Investor briefing

Half year results to 30 September 2019

7 November 2019

Beautiful business
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 or purchase of, or a recommendation to invest in, Xero securities
• 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 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

All information in this presentation is current at 30 September 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 34 for a glossary of the key terms used in this presentation.
Business update

Steve Vamos
CHIEF EXECUTIVE OFFICER
2,057,000 subscribers

478,000 added in 12 months
$764m
Annualised monthly recurring revenue

$175m
added in 12 months
Global growth with strong financial indicators

**ARPU**
$30.96
- 0.4% YOY (- 0.1% in constant currency\(^1\))

**SUBSCRIBERS**
2.06m
+ 478,000 YOY

**AMRR**
$764.1m
+ 30% YOY

**FREE CASH FLOW**
$4.8m
+ $14.6m YOY

**OPERATING REVENUE**
$338.7m
+ 32% YOY (33% in constant currency\(^1\))

**TOTAL LIFETIME VALUE**
$5.4b
+ $1.4b YOY

**EBITDA EXCLUDING IMPAIRMENTS**
$65.9m
+ $31.4m YOY

\(^1\) See glossary for definition
Executing on 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

H1 FY20 subscriber additions by geo

ANZ 130,000

1 Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data.
Australia and New Zealand

Australia

- 28% subscriber growth YOY to 840,000 subscribers. Revenue growth of 26% YOY (29% constant currency)
- Single Touch Payroll legislation extended to all employers from July 2019, helping to encourage cloud accounting adoption through digitisation of payroll compliance
- Partnership with GreatSoft to help harness the power of cloud accounting for large accounting practices

New Zealand

- 13% subscriber growth YOY to 367,000 subscribers. Revenue growth of 22% YOY
- Positive ARPU trends driven by increasing emphasis on additional platform solutions including payments and Xero Payroll which benefited from introduction of Payday filing by Inland Revenue
United Kingdom

51% subscriber growth YOY to 536,000 subscribers

HMRC’s Making Tax Digital legislation continued to contribute to performance throughout H1 FY20

56% YOY AMRR growth (57% constant currency) driven by accelerated subscriber additions and ARPU trends. Revenue growth of 51% YOY (52% constant currency)

New Manchester office to complement London and Milton Keynes locations

Invested heavily in readiness for Open Banking
North America

21% subscriber growth YOY to 215,000 subscribers. Revenue growth of 34% YOY (29% constant currency)

Community partner strategy showing good progress with more than 40% YOY uplift in partner channel capacity

Novo became the first US-based digital bank (supporting small business and entrepreneurs), to integrate with Xero’s global bank feeds API

Localisation of product with improved compliance functionality including GST returns in Canada and tax mapping in the US

Xerocon San Diego was attended by more than 1,000 people
Rest of World

52% subscriber growth YOY to 99,000 subscribers. Revenue growth of 43% YOY (37% constant currency)

Asia

- Bank feed integration launched with Hang Seng Bank in Hong Kong, a leading SME bank

South Africa

- Great traction across Johannesburg and Cape Town roadshows
- Launched three new alternative lending integrations
Our platform strategy

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 on to one platform in the cloud.

App Partners/ Ecosystem
- 800+ apps
- >50,000 users of Xero’s API
- developer tools
- Financial web services

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

Xero solutions
- Stripe
- (invoice payments)
- Gusto (US Payroll)
- Figured (Agri vertical)

App Partners/ Ecosystem
- Partner-specific tools and apps

Xero Partner products
- Compliance
- Workpapers
- Tax solutions
- HQ apps and explorer
- Practice Manager
- Reporting
Driving growth through the platform

H1 FY20 revenue composition

Group operating revenue $338.7m

- Core accounting
- Platform revenues\(^1\)
- WorkflowMax\(^2\)
- Non-recurring\(^3\)

89%

2% 3% 6%

H1 FY20 revenue growth YOY

- Core accounting 29%
- Platform revenues\(^1\) 116%
- WorkflowMax\(^2\) 20%
- Non-recurring\(^3\) 19%

1 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), payments and revenue share agreements with partners
2 Revenues relating to WorkflowMax, online workflow and job management software
3 Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services
Data is at the heart of Xero

