

Annual meeting

16 AUGUST 2018



Beautiful business

📍 Hunt & Gather, Raglan, New Zealand

Important notice

This presentation is given on 16 August 2018 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 2018, 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

All information in this presentation is current at 31 March 2018, unless otherwise stated

All currency amounts are in NZ dollars, unless otherwise stated

See page 38 for a glossary of the key terms used in this presentation



Graham Smith

*Chair of the Board
Independent Non-Executive Director
Nominations Committee (Chair)
Audit and Risk Management Committee*



Bill Veghte

*Independent Non-Executive Director
People and Remuneration Committee (Chair)
Nominations Committee*



Craig Winkler

*Non-Executive Director
People and Remuneration Committee
Nominations Committee*



Dale Murray, CBE

*Independent Non-Executive Director
Audit and Risk Management Committee*



Lee Hatton

*Independent Non-Executive Director
Audit and Risk Management Committee (Chair)*



Rod Drury

*Xero Founder
Non-Executive Director*



Susan Peterson

*Independent Non-Executive Director
People and Remuneration Committee*

Board of Directors

Agenda

Chair's address



Graham Smith
Chair of the Board

Financial overview



Kirsty Godfrey-Billy
Chief Accounting Officer

CEO update



Steve Vamos
Chief Executive Officer

Q&A



Chair's address



Graham Smith

CHAIR OF THE BOARD



Executive remuneration objectives

When reviewing Xero's executive remuneration structure, we had the following objectives:



Differentiate and reward excellent performance, both in the short and long-term



Enable Xero to attract and retain employees, and motivate them to achieve results with integrity and fairness



Balance the mix of fixed and variable remuneration to influence appropriate behaviours and actions to support a growing business



Remuneration structure that meets the expectations of shareholders for an ASX company



Reward outcomes aligned to Xero's aspirations for growth and operational discipline



Competitive total remuneration benched to S&P/ASX 100 for AU/NZ roles and local tech sector for UK/US roles

Executive remuneration structure

Xero's executive remuneration for FY19 consists of the following components:

Fixed remuneration

- Annual salary
- Retirement: Superannuation (AU), KiwiSaver (NZ), 401k (US) and pension (UK)

Short-term incentive

- Deferred STI plan: 50% in cash at end of 12 month performance period, 50% deferred as equity for a further 12 months. Performance measures are:

| | Voice of Shareholder | | | | | Voice of Customer | Voice of Employee | | Individual Objectives |
|----------------|----------------------|--------|------|------------|----------------------|-------------------|-------------------|------------|-----------------------|
| | Revenue growth | EBITDA | Cash | MRR growth | Subscriber additions | NPS | eNPS | Engagement | |
| Global Exec | 30% | 15% | 15% | - | - | 10% | 5% | 5% | 20% |
| Regional Leads | 20% | 10% | 10% | 26% | 14% | 5% | 2.5% | 2.5% | 10% |

Long-term incentive

- "Block options plan": block of options granted, vesting equally on the 2nd, 3rd and 4th anniversary of the grant date, five year expiry
- Current executives (except CEO) granted block options in June 2018, vesting in June 2020, June 2021 and June 2022, and expiring June 2023

CEO inclusion in evolved structure

- Steve Vamos, CEO, will be included in the evolved executive remuneration structure as detailed below:

Short-term incentive

- Steve's incentive for FY19 will now include the deferral component applying to all senior executives
- 50% is payable as cash at the end of the 12 month performance period ending 31 March 2019
- 50% is deferred as equity in the form of restricted stock units (RSUs) for a further 12 months
- Subject to measures outlined on previous slide and calculated over the 12 month performance period

Long-term incentive

- Steve will participate in the new executive block options plan from August 2018
- To reflect Steve's existing LTI grants, participation reduced by 25% and vesting foregone in June 2020
- 180,000 options to be granted, vesting in equal parts in June 2021 and June 2022, expiring June 2023
- Strike price calculated as at 1 April 2018 to align with the start of Xero's current financial year and the strike price applicable for other executives

- The terms of Steve's employment agreement will be varied to the extent necessary to implement the changes to his variable remuneration as outlined above
- Steve's base salary will increase by 12.5% from \$900,000 to \$1,012,500 per annum effective from the first full pay period following his retirement from the Telstra Board in October 2018

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
80,586,939

99.37%

Against
420,246

0.52%

Discretionary
89,671*

0.11%

** 58,163 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 2

Election of Dale Murray as a Director



That Dale Murray, appointed by the Board as a Director on 13 April 2018, be elected as a Director of Xero Limited

For
81,008,124

99.86%

Against
18,987

0.02%

Discretionary
93,718*

0.12%

** 58,810 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 3

Re-election of Rod Drury as a Director



That Rod Drury, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For
81,042,764

99.89%

Against
2,941

0.00%

Discretionary
89,946*

0.10%

** 53,038 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 4

Re-election of Craig Winkler as a Director



That Craig Winkler, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For

67,012,647

82.60%

Against

1,021,132

1.26%

Discretionary

13,096,939*

16.14%

** 13,062,531 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 5

Re-election of Graham Smith as a Director



That Graham Smith, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For
79,686,064

