



MARKET RELEASE

Xero Delivers Half Year Operating Revenue of \$257M, 1.6M Subscribers, Growth of 40% in AMRR to \$589M

Raised US\$300m through convertible notes issue

Performance highlights H1 FY19

All figures in NZD and comparisons are made against H1 FY18. Comparative period results have been restated to reflect the effect of three new accounting standards (see note below).

Strong revenue growth with Annualised Monthly Recurring Revenue (AMRR) rising to \$589.1 million

- Revenue up 37% to \$256.5 million (33% in constant currency (CC))
- AMRR increased by 40% to \$589.1 million (36% in CC)
- Average Revenue per User (ARPU) increased 6% from 30 September 2017 to \$31.1 (3% in CC)
- Net subscriber additions of 193,000 during the half year, taking total subscribers to 1.579 million at 30 September 2018 (net subscriber additions before inclusion of acquired Hubdoc subscribers was 174,000)
- Lifetime Value (LTV) per subscriber increased 6% to \$2,494 (3% in CC). Added \$1.1 billion in total subscriber LTV in the past year (unchanged in CC), to reach \$3.9 billion

EBITDA and operating cash flows underscore financial discipline and scalable business model

- Net loss for the half year increased to \$(28.6) million from \$(19.6) million in H1 FY18
- EBITDA of \$16.8 million, compared to \$15.6 million in H1 FY18. EBITDA excluding impairments more than doubled to \$34.5 million, up from \$17.1 million
- EBITDA and net loss includes \$18.6 million from impairments and additional costs relating to the strategic alliance with Gusto and the acquisition of Hubdoc
- Cash flows from operating activities increased to \$36.0 million for H1 FY19, a substantial improvement from \$15.1 million in H1 FY18
- Operating and investing cash outflows increased to \$(40.1) million from \$(30.9) million in H1 FY18. Excluding acquisitions, operating and investing cash outflows reduced significantly to \$(9.8) million from \$(30.9) million
- Gross margin improved 2.6pts to 82.8%

Market leadership

- Cloud accounting market leadership in Australia and New Zealand extended with region subscriber growth of 24% to 981,000 subscribers and revenue up 30% (29% in CC)
- Market leadership position in the UK continues with a 40% increase to 355,000 subscribers and revenue up 56% (46% in CC)
- Progress in the North American market continues adding 68,000 subscribers to reach 178,000 subscribers (an increase of 49,000, or 45%, excluding acquired Hubdoc subscribers). Revenue up 40% (34% in CC). Good progress in developing the partner channel in a still underpenetrated cloud accounting market
- Rest of World subscribers increased 38% to 65,000 with revenue up 55% (48% in CC)

SYDNEY, 8 November 2018 - Xero Limited (ASX: XRO) today reports its half year earnings to 30 September 2018 (H1 FY19), delivering strong operating revenue of \$256.5 million driven by continued subscriber growth in all markets.

Following the consolidation of Xero's listing on the ASX in February 2018 and subsequent inclusion in the S&P/ASX 100 index, the business executed a number of significant initiatives in the first half of the 2019 financial year that position Xero for continued growth.

These initiatives included the acquisition of leading data capture solution Hubdoc, a strategic partnership with US payroll provider Gusto, and successfully securing US\$300 million (NZ\$451 million) in capital via a convertible note offering. Xero intends to use this capital to enhance and extend its small business platform and ecosystem capabilities through complementary and targeted acquisitions and investments.

Xero CEO Steve Vamos commented: "Xero's half year results demonstrate strong top and bottom line results with significant improvements in cash flow margins and average revenue per user. We remain focussed on disciplined execution of our strategy to drive growth while improving financial outcomes through operating efficiencies."

"Our acquisition of Hubdoc delivered a key element in Xero's code-free accounting strategy, enabling small businesses and their advisors to focus less on paperwork and more on growing their business. Likewise Xero's strategic alliance with leading US payroll provider Gusto is an important step in the implementation of our US strategy."

"Xero is very well positioned to take advantage of organic growth opportunities and following the completion in October of our US\$300 million convertible notes issue, we have the financial flexibility to target complementary acquisitions and investments."

Outlook

Xero will continue to focus on growing its global small business platform. 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 convertible notes issued in October 2018. 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.

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About Xero

Born in the cloud, Xero is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.6 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 the Small Business Accounting, Practitioners' Choice Award at 2018 Accounting Excellence Software Awards in the UK and was rated by Canstar Blue as Australia's best accounting software in four consecutive years, 2015-2018.

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 which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber.

About Constant Currency

Constant currency based on exchange rates for the six months ended 30 September 2017.

New Accounting Standards

Xero has adopted NZ IFRS 9: Financial Instruments, NZ IFRS 15: Revenue from contracts with customers and NZ IFRS 16: Leases, effective from 1 April 2018. Prior year comparatives including SaaS metrics have been restated to reflect these new standards. See note 2 to the H1 FY19 Financial Statements for more information on the impact of these standards on the financial performance and position of the Xero group.