Leveraging our machine learning and AI capabilities, we can support small businesses to use their data to drive simpler and more seamless workflows and surface powerful human insights.
Progress on workflows and data integrations

**Bringing Xero and Hubdoc closer together**
Marked improvement in the speed and accuracy of data ingestion and coding

Looking to bring Hubdoc’s data capture and automation smarts closer to more Xero users

**Stripe invoice payment integration**
Small businesses get paid more quickly when attaching an invoice payment option

Workflow integration enables more convenient Stripe account provisioning, sign-on and enhanced end customer features
Social and environmental impact

Reduce Xero's impact on the environment by offsetting our carbon emissions to zero - Net Zero @ Xero

Support our employees and the for-purpose sector to make a difference in the community

Ambition to enable our customers to be more socially and environmentally conscious

With people at the heart of what we do - we will continue to embed diversity and inclusion initiatives with our employees, who will support the diverse needs of our customers
Financial results

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER
Maintaining strong top-line momentum with improving free cash flow

Annualised monthly recurring revenue

Free cash flow

- $35m
- $25m
- $15m
- $5m
- $5m

H1 FY18 H1 FY19 H1 FY20

H1 FY18 H1 FY19 H1 FY20

$800m $400m $200m $0m

$600m

+$30% YOY

$4.8m
Contribution margins positive in both segments

Australia and New Zealand contribution improved 34% YOY, exceeding revenue growth of 25% YOY due to continued operating discipline and scale benefits.

International contribution positive for the first time as scaling and CAC efficiencies offset continued investment to drive strong subscriber additions.
Significant lifetime value uplift

<table>
<thead>
<tr>
<th></th>
<th>September 2019</th>
<th>Progress from September 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$30.96</td>
<td>1</td>
</tr>
<tr>
<td>Churn %</td>
<td>1.10%</td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>85%</td>
<td></td>
</tr>
<tr>
<td>LTV per subscriber</td>
<td>$2,619</td>
<td>6%²</td>
</tr>
</tbody>
</table>

1 ARPU decreased $0.13 from 30 September 2018
2 LTV per subscriber growth in constant currency based on exchange rates at 30 September 2018. 5% increase in nominal terms
Unit economics and track record of value creation

**Compelling SaaS unit economics**
- CAC months: 12.3
- MRR churn: 1.10%
- LTV/CAC: 6.9
- LTV: $2,619

**Total lifetime value**

- **International**
  - H1 FY16: $1.1b
  - H1 FY17: $1.7b
  - H1 FY18: $2.8b
  - H1 FY19: $3.9b
  - H1 FY20: $5.4b

- **ANZ**
  - H1 FY16: $1.1b
  - H1 FY17: $1.7b
  - H1 FY18: $2.8b
  - H1 FY19: $3.9b
  - H1 FY20: $5.4b

**Strong track record of value creation**
- $1.4 billion LTV added in 12 months
- LTV almost doubled in last 2 years
- H1 FY16 to H1 FY20 CAGR:
  - ANZ: 47%
  - International: 55%
Operating revenue growth of 32% YOY (33% constant currency) driven primarily by subscriber growth across all markets

EBITDA improved $48.1 million YOY, resulting in a 12.6pp increase in EBITDA margin over the period as the business continues to benefit from scale and efficiency improvements

EBITDA excluding impairments increased by 91% YOY while EBITDA margin, excluding impairments, increased by 6.0pp

First time interim net profit of $1.3 million and second consecutive net profit for a six month period following H2 FY19 net profit of $1.4 million

