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MARKET RELEASE

Xero successfully prices US\$300m convertible notes due 2023

WELLINGTON, 27 September 2018 - Xero Limited (ASX: XRO) ("Xero") is pleased to announce that it has successfully priced the US\$300m 2.375 per cent guaranteed senior unsecured convertible notes due 2023 (the "Notes") issued by Xero Investments Limited ("the Issuer") and guaranteed by Xero (the "Offering").

The Notes will bear interest at a rate of 2.375 per cent per annum. Interest will be payable semi-annually in arrears on 4 April and 4 October of each year, beginning on 4 April 2019. The Notes will mature on 4 October 2023, unless earlier redeemed, repurchased or converted.

The initial conversion price of the Notes is US\$ 46.3386 per ordinary share, which represents a conversion premium of approximately 30% over the Reference Share Price, based on a Fixed Exchange Rate of A\$1.00 = US\$0.72745.

It is intended that, after paying transaction costs, and repaying certain existing term debt and funding the costs of the call option transactions (described below), the net proceeds of approximately US\$242m will be used for potential acquisitions of, and investments into, strategic and complementary businesses and assets which are in line with Xero's strategy to drive long-term shareholder value. There is no agreement or understanding with respect to any such acquisitions or investments at this time.

Settlement of the Offering is expected on 4 October 2018.

"This style of capital raising, while relatively commonplace amongst US technology companies, is groundbreaking for a New Zealand or Australian company not listed in the US," said Steve Vamos, Chief Executive Officer.

"This structure has been adopted to drive the right balance between providing flexibility for Xero and reducing potential dilution of existing shareholders."

"We are very pleased with the strong global demand for this offer," said Mr Vamos.

Goldman Sachs International and Morgan Stanley & Co. International plc are acting as Joint Lead Managers ("JLMs") on the Offering.

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The Issuer and Xero have also been successful in entering into a series of call option arrangements with the JLMs. These call option arrangements involve:

- the JLMs granting call options to the Issuer in respect of approximately 6.5m shares in Xero at an average exercise price of US\$46.3386 per share. These call options will be cash settled (or, at the election of the Issuer, physically settled) and expire in 5 years; and
- the Issuer granting call options to the JLMs in respect of approximately 6.5m shares in Xero at an average exercise price of US\$60.5966 per share. These call options will be physically settled by the issue of Xero ordinary shares and expire in 5 years.

The call option transactions are expected to reduce potential dilution to existing holders of the ordinary shares upon conversion of the Notes and/or to offset any cash payments Xero is required to make in excess of the principal amount of the Notes upon conversion. The call option transactions will cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the equivalent number of ordinary shares underlying the Notes

Concurrent with the Offering:

- a delta placement of approximately 1.9 million ordinary shares has been executed to facilitate some of the hedging activity in relation to the Notes and the call option transactions. The clearing price of A\$49.00 per share, which represents a discount of 1.39% to the closing price of the ordinary shares on 26 September 2018, was used as Reference Share Price for the Notes.
- additionally, to support the Offering, Givia Pty Ltd, an existing holder of the ordinary shares of Xero (“Stock Lender”) has entered into a stock lending agreement with an affiliate of Goldman Sachs (the “Stock Borrower”) pursuant to which the Stock Lender will lend up to 1 million ordinary shares to the Stock Borrower, and the Stock Borrower will be required to return the borrowed ordinary shares pursuant to the terms of the agreement (“Stock Borrow Facility”). The Stock Borrow Facility has a termination date matching the maturity of the Notes.

As part of establishing, maintaining and unwinding their hedges of the call option transactions, the JLMs expect to enter into various derivative transactions with respect to Xero’s ordinary shares. This activity could affect the market price of Xero’s ordinary shares and/or the Notes otherwise prevailing at that time. If any such call option transactions fail to become effective, the JLMs may unwind their hedge positions with respect to the ordinary shares.

Key terms of the Notes

Issuer	Xero Investments Limited
Guarantor	Xero Limited
Issue Size	US\$300 million
Ranking	Direct, unsubordinated, unsecured and unconditional
Maturity	4 October 2023 (5 years)
Coupon / Yield	2.375% p.a., on a semi-annual basis
Conversion Premium	30.0% over the Reference Share Price
Reference Share Price	A\$49.00, the clearing price of the Delta Placement
Initial Conversion Price	US\$46.3386 per ordinary share, based on the Fixed Exchange Rate
Fixed Exchange Rate	A\$1.00 = US\$0.72745
Delta Placement	1.9 million ordinary shares placement at a clearing price of A\$49.00 per share which represents a discount of 1.39% to the closing price of the ordinary shares on 26 September 2018
Stock Borrow Facility	The Stock Lender has entered into a stock lending agreement with the Stock Borrower for up to 1 million ordinary shares. The Stock Borrow Facility has a termination date matching the maturity of the Notes.
Cash Settlement	<p>The conversion of Notes will be cash settled unless the Issuer elects to physically settle the conversion, in which case, Xero will be obliged to delivery ordinary shares to relevant noteholders.</p> <p>The relevant Cash Settlement Amount will be calculated based on the volume weighted average price of the ordinary shares over a 90 trading day period.</p>
Conversion Price Adjustment	Standard anti-dilutive adjustments including Conversion Price adjustment for all dividends paid by the Company
Listing	SGX-ST
Selling Restrictions	Reg S (Cat 1) only

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.

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