Investor briefing

Full year results to 31 March 2019

Made in Metal | Waikato, NZ
Important notice

This presentation is given 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, Xero securities
- 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 34 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 35 for a glossary of the key terms used in this presentation.
Agenda

Business update
Steve Vamos
CHIEF EXECUTIVE OFFICER

Financial results
Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

Outlook

Q&A

3
Business update

Steve Vamos
CHIEF EXECUTIVE OFFICER

Sidonie Warren | London
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.”
$638m
Annualised monthly recurring revenue

$154m
added in 12 months
Free cash flow\(^1\) as % of revenue

\(^1\) See glossary for definition
1,818,000 subscribers

432,000 added in 12 months
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
FY19 Progress

**Drive cloud accounting**
- On average, 1,000 subscribers joined Xero every day in FY19
- Digitisation of small business compliance driven by:
  - UK: Making Tax Digital
  - Australia: Single Touch Payroll
  - NZ: Payday filing

**Grow small business platform**
- More than 700 connected apps in the ecosystem, backed by a community of more than 50,000 users of Xero’s API developer tools
- Platform revenues increased 128% YOY

**Building for global scale and innovation**
- Continuing to scale while building capabilities across:
  - Product
  - Technology
  - Strategy and M&A
Australia and New Zealand

Australia

• 25% subscriber growth YOY to 726,000 subscribers. Revenue growth of 33% YOY (33% constant currency)

• Single Touch Payroll legislation introduced, extending coverage to all employers from July 2019. Accelerated digitisation of payroll expected to drive further cloud accounting adoption

New Zealand

• 17% subscriber growth YOY to 351,000 subscribers. Revenue growth of 24% YOY

• Launched Hubdoc into NZ market, complementing existing emphasis on platform products and deeper customer relationships

First cloud accounting business to exceed one million subscribers in ANZ
United Kingdom

Subscriber growth of 48% YOY to 463,000. New record net subscriber additions over six and 12 month periods (108,000 in H2 2019 and 151,000 in FY19). FY19 performance underpinned by strategic positioning and investment ahead of HMRC’s 1 April 2019 Making Tax Digital deadline

46% YOY AMRR growth (48% constant currency) driven by accelerated subscriber additions and stable ARPU trends. Revenue growth of 50% YOY (45% constant currency)

Attendance at Xerocon London in November 2018 increased by more than 50% to over 3,000

Instafile acquisition completes Xero’s UK tax compliance stack, helping to drive partner market penetration in the same way as in ANZ

Finweb partnerships announced with innovative neo-bank and fintechs including Starling, Tide and Transferwise
North America

48% subscriber growth YOY to 195,000 subscribers. Revenue growth of 39% YOY (33% constant currency). 33% subscriber growth YOY excluding Hubdoc acquisition.

Community-focused partner strategy continues to show promise with strong uplift in partner channel capacity, which now exceeds one million small businesses. In addition, we signed agreements with Chase, Citi and BBVA Compass during the year.

In Canada, launch partner on CIBC’s SmartBanking for Business platform. Local accounting partner presence boosted by agreements with mid and large size accounting firms.

Exploring vertical strategies with initial focus on agriculture, offering tight integration of Xero with lending and tailored app partner technology.
Rest of world

43% subscriber growth YOY to 83,000 subscribers. Revenue growth of 55% YOY (48% constant currency)

Asia

- Enhanced partnerships with DBS and OCBC, two of Singapore’s largest banks
- Announced payment service API integration with NETS, a major electronic payment service provider in Singapore
- Bank feed integration announced with Neat, a leading neo bank in Hong Kong

South Africa

- Bank feeds announced with ABSA, one of South Africa’s largest banks
Xero 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 on to one platform in the cloud.

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

Xero solutions
- Gusto (US Payroll)
- Projects
- Hubdoc
- WorkflowMax

Xero products
- Bank feeds
- Payroll
- Expenses

App Partners/ Ecosystem
- Partner-specific tools and apps

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

Group operating revenue
$552.8m

Revenue composition

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

1% 3% 5% 91%

Revenue growth YOY

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

34% 128% 16% 42%

36% Group operating revenue growth

\(^1\) 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) 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
Strategic initiatives

**Acquisitions**
Hubdoc is a leading data capture service that drives significant productivity improvement for both partners and small business owners.

Instafile is a tax filing and compliance tool that completes our UK compliance stack and enhances readiness for Making Tax Digital.

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

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER
Strong top-line momentum with significant free cash flow milestone

Annualised monthly recurring revenue

- FY17
- FY18
- FY19

Free cash flow

- FY17
- FY18
- FY19

+32% YOY

$750m

$6.5m
Contribution margins driven by further scaling

Australia and New Zealand contribution improved 39% YOY, exceeding revenue trends and highlighting continuing efficiencies and operating leverage.

