



MARKET RELEASE

Xero Delivers Operating Revenue of \$407M, 1.4M Subscribers, Achieves Positive EBITDA of \$26M, and Operating Cash Flow of \$41M

Consolidated listing on ASX with inclusion in S&P/ASX 100

Performance highlights

All figures in NZD

Strong subscriber and revenue growth with AMRR rising to \$484.4 million

- Continued growth with operating revenue up 38% in FY18 (37% in Constant Currency (CC)) to \$406.6 million
- Annualised Monthly Recurring Revenue (AMRR) growth of 33% to \$484.4 million
- Net subscriber additions of 351,000, taking Xero subscribers to 1.386 million at 31 March 2018
- Lifetime Value (LTV) per subscriber rose by 8% to \$2,310 (9% in CC) adding \$990m (\$1.0 billion in CC) in total subscriber LTV in the past 12 months to surpass \$3.2 billion in total LTV

Disciplined execution with first annual positive EBITDA and operating cash flows

- Net loss after tax for FY18 improved 60% to \$(27.9) million from \$(69.1) million in FY17
- Positive EBITDA of \$26.0 million for FY18, compared to \$(28.6) million loss in FY17
- Cash flows from operating activities at \$41.2 million for FY18, an improvement from \$(4.4) million in FY17. Total cash outflow from operating and investing activities was \$(36.9) million for FY18, reducing from an outflow of \$(70.1) million in FY17
- Gross Margin improved 4pts to 81%

Market leadership

- Cloud accounting market leadership in established markets of Australia and New Zealand continued with region subscriber growth of 28% to 884,000 and revenue growth of 33% (31% in CC)
- Market leader in the UK with a 47% increase in subscribers to 312,000. Revenue growth of 60% (58% in CC)
- Continued to make headway in North America, adding 40,000 subscribers (up 43%) to 132,000 subscribers. Revenue growth of 28% (29% in CC) with a focus on the partner channel
- Rest of World subscribers up 49% to 58,000 subscribers. Revenue growth of 47% (48% in CC)

Corporate milestones

- Consolidated listing on the Australian Securities Exchange (ASX) on 5 February and included in the S&P/ASX 100 index on 9 March
- Steve Vamos appointed as CEO on 1 April (see Appendix for information on CEO performance criteria)
- Rod Drury continues on Xero Board as non-executive director; UK-based Dale Murray, CBE, was appointed as non-executive director in April
- Established a \$100 million (undrawn) stand-by debt facility in November 2017

SYDNEY, 10 May 2018 - Xero Limited (ASX: XRO) today reports its full-year earnings to 31 March 2018, delivering its first positive annual EBITDA of \$26.0 million.

Through disciplined execution, Xero has continued to grow in FY18, adding 351,000 subscribers, increasing revenue by 38%, improving operating cash flows by \$45.6 million, increasing EBITDA by \$54.6 million and growing LTV by \$990 million to surpass \$3.2 billion in total LTV.

Xero is delivering on its consistent strategy to drive global growth, while improving financial outcomes through operating efficiencies. Xero improved operating and investing cash flow margins from (71)% to (9)% over three years and grew revenue at a compound annual growth rate (CAGR) of 49% over the same period.

Xero's recurring revenue and ARPU metrics have been updated to include other recurring platform revenues such as transactional services, and other partner and small business products (AMRR has replaced Annualised committed monthly revenue (ACMR)). In FY18, core accounting product revenues grew 37% while other platform revenues (currently representing 3% of total group revenues) grew at 94%.

Xero Chief Executive, Steve Vamos said: "Xero has delivered another impressive full-year result driven by subscriber and revenue growth with excellent operating discipline, reflecting the strength of our value proposition and business model."

"We are well poised to leverage Xero's international market leading positions as we continue to build a diversified growth profile. The Xero team is focussed on delivering a scalable, world-class product and customer service experience as we expand further into new and existing markets."

Xero Chief Operating and Financial Officer, Sankar Narayan said: "This has been a landmark year for Xero, reaching several significant milestones while driving strong subscriber and revenue growth. These include S&P/ASX 100 index inclusion, our first annual positive EBITDA, first positive operating cash flows for the full-year, and establishing access to debt capital."

Power of the global small business platform

Working with accountants and bookkeepers, Xero is establishing multiple opportunities for growth. This financial year, Xero released a significant number of product updates and new features, including initiatives to service small businesses that go beyond accounting products, such as projects, expenses and financial web partnerships.

Vamos said: "Xero is a catalyst in the changing relationships between financial institutions, financial advisory services, accountants, and small businesses. In the large, under-served small business market, there is a vast growth opportunity that we are addressing as we continue to expand the Xero product offering."

Outlook

Xero will continue to focus on growing its global small business platform.

Cash outflow in FY19 is forecast to reduce from FY18. Xero is managing the business to cash flow break-even within its current cash balance (without drawing on its debt facility) through operational efficiencies.

Following cash flow break-even, it is intended that surplus cash flow will be reinvested, subject to investment criteria, to drive long-term shareholder value.

Xero's Annual General Meeting

Xero's AGM will be held on Thursday, 16 August at 2pm (AEST) 4pm (NZST) in Sydney, Australia, and virtually through an online platform provided by our share registrar, Link Market Services Limited.

About Xero

Xero is a beautiful, easy-to-use global online platform for small businesses and their advisors. The company has 1.4 million subscribers in more than 180 countries. Xero seamlessly integrates with more than 600 apps. It was ranked No. 1 by Forbes as the World's Most Innovative Growth Company for two years running, won Product of the Year at the British Accountancy Awards 2017 in the UK, and was rated by Canstar Blue as Australia's best accounting software three consecutive years from 2015-2017.

About Subscribers

Xero measures subscribers as each unique subscription to a Xero offered product that is purchased by an accounting partner or an end user and is, or is available to be, deployed.

About Constant Currency

Constant currency based on exchange rates for the year ended 31 March 2017.

About AMRR

Annualised monthly recurring revenue (AMRR) replaces the metric Xero has historically reported - annualised committed monthly revenue (ACMR). ACMR included recurring revenue resulting from subscribers' subscriptions. AMRR also includes other revenue streams related to subscriber activity but not necessarily linked to a Xero subscription.

About cash outflow

Operating and investing cash flows.

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Appendix: Performance Criteria for Steve Vamos, CEO

Following the appointment and the commencement of Steve Vamos as CEO of Xero, the Board has determined the performance criteria for vesting of his LTI/R (long-term incentive/retention). LTI/R annual vesting will be conditional on meeting revenue growth and EBITDA targets. In determining the criteria, the Board has allowed for stretch goals for overachievement of the LTI/R amount. This can increase the amount of LTI/R vested from 70% to up to 140% of base salary (excluding superannuation), on a pro rata basis for overachievement of performance targets. The stretch goals, if achieved, will be to the benefit of shareholders by contributing to long-term shareholder value.

Further, the STI (short-term incentive) targets applying to Steve Vamos regarding FY19 will include, in addition to revenue growth and EBITDA targets, a cash usage financial measure and outcome-based strategic objectives.