98.22%

Against
1,338,712

1.65%

Discretionary
102,448*

0.13%

** 67,140 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 6(a)

Approval of the issue of shares to Directors - 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 this Notice of Meeting

For
80,600,839

99.36%

Against
421,419

0.52%

Discretionary
96,400*

0.12%

** 61,492 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 6(b)

Approval of the issue of shares to Directors - Bill Veghte

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

For
80,665,499

99.44%

Against
357,449

0.44%

Discretionary
95,710*

0.12%

** 60,802 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 7 (SPECIAL RESOLUTION)

Adoption of new Constitution

That Xero's current constitution be revoked and Xero adopt the new Constitution tabled at the Meeting in its place, with effect from the close of the Meeting or any adjournment of it

For
81,014,352

99.87%

Against
9,024

0.01%

Discretionary
98,912*

0.12%

** 64,004 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 ACCOUNTING OFFICER



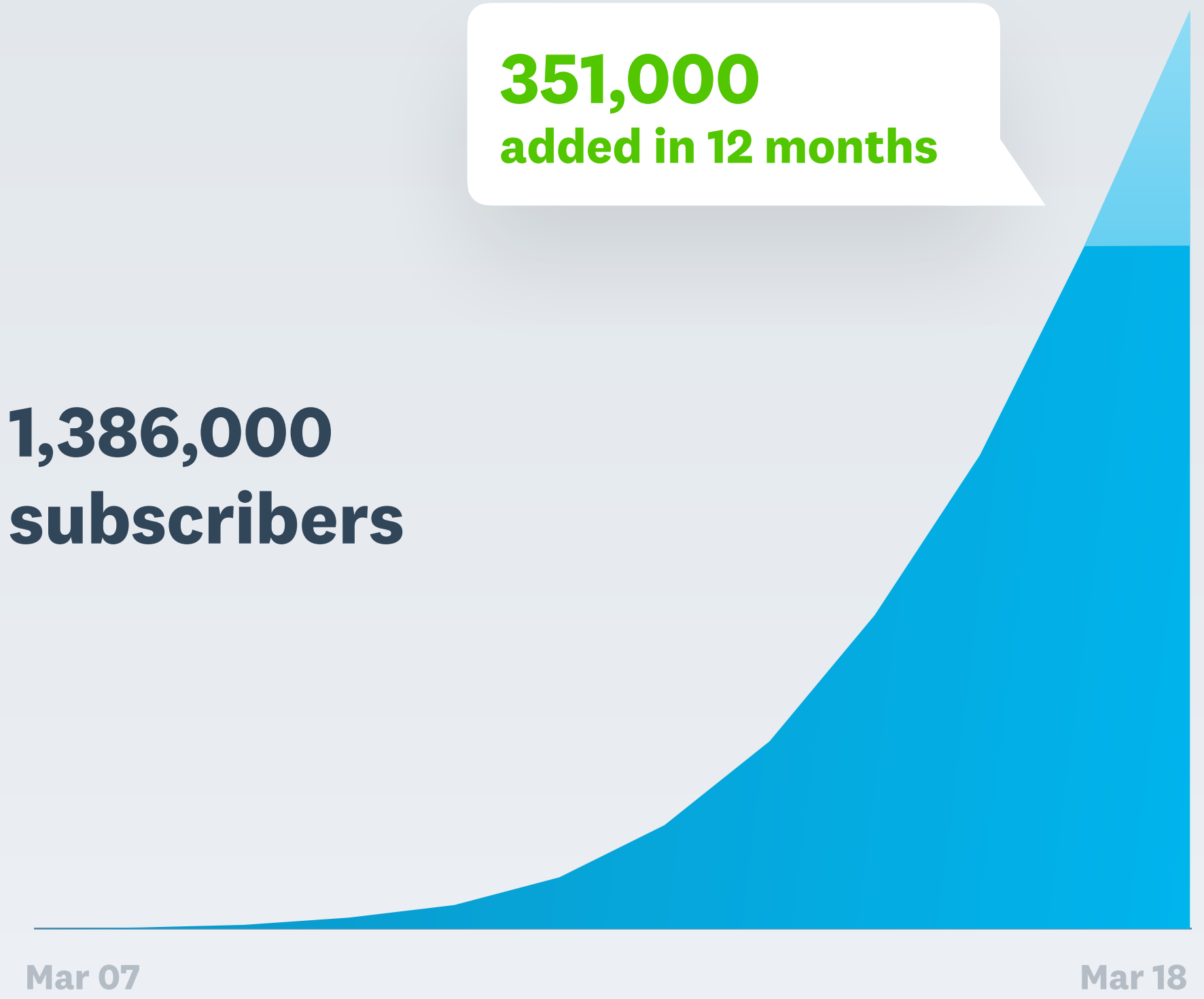
Positive EBITDA with continued growth



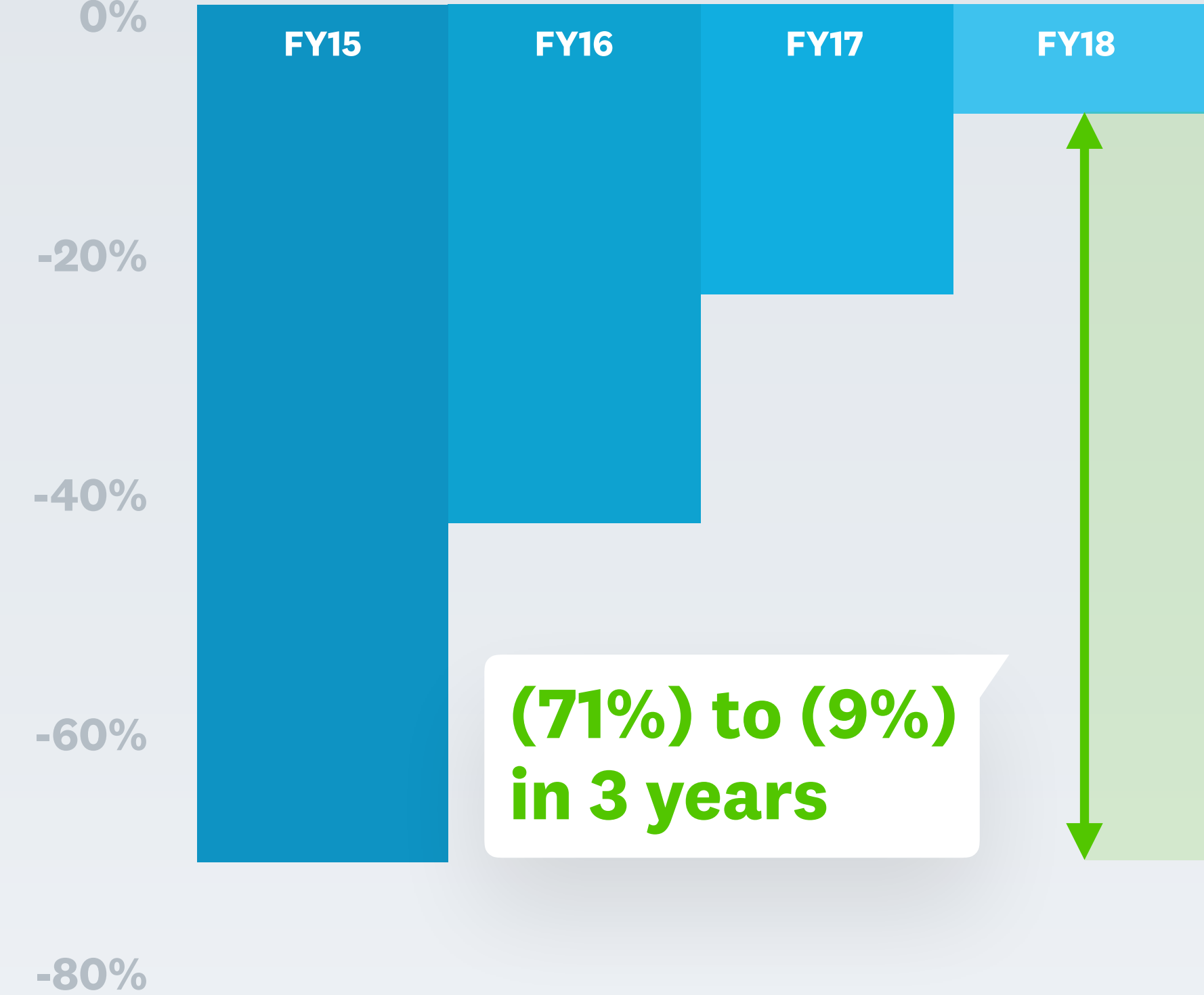
¹ See the Glossary on page 38 for details on annualised monthly recurring revenue

