

Investor briefing

Full year results to
31 March 2019



16 May 2019

Made in Metal | Waikato, NZ



Important notice

This presentation is given 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, Xero securities
- 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 2019, 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
- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero's financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed
- includes comparative period results that have been restated to reflect the effect of three new accounting standards. See page 34 for more information

All information in this presentation is current at 31 March 2019, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

See page 35 for a glossary of the key terms used in this presentation.

Agenda

Business update

Steve Vamos
CHIEF EXECUTIVE OFFICER



Financial results

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



Outlook

Q&A

Business update

Steve Vamos

CHIEF EXECUTIVE OFFICER



Sidonie Warren | London

OUR PURPOSE IS

“

Make life better for people in small business, their advisors and communities around the world

OUR MISSION IS

“

Rewire the world of small business, making it seamless, simpler and smarter

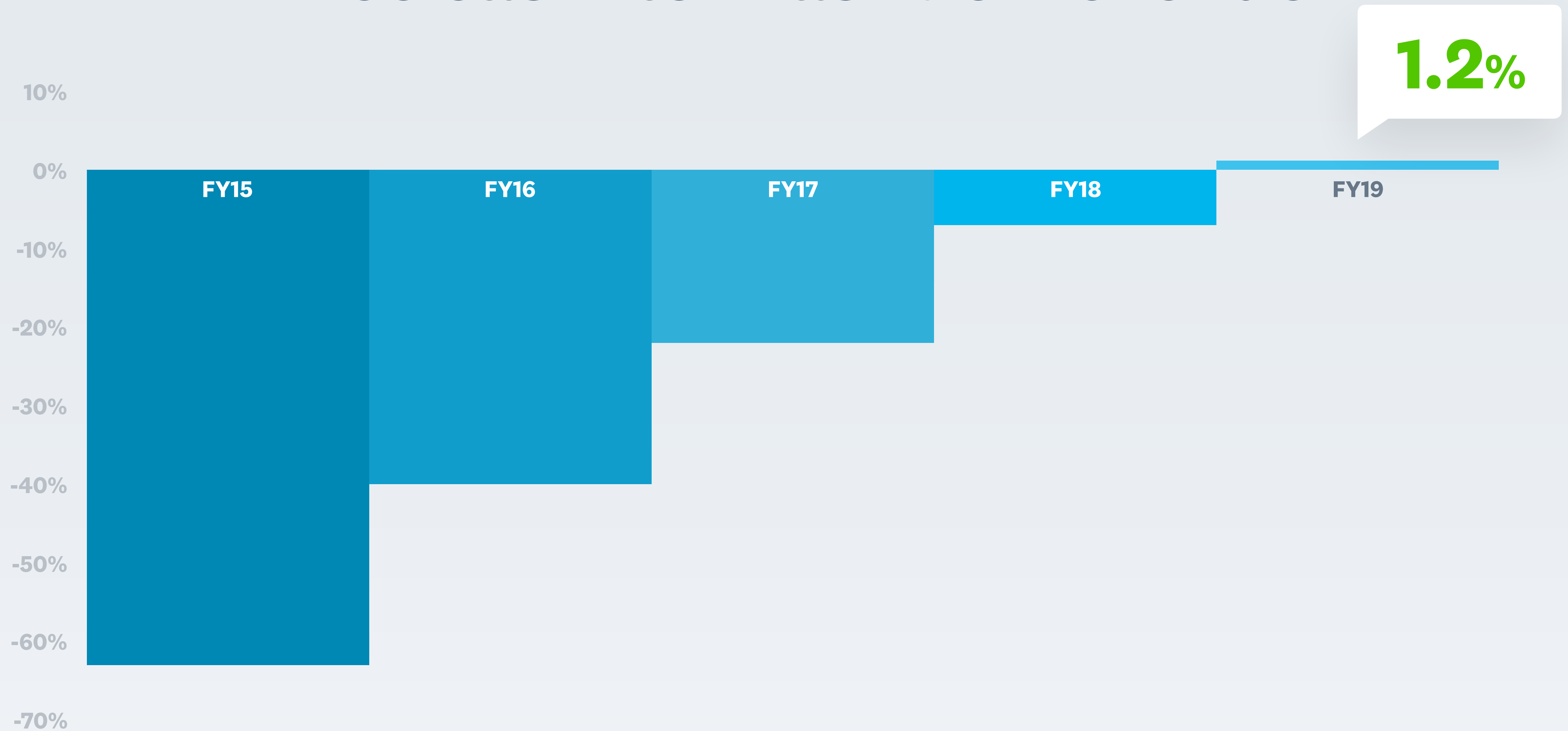
\$638m

Annualised monthly recurring revenue

\$154m
added in 12 months



Free cash flow¹ as % of revenue



¹ See glossary for definition

1,818,000

subscribers

432,000
added in 12 months

Mar 08

Mar 19

Global growth and major cash flow milestone

AMRR

\$638.2m

+ 32% YOY (32% in constant currency¹)

FREE CASH FLOW

\$6.5m

+ \$35.0m YOY

SUBSCRIBERS

1.8m

+ 432,000 YOY

ARPU

\$29.25

+ 0.4% YOY (0.8% in constant currency¹)

OPERATING REVENUE

\$552.8m

+ 36% YOY (34% in constant currency¹)

EBITDA
EXCLUDING IMPAIRMENTS

\$91.8m

+ \$42.0m YOY

¹ See glossary for definition

FY19 Progress

Drive cloud accounting



- On average, 1,000 subscribers joined Xero every day in FY19
- Digitisation of small business compliance driven by:
 - UK: Making Tax Digital
 - Australia: Single Touch Payroll
 - NZ: Payday filing

Grow small business platform



- More than 700 connected apps in the ecosystem, backed by a community of more than 50,000 users of Xero's API developer tools
- Platform revenues increased 128% YOY

Building for global scale and innovation



- Continuing to scale while building capabilities across:
 - Product
 - Technology
 - Strategy and M&A