<table>
<thead>
<tr>
<th></th>
<th>H1 FY19 ($000s)</th>
<th>H1 FY20 ($000s)</th>
<th>YOY change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenue</td>
<td>256,527</td>
<td>338,658</td>
<td>32%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>212,277</td>
<td>288,517</td>
<td>36%</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>82.8%</td>
<td>85.2%</td>
<td>+2.4pp</td>
</tr>
<tr>
<td>Sales &amp; marketing costs</td>
<td>115,747</td>
<td>146,072</td>
<td>26%</td>
</tr>
<tr>
<td>Product design &amp; development</td>
<td>68,866</td>
<td>85,297</td>
<td>24%</td>
</tr>
<tr>
<td>General &amp; administration</td>
<td>31,093</td>
<td>41,138</td>
<td>32%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>16,759</td>
<td>64,850</td>
<td>287%</td>
</tr>
<tr>
<td>EBITDA excl. impairments</td>
<td>34,516</td>
<td>65,921</td>
<td>91%</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6.5%</td>
<td>19.1%</td>
<td>+12.6pp</td>
</tr>
<tr>
<td>EBITDA margin excl. impairments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13.5%</td>
<td>19.5%</td>
<td>+6.0pp</td>
</tr>
<tr>
<td>Net profit/(loss) after tax</td>
<td>(28,565)</td>
<td>1,336</td>
<td>NM</td>
</tr>
<tr>
<td>Net profit/(loss) after tax exclud. impairments</td>
<td>(10,808)</td>
<td>2,407</td>
<td>NM</td>
</tr>
</tbody>
</table>
Further gross margin improvement

Gross margin improved by 2.4pp over the prior period to 85.2% for H1 FY20. Both the Australia and New Zealand and International segments saw positive gross margin trends.

Gross margin improvement powered by efficiencies in cloud hosting and other platform-related benefits driving further improvements to customer service quality at a lower cost.
Continued focus on CAC and product efficiency

Sales and marketing costs increased by 26% YOY which was lower than growth in revenue in H1 FY20. This resulted in a 2pp improvement YOY in CAC as percentage of revenue.

Product costs including opex and capex as a percentage of revenue increased 1pp to 31% in H1 FY20.

Product investment targeted a range of initiatives that will support near term product and customer objectives as well as longer-term strategic and technological needs.

1 Net of government grants
Strong capital position with positive free cash

Positive free cash flow result in H1 FY20 of $4.8m, equivalent to 1.4% of operating revenues in the period

Operating cash flow increased 99% to $71.5m for H1 FY20, an improvement of $35.6m from $36.0m in H1 FY19

Net cash position at 30 September 2019 was $101.4m (comprising cash and short-term deposits less term debt) compared to $45.3m at 30 September 2018

### Movement in net cash position

<table>
<thead>
<tr>
<th></th>
<th>H1 FY19 ($000s)</th>
<th>H1 FY20 ($000s)</th>
<th>YOY change ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>21,187</td>
<td>110,898</td>
<td>89,711</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>55,000</td>
<td>385,130</td>
<td>330,130</td>
</tr>
<tr>
<td><strong>Total cash and short-term deposits</strong></td>
<td><strong>76,187</strong></td>
<td><strong>496,028</strong></td>
<td><strong>419,841</strong></td>
</tr>
<tr>
<td>Term debt</td>
<td>(30,850)</td>
<td>-</td>
<td>30,850</td>
</tr>
<tr>
<td>Convertible notes – term debt liability</td>
<td>-</td>
<td>(394,631)</td>
<td>(394,631)</td>
</tr>
<tr>
<td><strong>Net cash</strong></td>
<td>45,337</td>
<td>101,397</td>
<td>56,060</td>
</tr>
</tbody>
</table>
Outlook
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.
Appendix
### SaaS metrics summary

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>International</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>H1 FY19</td>
<td>H1 FY20</td>
<td>H1 FY19</td>
</tr>
<tr>
<td>ARPU</td>
<td>$31.95</td>
<td>$31.64</td>
<td>$29.68</td>
</tr>
<tr>
<td>CAC months</td>
<td>8.4</td>
<td>8.6</td>
<td>18.2</td>
</tr>
<tr>
<td>MRR churn</td>
<td>0.87%</td>
<td>0.82%</td>
<td>1.55%</td>
</tr>
<tr>
<td>Subscribers</td>
<td>981,000</td>
<td>1,207,000</td>
<td>598,000</td>
</tr>
<tr>
<td>LTV per sub</td>
<td>$3,064</td>
<td>$3,362</td>
<td>$1,558</td>
</tr>
<tr>
<td>LTV/CAC</td>
<td>11.5</td>
<td>12.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Total LTV</td>
<td>$3.01b</td>
<td>$4.06b</td>
<td>$0.93b</td>
</tr>
</tbody>
</table>
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 30 September, 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 30 September 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 average exchange rates for the 6 months ended 30 September 2018. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 30 September 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