Strong top-line and bottom-line performance

Xero subscriber growth



Cash outflow¹ as % of revenue



¹ Operating and investing cash flows

\$484m

Annualised monthly recurring revenue



Mar 11

Mar 18

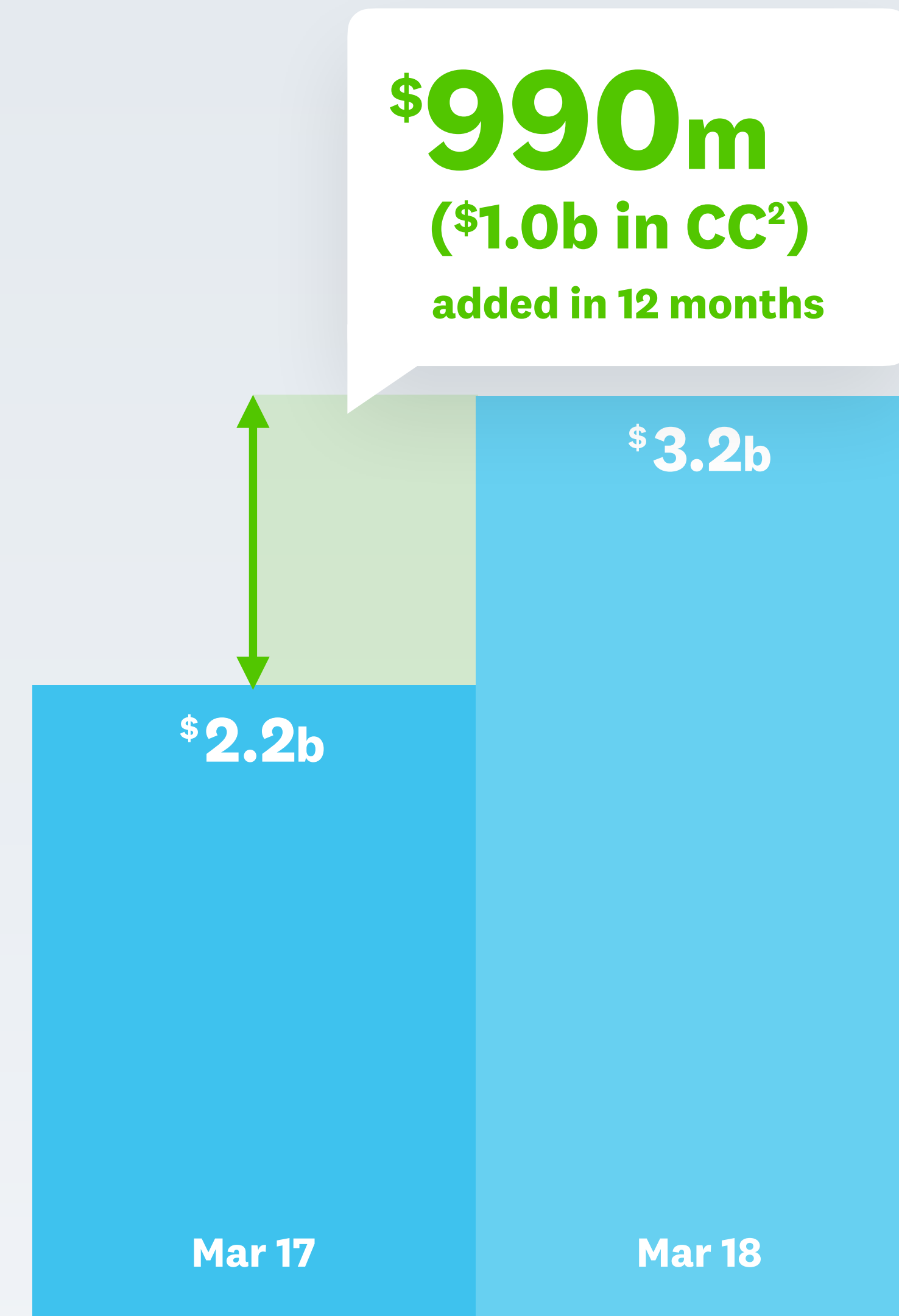
Increasing lifetime value

| | March 2018 | Progress from March 2017 |
|---------------------------------|------------|--------------------------|
| ARPU | \$29.13 | — |
| MRR churn % | 1.10% | ↓ |
| Gross margin | 81% | ↑ |
| LTV per subscriber ¹ | \$2,310 | +9% ² |

¹ Increased 8% YOY in nominal terms

² Constant currency based on FX rates at 31 March 2017

Total group subscriber lifetime value (LTV)



Positive EBITDA

First positive EBITDA for the full-year driven by operating efficiencies across the business

EBITDA excl. SBP¹ was \$43.0m in FY18, an improvement of \$59.9m YOY from \$(16.9m) loss in FY17