Xero Leadership Team



Steve Vamos
CHIEF EXECUTIVE OFFICER



Anna Curzon
CHIEF PRODUCT OFFICER



**Kirsty
Godfrey-Billy**
CHIEF FINANCIAL OFFICER



Keri Gohman
CHIEF PLATFORM BUSINESS
OFFICER



Craig Hudson
MANAGING DIRECTOR, NEW
ZEALAND AND PACIFIC ISLANDS



Trent Innes
MANAGING DIRECTOR,
AUSTRALIA AND ASIA



**Rachael
Powell**
CHIEF CUSTOMER, PEOPLE AND
MARKETING OFFICER



Mark Rees
CHIEF TECHNOLOGY OFFICER



Chaman Sidhu
CHIEF LEGAL OFFICER
AND COMPANY SECRETARY



**Damien
Tampling**
CHIEF STRATEGY AND
CORPORATE DEVELOPMENT
OFFICER



Gary Turner
MANAGING DIRECTOR,
UNITED KINGDOM AND EMEA



Tony Ward
PRESIDENT, AMERICAS

Australia and New Zealand

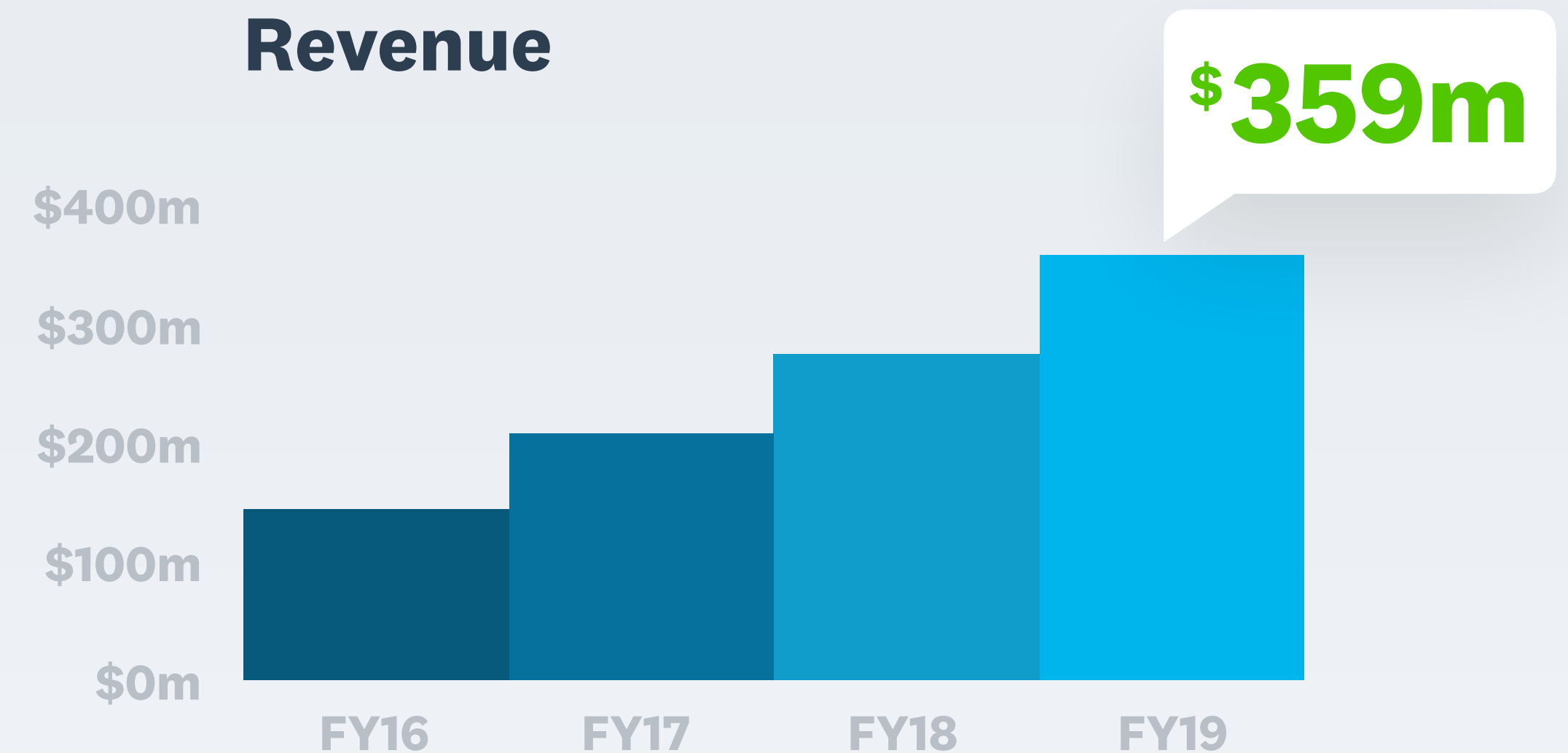
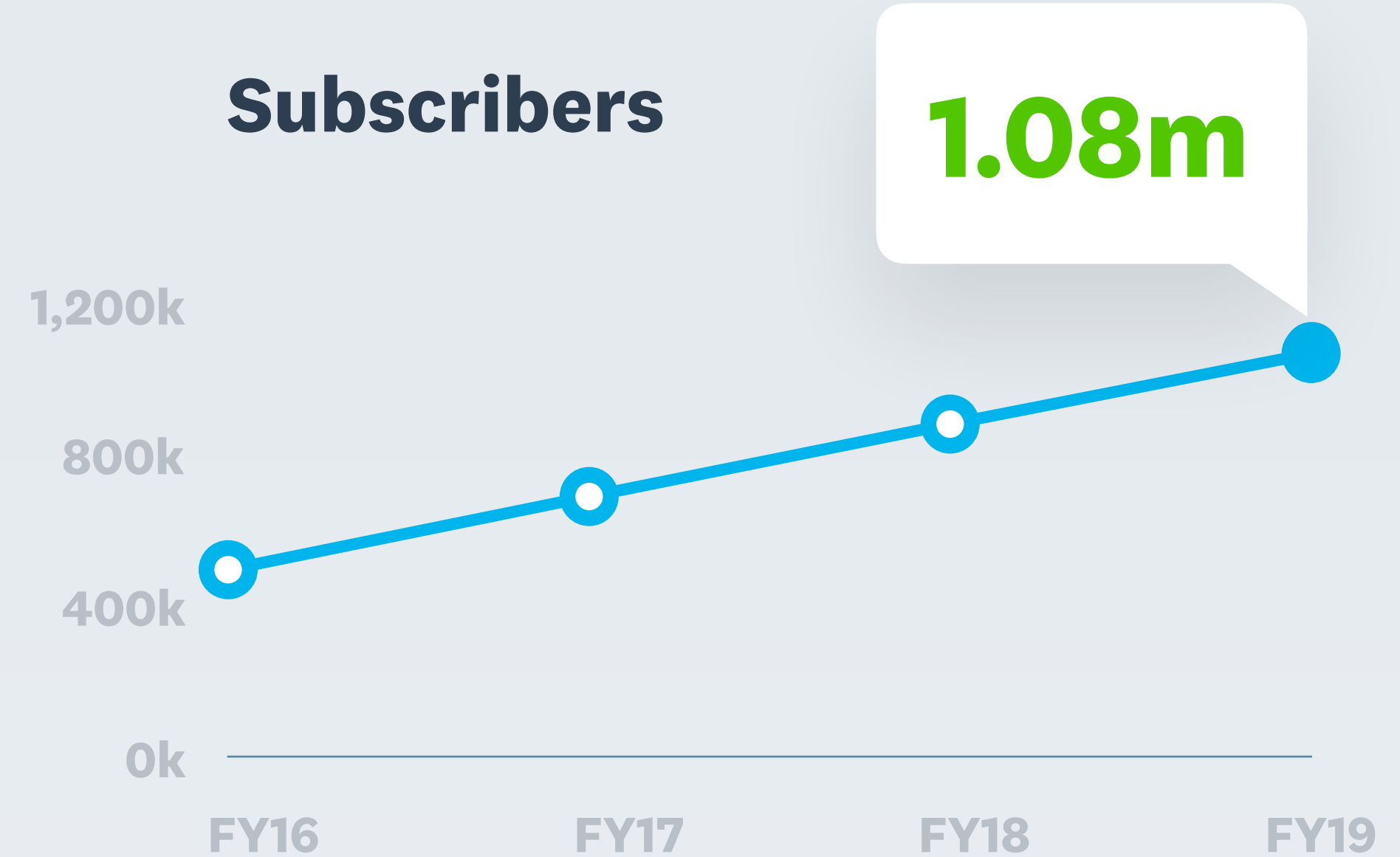
Australia