International contribution loss improved on further scaling and efficiencies but remained negative due to continuing preference for growth investment to drive strong subscriber additions.
Positive LTV trends with strong subscriber growth

<table>
<thead>
<tr>
<th>March 2019</th>
<th>Progress from March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$29.25</td>
</tr>
<tr>
<td>Churn %</td>
<td>1.1%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>84%</td>
</tr>
<tr>
<td>LTV per subscriber</td>
<td>$2,398</td>
</tr>
</tbody>
</table>

Total subscriber lifetime value (LTV)

\[>\$1.1b\] added in 12 months

\(^1\) Constant currency based on FX rates 31 March 2018. 3% increase in nominal terms
Financial performance

Operating revenue growth of 36% YOY (34% constant currency) driven primarily by subscriber growth in all markets with Australia and New Zealand segment growth of 30% and international segment growth of 48%

Positive ARPU contribution to both AMRR and operating revenue

EBITDA improved by 52% YOY, despite $18.6 million of impairments. Excluding impairments and non-cash share-based payments, EBITDA climbed 81% YOY as the business continues to extend its track-record of scale and efficiency improvements

Reported net loss for FY19 also impacted by impairments in addition to higher finance costs but 2H FY19 saw a first time net profit of $1.4 million

<table>
<thead>
<tr>
<th></th>
<th>FY18 ($000s)</th>
<th>FY19 ($000s)</th>
<th>YOY change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenue</td>
<td>406,659</td>
<td>552,819</td>
<td>36%</td>
</tr>
<tr>
<td>Gross profit</td>
<td>331,310</td>
<td>461,904</td>
<td>39%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>81.5%</td>
<td>83.6%</td>
<td>+2.1pp</td>
</tr>
<tr>
<td>EBITDA</td>
<td>48,197</td>
<td>73,171</td>
<td>52%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>11.9%</td>
<td>13.2%</td>
<td>+1.3pp</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>(24,914)</td>
<td>(27,143)</td>
<td>9%</td>
</tr>
<tr>
<td>Net loss after tax excl.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>impairments</td>
<td>(23,364)</td>
<td>(8,539)</td>
<td>-63%</td>
</tr>
<tr>
<td>EBITDA excl. SBP¹ and</td>
<td>66,751</td>
<td>120,721</td>
<td>81%</td>
</tr>
<tr>
<td>impairments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA margin excl. SBP¹</td>
<td>16.4%</td>
<td>21.8%</td>
<td>+5.4pp</td>
</tr>
</tbody>
</table>

¹ SBP is a non-cash cost to Xero
Continued gross margin improvement

Gross margin of 83.6% for FY19, +2.1pp over prior year with positive gross margin trends across both Australia and New Zealand and International segments

Gross margin improvement powered by incremental cloud hosting cost efficiencies combined with launch of Xero Central which utilises machine learning to drive further improved customer service quality at a lower cost

1 Includes duplicated costs due to transition to AWS
Positive EBITDA momentum

Continued EBITDA momentum over FY19

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.

EBITDA excluding SBP and impairment costs increased by $54.0m to $120.7m, 81% YOY, in FY19.
Continued drive for CAC and product efficiency

Sales and marketing costs increased at the same rate as the 31% growth seen in subscribers in FY19. Offsetting efficiencies saw a 2pp improvement YOY in CAC as percentage of revenue.

Product investment spend grew 22% YOY supporting a range of new global features and more specific functionality to support areas of strategic focus such as Making Tax Digital in the UK and Single Touch Payroll in Australia.

Scale benefits continued to emerge with product costs including opex and capex, as a percentage of revenue, improving by 4pp YOY to 31% FY19.
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.

Operating cash flow of $114.2m for FY19, was an improvement of $53.0m from $61.2m in FY18.

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><strong>Total cash and short-term deposits</strong></td>
<td><strong>79,955</strong></td>
<td><strong>458,346</strong></td>
<td><strong>378,391</strong></td>
</tr>
<tr>
<td>Convertible notes – term debt liability</td>
<td>–</td>
<td>(357,731)</td>
<td>(357,731)</td>
</tr>
<tr>
<td><strong>Net cash</strong></td>
<td>79,955</td>
<td>100,615</td>
<td>20,660</td>
</tr>
</tbody>
</table>
Unit economics and track record of value creation

Total lifetime value

- **International**
  - FY15: $0.8b
  - FY16: $1.5b
  - FY17: $2.2b
  - FY18: $3.2b
  - FY19: $4.4b

- **ANZ**
  - FY15: $0.8b
  - FY16: $1.5b
  - FY17: $2.2b
  - FY18: $3.2b
  - FY19: $4.4b

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

**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%
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 flow\(^1\) 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.

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\(^1\) 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
New accounting standards

Xero adopted three new accounting standards from 1 April 2018

Prior year comparatives have been restated with the impact on restated net loss and EBITDA outlined on the next page

**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
Impact of new accounting standards

Impact of accounting standard changes on restated FY18 net loss

<table>
<thead>
<tr>
<th>Impact of</th>
<th>Reported</th>
<th>IFRS 15</th>
<th>IFRS 16</th>
<th>Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of</td>
<td>(27.8)</td>
<td>3.6</td>
<td>(0.7)</td>
<td>(24.9)</td>
</tr>
</tbody>
</table>

Note: Impact of IFRS 9 adoption excluded from above charts. Adverse impact on restated FY18 net loss is $42,000

Impact of accounting standard changes on restated FY18 EBITDA

<table>
<thead>
<tr>
<th>Impact of</th>
<th>Reported</th>
<th>IFRS 15</th>
<th>IFRS 16</th>
<th>Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact of</td>
<td>26.0</td>
<td>11.4</td>
<td>10.8</td>
<td>48.2</td>
</tr>
</tbody>
</table>

Note: Impact of IFRS 9 adoption excluded from above charts. Adverse impact on restated FY18 net loss is $42,000
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