¹ SBP is a non-cash cost to Xero

EBITDA margin



Positive operating cash flow

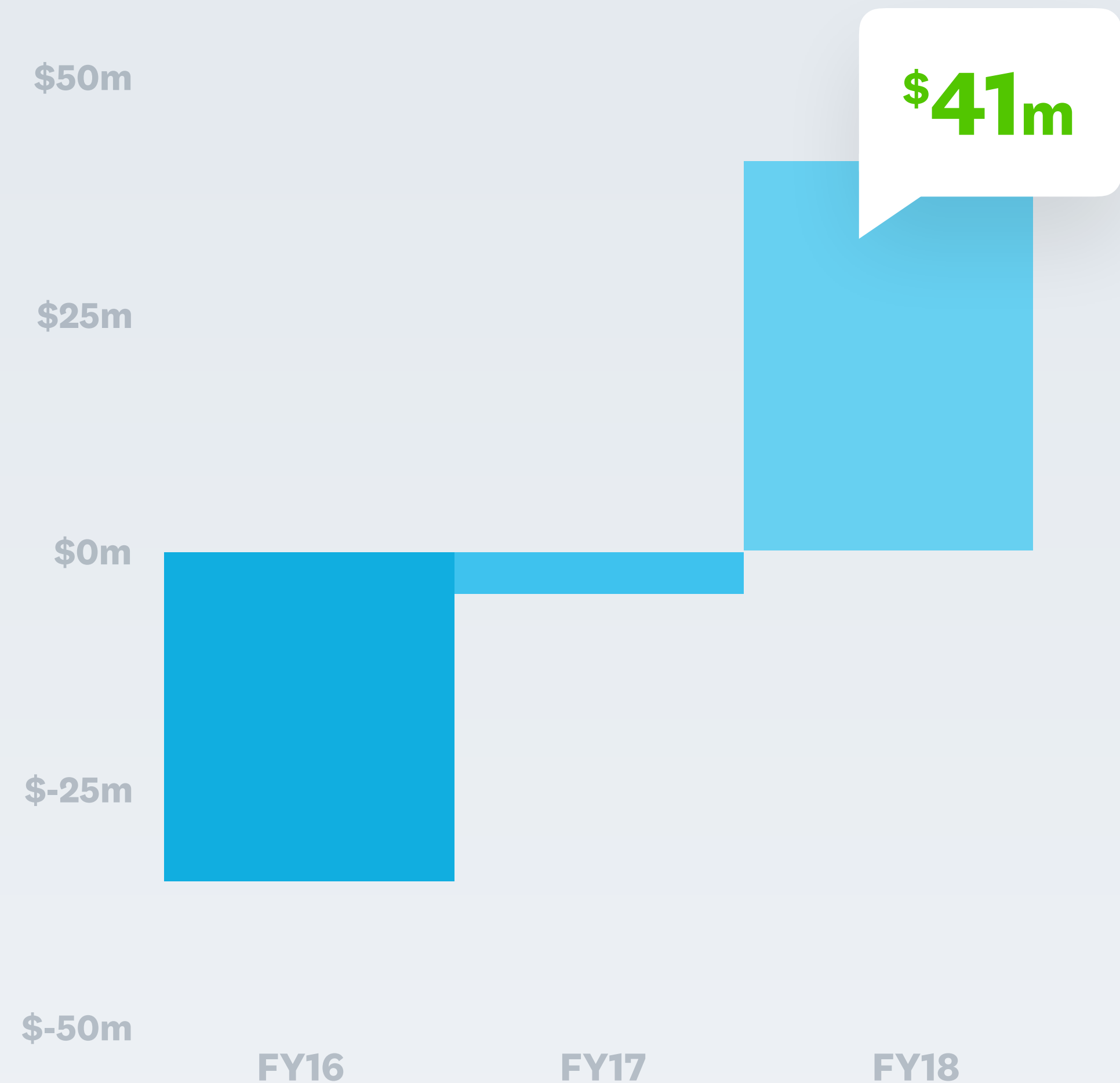
Positive operating cash flow of \$41.2m for FY18, an improvement of \$45.6m from \$(4.4m) in FY17

Operating and investing cash flows as a % of revenue improved to 9% in FY18. Total operating and investing cash flows were \$(36.9m) for FY18, a reduction from \$(70.8m) in FY17

Cash and short-term deposits balance at 31 March 2018 was \$80.0m

No current plans to draw down on stand-by debt facility of \$100m

Operating cash flow



Beauty of Xero's SaaS model



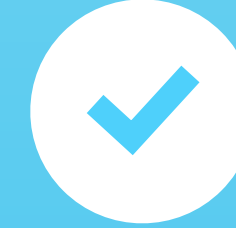
Acquire
subscribers
economically
at scale



Grow
revenue per
subscriber



Grow gross
margins



Retention at
scale



Generate
long-term
value

New accounting standards

Xero has adopted the following three 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



 Lagom, Bristol, United Kingdom

**Great
people and
teams**



**Win with
accountants
and
bookkeepers**

**Xero's mission is to
rewire the global
economy, connecting
millions of
businesses to their
banks, advisors and
each other**

