Annual meeting

12 JULY 2017

THE FLORAL ATELIER, SINGAPORE
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 41 for a glossary of the key terms used in this presentation.
Board of Directors

Rod Drury
Xero founder and one of Australasia's leading technology entrepreneurs. Awarded AMS Global Marketer of the Year 2017, New Zealand Entrepreneur of the Year in 2013 and NZ Business Leader of the Year in 2012.

Lee Hatton
More than 20 years of financial services experience and is currently CEO of UBank, Executive General Manager of Direct Banking at National Australia Bank (NAB) and Executive Director of the NAB Venture Fund.

Susan Peterson
More than 15 years of financial services experience. Currently an independent director of listed companies Trustpower, Vista Group, Property for Industry, and ASB Bank. Susan is also a member of the NZ Markets Disciplinary Tribunal.

Graham Smith
More than 25 years of finance experience in the software and SaaS industry including CFO of Salesforce.com. Currently also serves on the Board of Directors at Splunk, MINDBODY, BlackLine and Citrix.

Bill Veghte
More than 20 years of experience at Microsoft in business and engineering leadership roles. Bill is currently Executive Chairman of Turbonomic and was previously HP’s Chief Operating Officer, and CEO and Director at SurveyMonkey.

Craig Winkler
Craig Elliott
Director farewell
Resolutions
Fixing the Remuneration of the Auditor

RESOLUTION 1

That the Board is authorised to fix the remuneration of the auditor.

PROXIES

For
76,400,552 (99.62%)

Against
121,127 (0.16%)

Discretionary
170,556 (0.22%)
Election of Susan Peterson as a Director

RESOLUTION 2

That Susan Peterson, appointed by the Board as a Director on 22 February 2017, be elected as a Director of Xero Limited.

PROXIES

For
75,203,816 (98.07%)

Against
1,304,161 (1.70%)

Discretionary
177,815 (0.23%)
Re-election of Lee Hatton as a Director

RESOLUTION 3

That Lee Hatton, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.

PROXIES

For
76,433,060 (99.67%)

Against
79,573 (0.10%)

Discretionary
176,185 (0.23%)
Non-Executive Director Remuneration

RESOLUTION 4

(a) That the maximum annual remuneration able to be paid to all of the Non-Executive Directors taken together be increased from NZ$850,000 to NZ$1,400,000 (i.e., a NZ$550,000 increase), with immediate effect; and (b) that such remuneration payable to Non-Executive Directors may be payable either in part or in whole by way of an issue of Equity Securities (as defined in the NZX Listing Rules).

PROXIES

For
57,904,081 (93.12%)

Against
4,144,489 (6.66%)

Discretionary
135,166 (0.22%)
Business overview

Sankar Narayan
CHIEF OPERATING AND FINANCIAL OFFICER

Partner focus

Anna Curzon
CHIEF PARTNER OFFICER

Strategy update

Rod Drury
CHIEF EXECUTIVE OFFICER, FOUNDER

Q&A
Business overview

Sankar Narayan
CHIEF OPERATING AND FINANCIAL OFFICER
$360m

Annualised committed monthly revenue
Subscriber growth with revenue growth

Quality subscribers essential to ensure long-term margins and lifetime value

Long-term subscribers that recognise value in the service

Growing revenues faster than subscribers delivers strong SaaS economics

Indexed 12 month ACMR growth

1 Change in constant currency ACMR indexed to a base of 30 September 2014 FX rates
Xero is a global small business platform

Subscribers at 31 March 2017

- 246,000 New Zealand
- 446,000 Australia
- 212,000 United Kingdom
- 92,000 North America
- 39,000 Rest of world

Leading cloud accounting platform

Xero versus nearest global competitor cloud subscribers (excluding North America)

1 Using publicly available data comparable to Xero
Balanced investment

Growth with operating efficiencies

<table>
<thead>
<tr>
<th>ANNUALISED COMMITTED MONTHLY REVENUE</th>
<th>OPERATING REVENUE</th>
<th>EBITDA MARGIN EXCL. SBP ³</th>
<th>NET LOSS AFTER TAX</th>
<th>TOTAL GROUP SUBSCRIBER LIFETIME VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$360m</td>
<td>+51% YoY¹</td>
<td>(6%)</td>
<td>$(69m)</td>
<td>+$688m</td>
</tr>
<tr>
<td>+45% YoY¹</td>
<td>$295m</td>
<td></td>
<td>Reduced 16% YoY</td>
<td>$2.2b</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
$688m of value added in subscriber base

Improved key underlying drivers of lifetime value

<table>
<thead>
<tr>
<th></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
- $0.7b added¹

¹ Added in the year to 31 March 2017
² Constant currency based on 31 March 2016 FX rates
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:

- Higher 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.

