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TRADING UPDATE

Xero FY19 Trading Update

WELLINGTON, 26 September 2018 - Xero Limited (ASX: XRO) (“Xero”) makes the following announcement in connection with its announcement today of a proposed convertible notes offering.

Cash outflow (operating less investing cash flows) in the financial year ended 31 March 2019 (“FY19”) is forecast to reduce from the financial year ended 31 March 2018 (“FY18”). Excluding capital outlays for M&A, Xero is managing the business to cash flow break-even within its current cash balance, without drawing on its debt facility or the net proceeds from the proposed convertible notes offering. 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 remains comfortable with analyst consensus expectations in respect of revenue and EBITDA for FY19 (at current FX rates) as at 19 July 2018, being the date prior to the announcement of the Gusto strategic alliance, acquisition of Hubdoc Inc. and transition to three new accounting standards effective from 1 April 2018. Analysts are in the process of updating FY19 forecasts following the Gusto and Hubdoc Inc. ASX announcements. The FY19 consensus analyst expectations just prior to these announcements were revenue of between NZ\$528 million and NZ\$558 million (median of NZ\$541 million) and EBITDA of between NZ\$66 million and NZ\$94 million (median of NZ\$76 million).

On 20 July 2018, Xero announced a strategic alliance with US payroll platform Gusto that will integrate Xero’s platform in the US with Gusto in all 50 States. In that announcement, Xero indicated that as a consequence of ceasing development of its US in-house payroll product, a NZ\$16.2 million non-cash impairment of assets will be incurred, which will be recognised in the first half of the 2019 financial year.

On 1 August 2018, Xero announced the acquisition of Hubdoc Inc., a leading data capture solution. As stated at the time of the Hubdoc Inc. acquisition, Xero’s EBITDA in FY19 is expected to reduce by approximately NZ\$7 million due to transaction and integration costs, together with continuing investment in Hubdoc Inc.’s growth.

As signalled in Xero’s FY18 annual report, Xero has adopted three new accounting standards from 1 April 2018. These standards will impact Xero’s H1 results released in November. Prior year comparatives will be restated with details regarding the impacts released at the time. There is no impact to cash flow from the changes to accounting standards and the impact on reported revenue is expected to be immaterial.

IFRS 15: Revenue from Contracts with Customers

- This standard requires the incremental costs of obtaining a contract to be capitalised and expensed on a systematic basis. Costs of obtaining a contract, such as commission costs have historically been expensed as incurred.
- This standard also requires revenue to be recognised as distinct performance obligations are satisfied, which will alter the timing and classification of revenue recognition.

IFRS 16: Leases

- This standard requires recognition of a lease liability and a right-of-use asset based on the future lease payments for substantially all lease contracts. The expense previously recorded in relation to operating leases will move from being included in operating expenses to within depreciation and finance expense.
- Xero is early adopting the leasing standard to align with NZ IFRS 15 and NZ IFRS 9 adoption.

IFRS 9: Financial Instruments

- This standard amends the classification and measurement of financial instruments as well as simplifying the hedge accounting model aligning it more closely to risk management strategies and objectives.

About Xero

Born in the cloud, [Xero](#) is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.4 million subscribers in over 180 countries and a thriving ecosystem seamlessly integrating with 700+ apps. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the \$200 million+ segment. Xero won Technology Provider of the Year at the British Small Business Awards in 2016 and was rated by Canstar Blue as Australia's best accounting software four consecutive years, 2015-2018.

Contact

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