**Beautiful
products
and global
platform**



**Grow into
new spaces
and places**

**Love and
protect our
customers**



**Build to
scale
globally**

Continued focus



Alignment of execution with strategy

Global and regional operating model

Great product management

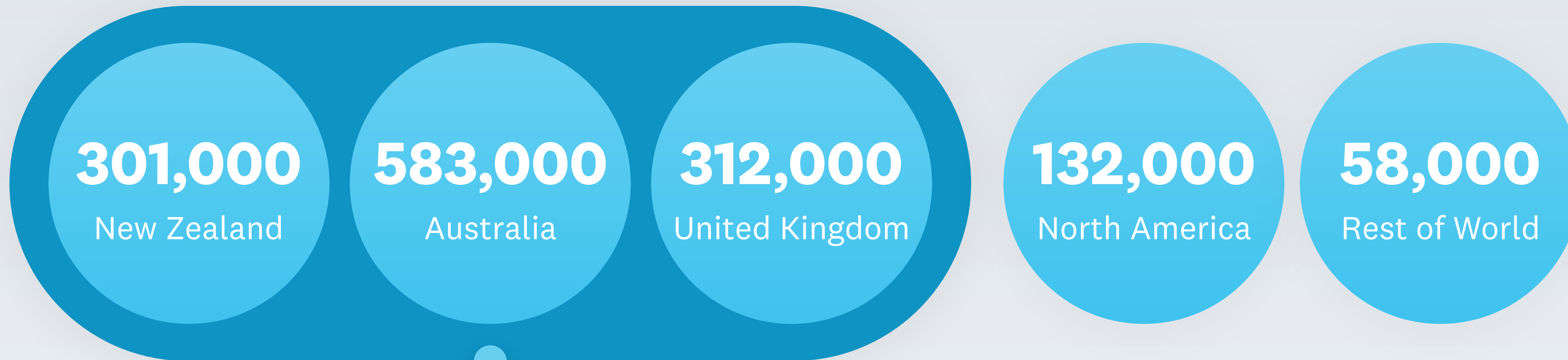
Capital investment framework

Driving adoption of cloud accounting

