<td>Susan Peterson</td>
<td>$90,000</td>
<td>-</td>
<td>$90,000</td>
</tr>
<tr>
<td>David Thodey</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bill Veghte/TBD</td>
<td>$226,000</td>
<td>$14,000</td>
<td>$240,000</td>
</tr>
<tr>
<td>Craig Winkler</td>
<td>$90,000</td>
<td>-</td>
<td>$90,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$1,011,000</strong></td>
<td><strong>$34,000</strong></td>
<td><strong>$1,045,000</strong></td>
</tr>
</tbody>
</table>
RESOLUTION 4

Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ$800,000 from NZ$1,400,000 to NZ$2,200,000 with immediate effect.

For
65,315,557
99.61%

Against
171,636
0.26%

Discretionary
82,078*
0.13%

* 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 5

Approval of the issue of shares to a director - Lee Hatton

That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for Xero to issue shares to Lee Hatton in lieu of her remuneration on the terms and conditions set out in the Explanatory Notes of the Notice of Meeting.

For 94,045,433
99.85%

Against 54,438
0.06%

Discretionary 90,575*
0.10%

* 45,859 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
Financial overview

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

CBD | SINGAPORE
Proof points of a strong business model

Annualised monthly recurring revenue

- $638m Annualised monthly recurring revenue
- $154m added in 12 months

Free cash flow¹ as % of revenue

- FY15: 1.2%
- FY16: -70%
- FY17: -60%
- FY18: -50%
- FY19: -40%
- FY20: -30%
- FY21: -20%
- FY22: -10%
- FY23: 0%
- FY24: 10%

Xero subscriber growth

- 1,818,000 subscribers
- 432,000 added in 12 months

¹ See glossary for definition
Global growth and major cash flow milestone

**AMRR**

$638.2m

+ 32% YOY (32% in constant currency)\(^1\)

**SUBSCRIBERS**

1.8m

+ 432,000 YOY

**OPERATING REVENUE**

$552.8m

+ 36% YOY (34% in constant currency)\(^1\)

**ARPU**

$29.25

+ 0.4% YOY (0.8% in constant currency)\(^1\)

**FREE CASH FLOW**

$6.5m

+ $35.0m YOY

**EBITDA EXCLUDING IMPAIRMENTS**

$91.8m

+ $42.0m YOY

\(^1\) See glossary for definition
Positive LTV trends plus strong subscriber growth

<table>
<thead>
<tr>
<th></th>
<th>March 2019</th>
<th>Progress from March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$29.25</td>
<td></td>
</tr>
<tr>
<td>Churn %</td>
<td>1.10%</td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>84%</td>
<td></td>
</tr>
<tr>
<td>LTV per subscriber</td>
<td>$2,398</td>
<td>+4%&lt;sup&gt;1&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Total subscriber lifetime value (LTV)

> $1.1b added in 12 months

$4.4b Mar 19

$3.2b Mar 18

<sup>1</sup> Constant currency based on FX rates 31 March 2018. 3% increase in nominal terms.
Positive EBITDA momentum

Continued scale and efficiency progress contributed to FY19 performance:

- EBITDA margin improved modestly due to $18.6m of impairment costs, relating to costs associated with our change in US payroll strategy, and acquisition related costs of $1.3 million, relating to the acquisitions of Hubdoc and Instafile.
- Gross margin improved by 2pp to 84%.
- CAC (customer acquisition costs) improved by 2pp to 45% of revenues.
- Product costs, including opex and capex, improved by 4pp to 31% of revenues.
First positive free cash flow result

Significant milestone passed with first positive free cash flow result in FY19 of $6.5m, equivalent to 1.2% of FY19 operating revenues.

Net cash position at 31 March 2019 was $100.6m (comprising cash and short-term deposits less term debt) compared to $80.0m at 31 March 2018.

### Movement in net cash position

<table>
<thead>
<tr>
<th></th>
<th>FY18 ($000s)</th>
<th>FY19 ($000s)</th>
<th>YOY change ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>20,955</td>
<td>121,527</td>
<td>100,572</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>59,000</td>
<td>336,819</td>
<td>277,819</td>
</tr>
<tr>
<td>Total cash and short-term deposits</td>
<td>79,955</td>
<td>458,346</td>
<td>378,391</td>
</tr>
<tr>
<td>Convertible notes – term debt liability</td>
<td>–</td>
<td>(357,731)</td>
<td>(357,731)</td>
</tr>
<tr>
<td>Net cash</td>
<td>79,955</td>
<td>100,615</td>
<td>20,660</td>
</tr>
</tbody>
</table>
Beauty of Xero's SaaS model