1 Operating and investing cash flows
Xero – a strong margin model

High gross margin

- Common global cloud platform
- AWS platform provides low marginal cost for future services
- No legacy product support
- ARPU expansion opportunities

Low cost of retention

- Deep business linkages
- Strong network effects
- Stickiness of small business customers
- Frequent engagement with the platform

Strong long-term margins
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.
Disciplined execution in a large unaddressed market

Disciplined focus on quality growth

- Extending the global platform and footprint
- Investing in innovation and long-term growth
- Driving operating excellence
- Extending into new product and services
Partner focus

Anna Curzon
CHIEF PARTNER OFFICER
Xero is a unique global platform that connects small businesses and their advisors.

Single ledger, data & docs

Xero

Connected apps

Xero HQ

HQ apps
Driven by our world-class partner experience

A vibrant, open community supported by educational resources and tools

XERO HQ PLATFORM
Open platform on a single code-base

XERO PLATFORM
Leveraging machine learning and artificial intelligence

- Xero advisor directory
- Tax solutions
- Xero compliance and reporting
- Practice management
Thousands of Australian accounting practices are using Xero Tax for their customers\(^1\)

Only comprehensive online tax solution in Australia that has lodged more than one million returns\(^2\)

Investing in the platform to reduce the compliance burden for small businesses and their accounting partners
When small businesses connect with an advisor, they’re both more successful

- 90% of Xero subscribers are connected to an advisor
- 90% of Xero subscribers are connected to an advisor

**SMALL BUSINESSES**
- Connected to an advisor grow net profit 23% faster
- Using cloud apps grow net profit 30% faster

**ACCOUNTING PARTNERS**
- Providing cloud accounting grow revenue 80% faster
- Providing app advice grow revenue 60% faster

Source: Xero surveys, analysis and estimates

1 As at July 2017
Ideally positioned for more accounting partners to move to the cloud and the golden age for accounting.

- Proven formula for growth
- Global platform unlocking power of machine learning and artificial intelligence
- Partnering to build the future
CEO update

Rod Drury
1,035,000 subscribers

- 318,000 added in one year
- 500,000 added in two years
- 50,000+ subscribers
Listed ASX & NZX tech companies revenue and revenue growth

Last reported 12 months revenue growth %
- <15%
- 15% - 30%
- 30% - 45%
- >45%

Last reported 12 months revenue A$million

Source: FactSet
Note: Analysis excludes companies over A$1 billion last reported 12 months revenue and telecommunication, technology hardware and equipment, and share administration related companies

1 Constant currency based on respective 12 month prior FX rates
The network effect of a cloud business platform

- 2.5 million + employees paid by subscribers¹
- 1 million + subscribers
- 20 million + connections² have done business on platform
- 40 million + connections⁴ on the platform

¹ Since the launch of Xero Payroll product
² Unique recipients of an online invoice since launch of online invoicing
³ Unique contacts on Xero since 2006
Global scale of the platform and data

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

1 Incoming and outgoing transactions
2 Unique recipients of an online invoice since launch of online invoicing
Expanding the power of the Xero platform

XERO PLATFORM

A unique comprehensive system of record for small businesses data, built on a single code base optimised for AWS

Single code base, global cloud platform connecting the small business economy

System of record with a comprehensive view of the operating performance of the business

Integrated applications delivering wide range of business solutions
Growth opportunities

CURRENT POSITION

Back office application
Core accounting
Small businesses
Subscription revenues
English speaking

OPPORTUNITIES

Front office applications
Per employee services
Larger businesses
Finweb and other platform revenues
Multi-language
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
### 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.

**ACMR**  
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.

**ARPU**  
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).

**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 year.

**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 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**  
Customer acquisition costs

**SBP**  
Share-based payments

**SaaS**  
Software as a service
Beautiful accounting software
www.xero.com