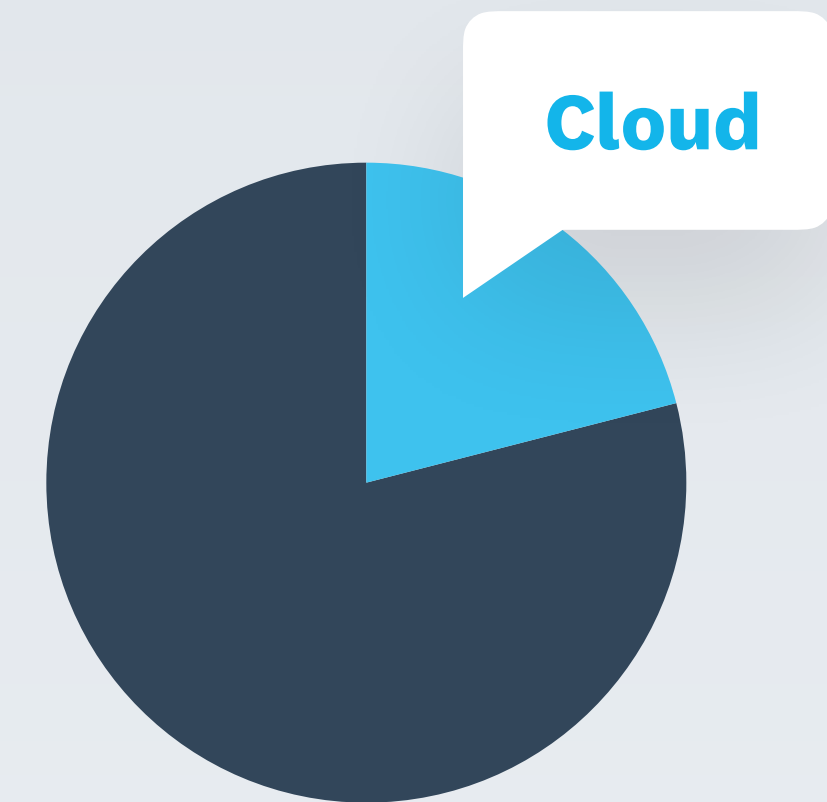


Strengthening Xero's global footprint

Subscribers at 31 March 2018



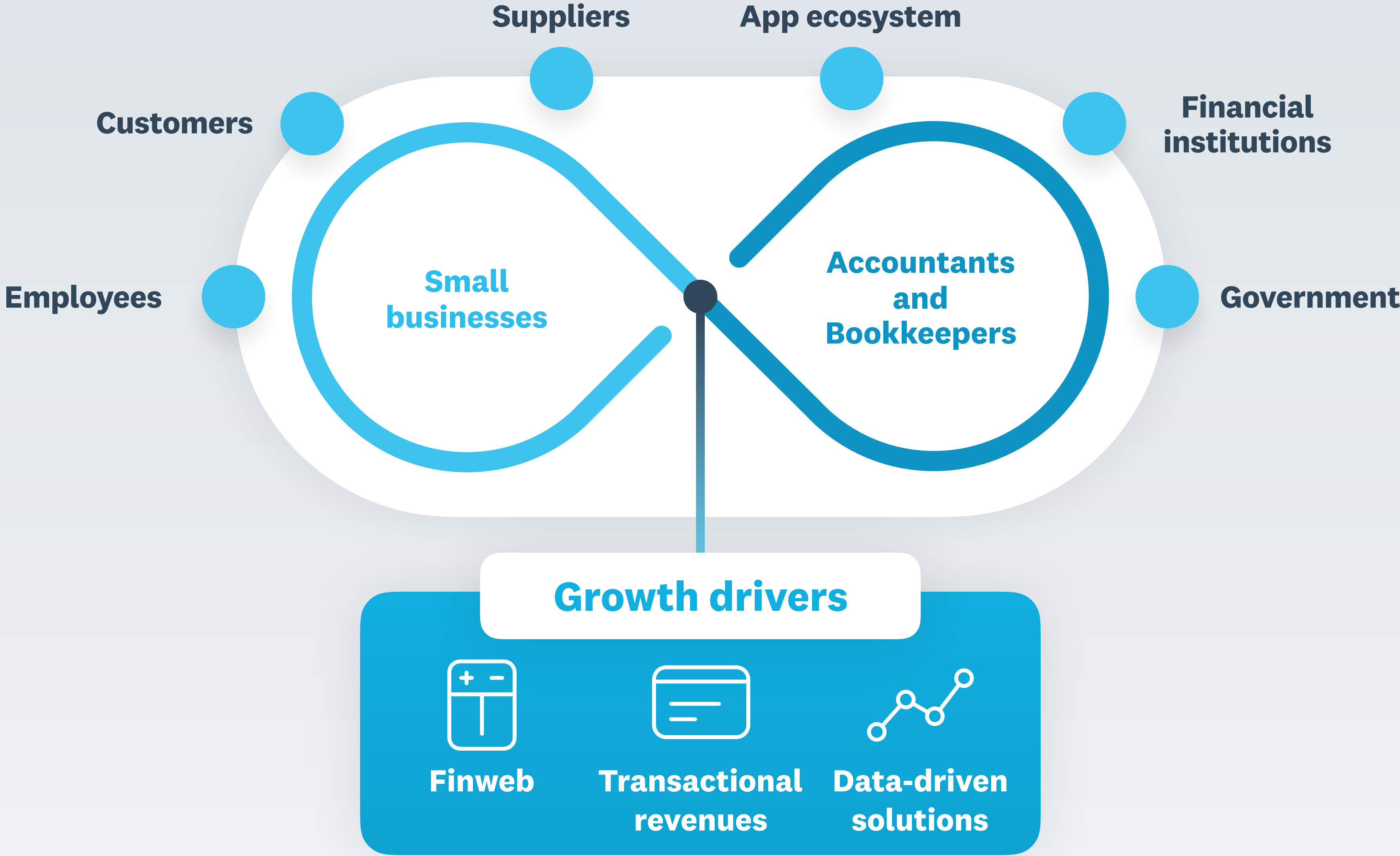
Leading cloud accounting platform



TAM potential in a large global underserved market¹

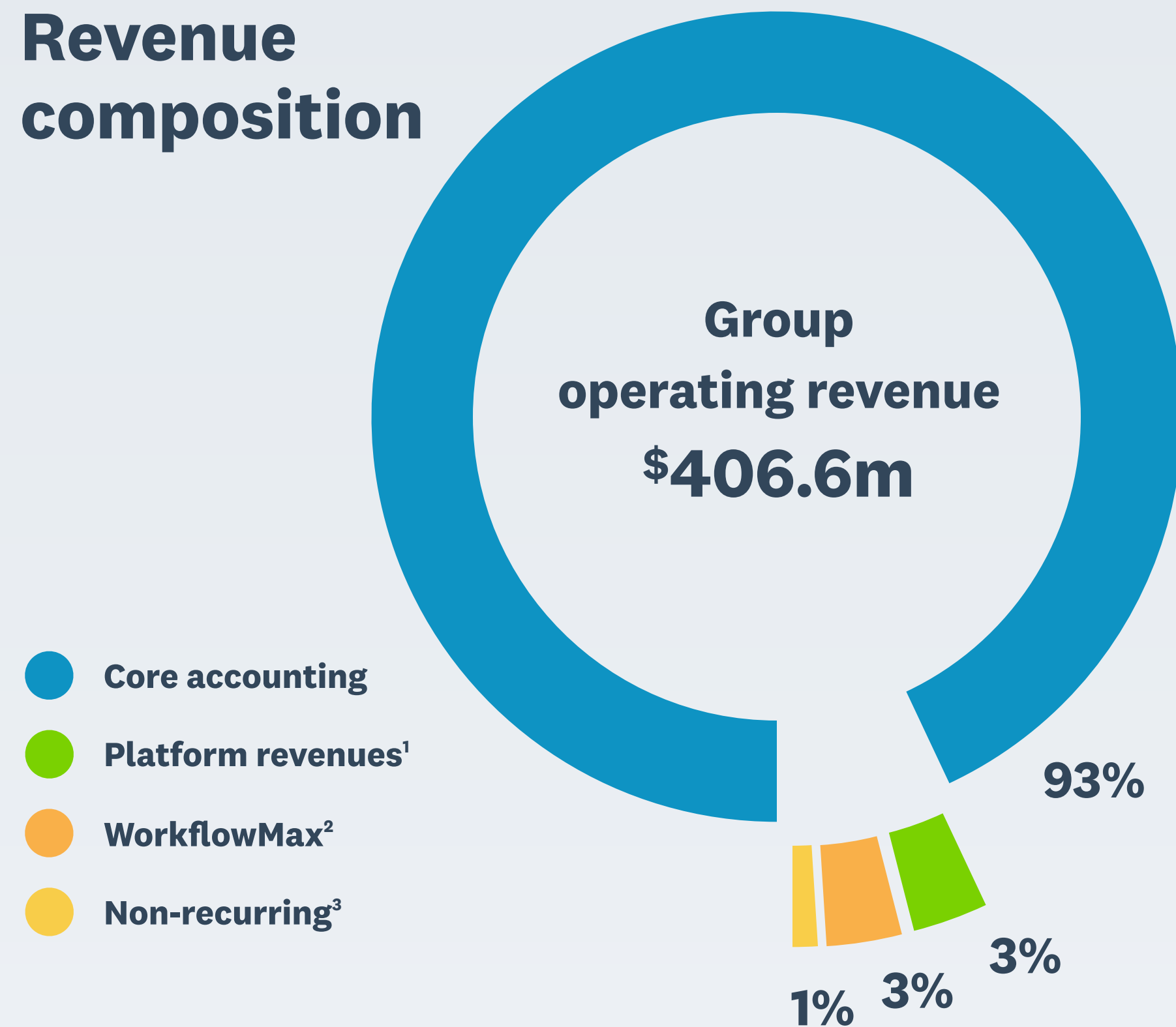
¹ Estimated English speaking addressable market based on publicly available data