- Acquire subscribers economically at scale
- Grow revenue per subscriber
- Grow gross margins
- Retention at scale

Generate long-term value
Unit economics and track record of value creation

Compelling SaaS unit economics
CAC months 13.6
MRR churn 1.10%
LTV/CAC 6.0
LTV $2,398

Total lifetime value

Strong track record of value creation
>$1.1 billion in LTV added in FY19
LTV doubled in last two years
ANZ: FY15-19 LTV CAGR 48%
International: FY15-19 CAGR 65%
New accounting standards

Xero adopted three new accounting standards from 1 April 2018

**IFRS 15**
Revenue from contracts with customers
- Xero’s commission costs will be capitalised and expensed over time
- This standard also changes the classification and timing of when revenue is recognised

**IFRS 16**
Leases
- The majority of Xero’s leases will be recognised on the balance sheet, with the expense moving from operating expenses to depreciation and finance expense

**IFRS 9**
Financial instruments
- Amends the classification and measurement of Xero’s financial instruments and simplifies its hedge accounting model to align more closely to risk management strategies and objectives
CEO update

Steve Vamos
CHIEF EXECUTIVE OFFICER
OUR PURPOSE IS

“Make life better for people in small business, their advisors and communities around the world.”

OUR MISSION IS

“Rewire the world of small business, making it seamless, simpler and smarter.”
Social and environmental impact

For Xero, building a fast-growing but sustainable business means taking responsibility for our social and environmental impact, respecting the planet’s resources, helping to build thriving communities, and cultivating an engaged workforce.

See Xero’s social and environmental impact

Xero is out to change the game in numerous ways for millions of small businesses and the communities in which they operate.
Strategic priorities

Drive cloud accounting

Grow small business platform

Building for global scale and innovation
Drive cloud accounting

Cloud accounting adoption¹

>50% Australia and New Zealand

<20% Global

FY19 subscriber additions by geography

- AU: 193,000
- NZ: International 239,000

¹ Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data
Grow small business platform

For small business
Small businesses can manage their day-to-day finances with software that’s smart and easy-to-use, having instant access to their data and files.

For accounting partners
Accounting partners can connect to their clients’ data and work efficiently, bringing various work streams of their practice onto one platform in the cloud.

App Partners / Ecosystem
- 700+ connected apps
- >50,000 users of Xero’s API
devolver tools

Xero solutions
- Gusto (US Payroll)

Xero products
- Bank feeds
- Payroll
- Expenses
- Projects
- Hubdoc
- WorkflowMax

App Partners / Ecosystem
- Partner-specific tools and apps

Xero Partner products
- Compliance
- Workpapers
- Tax solutions
- HQ apps and explorer
- Practice Manager
- Reporting
Grow small business platform

Revenue composition

- Core accounting: 91%
- Platform revenues: 5%
- WorkflowMax: 1%
- Non-recurring: 3%

Group operating revenue: $552.8m

Revenue growth YOY

- Core accounting: 36%
- Platform revenues: 128%
- WorkflowMax: 42%
- Non-recurring: 34%

Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), add-ons with incremental revenue (such as payroll and expenses modules) and revenue share agreements with partners.

Revenues relating to WorkflowMax, online workflow and job management software.

Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services.
Building for global scale and innovation

Xero

**Innovative capital raise**
US$300m convertible notes offer demonstrates investor confidence in the business
Provides flexibility to execute acquisitions & investments that extend and enhance Xero’s small business platform and ecosystem

**UK focused tax filing and compliance tool**
Completes Making Tax Digital compliance stack

**Leading data capture service**
Drives productivity for both partners and small business
Xero Leadership Team
Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value.

Free cash flow¹ in the financial year to 31 March 2020 is expected to be a similar proportion of total operating revenue to that reported in the financial year to 31 March 2019.

¹ Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets.
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 which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber.

AMRR
Annualised monthly recurring revenue (AMRR) represents monthly recurring revenue at 31 March, multiplied by 12. It provides a 12 month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing and foreign exchange remain unchanged during the year.

ARPU
Average revenue per user (ARPU) is calculated as AMRR at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view).

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

Constant currency
Constant currency comparisons for revenue are based on exchange rates for the 12 months ended 31 March 2018. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2018.

Lifetime value (LTV)
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 churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by their respective segment subscribers, divided by total Group subscribers.

CAC months
Customer Acquisition Cost (CAC) months are months of ARPU to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the year excluding the deferral and amortisation of commissions paid to sales people, less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU.

Free cash flow
Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets.

Finweb
Financial web

GAAP
Generally accepted accounting principles

SBP
Share-based payments

TAM
Total addressable market
Beautiful business

xero.com/investors