

MARKET RELEASE

Xero Delivers 36% Operating Revenue Growth & Positive Free Cash Flow

International net subscriber additions exceed ANZ region, with record UK performance

WELLINGTON, 16 May 2019 - Xero Limited (ASX: XRO) today reports full-year earnings to 31 March 2019 (FY19) delivering strong progress in top line growth, cash generation and profitability. Highlights include:

- 36% growth in operating revenue to \$552.8 million (34% in constant currency (CC))
- 32% growth in Annualised Monthly Recurring Revenue (AMRR) to \$638.2 million
- 31% growth in total subscribers to 1.818 million
- International net subscriber additions (239,000) exceeded those from ANZ (193,000) for the first time
- UK net subscriber additions accelerated significantly - 151,000 added over the FY19 year, and more than 100,000 net subscribers added in H2 FY19
- Free cash flow increased by \$35.0 million versus the prior year to \$6.5 million
- Positive H2 FY19 NPAT of \$1.4 million

Financial highlights

Year ended 31 March	2019	2018	change
Operating revenue (\$000s)	552,819	406,659	36%
Subscribers	1,818,000	1,386,000	31%
Net subscriber additions	432,000	351,000	23%
Average revenue per user (\$)	29.25	29.13	0%
Annualised monthly recurring revenue (\$000s)	638,179	484,421	32%
EBITDA excluding impairments (\$000s)	91,775	49,747	84%
Net loss after tax (\$000)	(27,143)	(24,914)	9%
Net loss after tax excluding impairments (\$000s)	(8,539)	(23,364)	-63%
Free cash flow (\$000s)	6,451	(28,513)	NM*
Total lifetime value of subscribers (\$b)	4.4	3.2	36%
Gross margin percentage	83.6%	81.5%	2.1pp**

*NM stands for not meaningful

**pp stands for percentage points

A number of financial metrics point to Xero's improving profitability and increasing cash generation in FY19. Gross margin percentage improved in FY19 by 2.1 percentage points to 83.6%, contributing to a 4.4 percentage point increase in EBITDA margin (excluding impairments) to 16.6%, due to improving efficiencies in sales, marketing, and product design and development costs.

Net loss for the year increased to \$27.1 million primarily due to impairments in the first half of the year, with a net profit of \$1.4 million achieved in the second half of the year. EBITDA of \$73.2 million increased from \$48.2 million in the prior period year, while EBITDA excluding impairments increased 84% to \$91.8 million.

A positive free cash flow result, of \$6.5 million, was delivered for the first time, equating to 1.2% of operating revenue.

Total subscriber lifetime value (LTV) increased by 36% (37% in CC) to \$4.4 billion from \$3.2 billion, reflecting subscriber growth and gross margin improvement. Average revenue per user (ARPU) trends were positive in FY19, rising to \$29.25 from \$29.13, while LTV per subscriber increased 3% to \$2,398.

In October 2018, Xero raised US\$300 million (\$451 million) via an innovative convertible notes offering, demonstrating investor confidence in the business. Funds raised provide the flexibility to execute acquisitions and investments that will enhance and extend Xero's small business platform and ecosystem.

Xero also executed a number of strategic initiatives during FY19 to position it well for growth, including the acquisitions of Hubdoc, a leading data capture solution, and Instafyle, a UK tax filing and compliance tool.

CEO Steve Vamos commented: "We've delivered a strong result with a number of major milestones for Xero including our first positive free cash flow result, and the UK adding more than 100,000 subscribers within a six-month period. Another important milestone was the positive bottom line result delivered in the second half, which demonstrates our improving profitability."

"As we head into FY20 and beyond, we're making great progress towards our strategic priority of driving cloud accounting adoption globally. We have a genuine competitive edge by prioritising investment in growth, and partnering closely with accountants and bookkeepers, to deliver a human-centered technology experience for small business communities across the globe."

Market highlights

ANZ – passed new cloud accounting industry benchmark of one million subscribers in FY19. ANZ subscribers increased 22% to 1.077 million. 30% revenue growth (31% in CC) reflects increasing ARPU contribution.

UK - subscribers grew by 151,000 or 48% to 463,000. Additions in H2 FY19 were strong at 108,000. Revenue growth of 50% (45% in CC) reflects market-leading momentum.

North America - subscribers increased by 63,000 or 48%, to 195,000 (increase of 44,000 or 33% excluding Hubdoc subscribers on acquisition). US communities-led strategy continues to show promise while Canada continues to be a key growth opportunity. North America revenue increased 39% (33% in CC).

Rest of World - 43% growth in subscribers to 83,000 with revenue up 55% (48% in CC) driven by strong progress in new markets including the recently established offices in Hong Kong and South Africa.

Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value. Free cash flow in the financial year to 31 March 2020 is expected to be a similar proportion of total operating revenue to that reported in the financial year to 31 March 2019.

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About Xero

Born in the cloud, [Xero](#) is a beautiful, easy-to-use platform for small businesses and their advisors. Xero provides its 1.8 million subscribers with connections to a thriving ecosystem of 700+ third party apps and 200+ connections to banks and financial service providers. 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 'Bookkeeping software of the year' from the Institute of Certified Bookkeepers UK in 2018, and was rated by Canstar Blue as Australia's best accounting software over four consecutive years, 2015-2018.

About Subscribers

Xero measures subscribers as each unique subscription to a Xero-offered product that is purchased by a user (eg small business or accounting partner) 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 comparisons for revenue are based on exchange rates for the 12 months ended 31 March 2018. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2018.

About Free Cash Flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets.

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 FY19 Financial Statements for more information on the impact of these standards on the financial performance and position of the Xero group.