Grow small business platform revenues

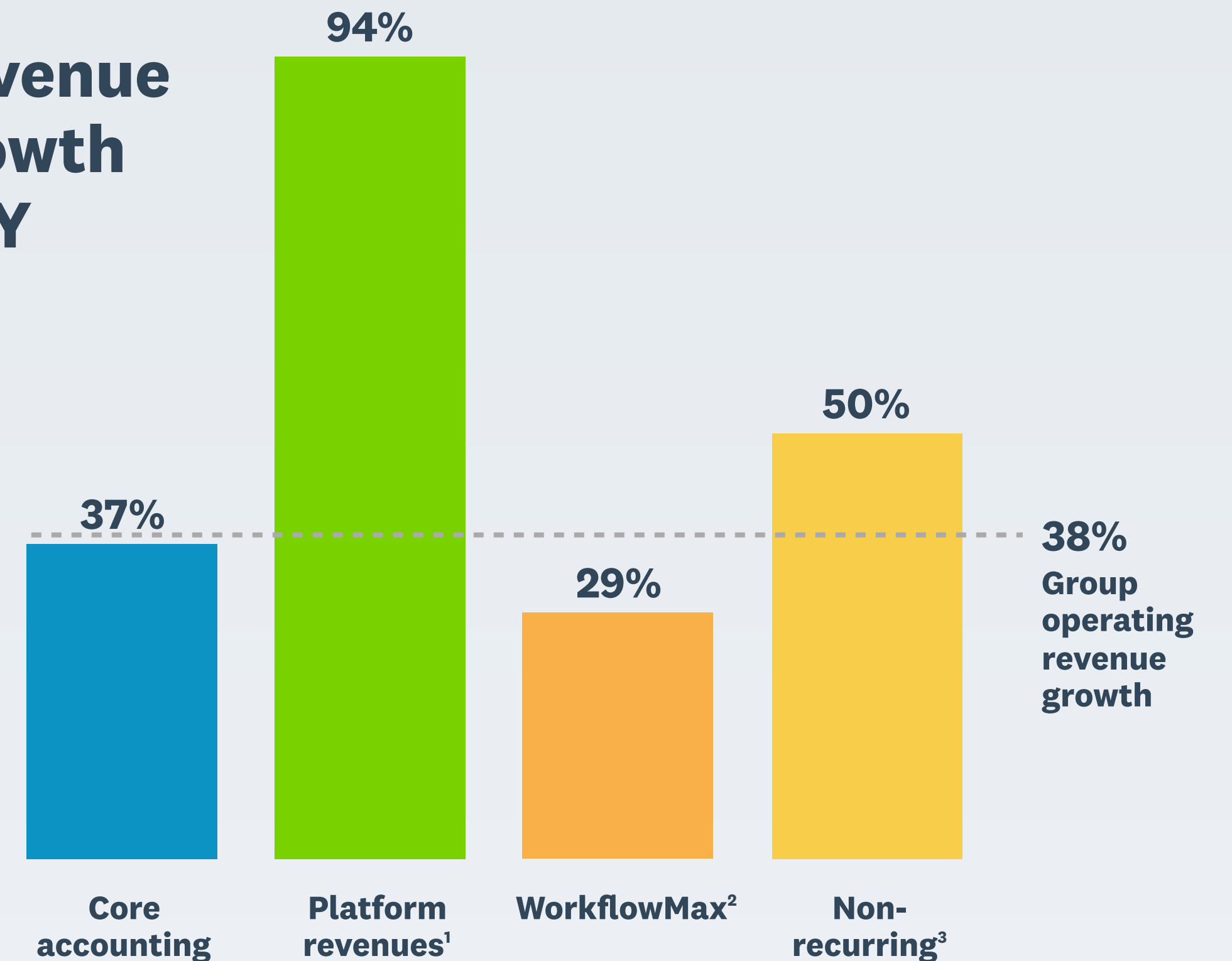


Growing the small business platform

Revenue composition



Revenue growth YOY



¹ Platform revenues include revenue derived from related services, including 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

Acquisition of Hubdoc

Leading data capture solution



Outlook



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

Cash outflow¹ 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, excluding capital outlays for M&A

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

Q&A



Appendix



Glossary

Subscribers

Subscriber means 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

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

ARPU is calculated as annualised monthly recurring revenue at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)

MRR churn

MRR 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

Total lifetime value

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 MRR 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 months

CAC months or months of ARPU to recover CAC represent the number of months of revenue required to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the 12 month period less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU

NPS

Net promoter score

eNPS

Employee net promoter score

SBP

Share-based payments

Finweb

Financial web

CAC

Customer acquisition costs

GAAP

Generally accepted accounting principles

TAM

Total addressable market



www.xero.com/investors