- 25% subscriber growth YOY to 726,000 subscribers. Revenue growth of 33% YOY (33% constant currency)
- Single Touch Payroll legislation introduced, extending coverage to all employers from July 2019. Accelerated digitisation of payroll expected to drive further cloud accounting adoption

New Zealand

- 17% subscriber growth YOY to 351,000 subscribers. Revenue growth of 24% YOY
- Launched Hubdoc into NZ market, complementing existing emphasis on platform products and deeper customer relationships

First cloud accounting business to exceed one million subscribers in ANZ



United Kingdom

Subscriber growth of 48% YOY to 463,000. New record net subscriber additions over six and 12 month periods (108,000 in H2 2019 and 151,000 in FY19). FY19 performance underpinned by strategic positioning and investment ahead of HMRC's 1 April 2019 Making Tax Digital deadline

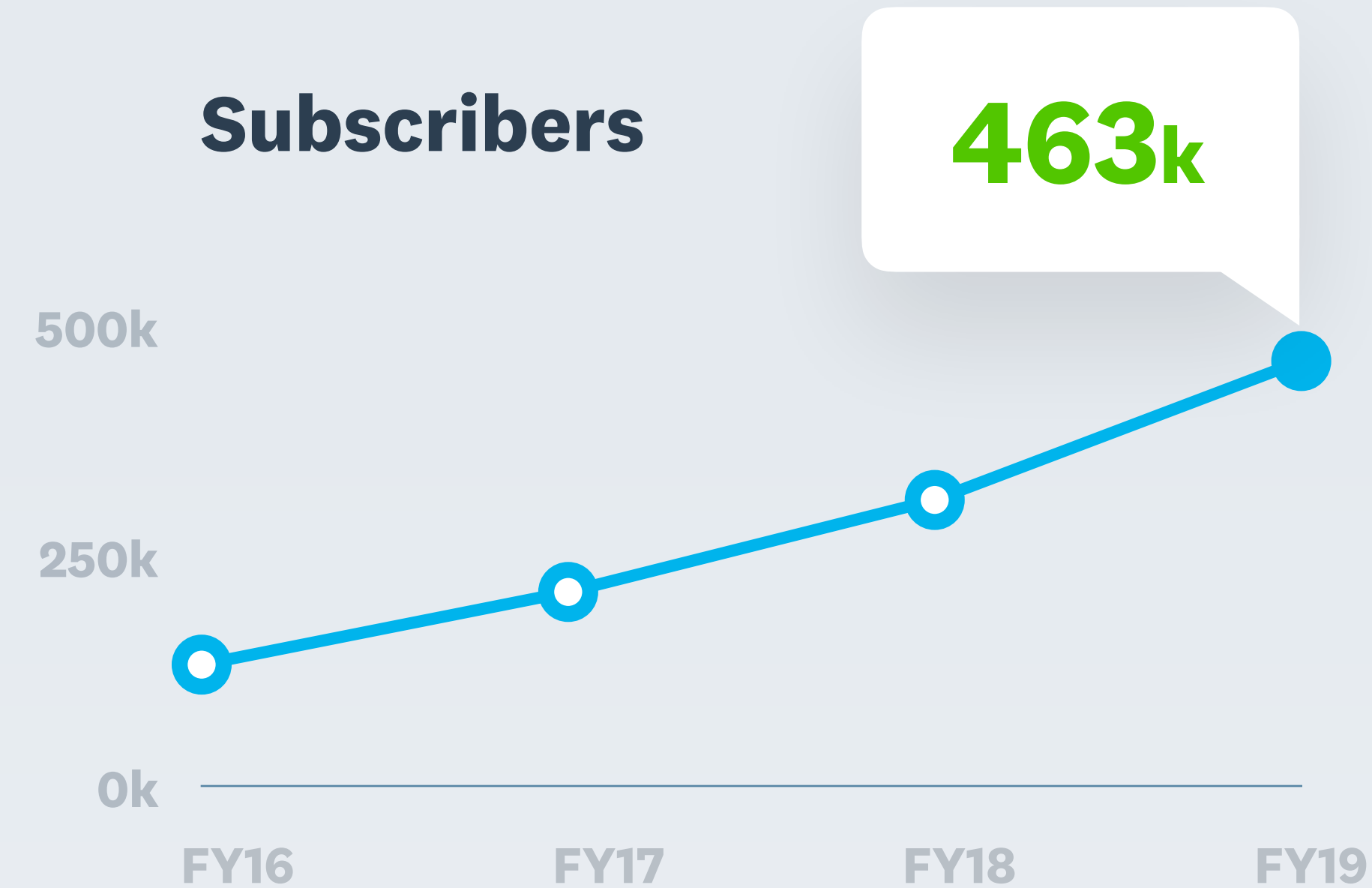
46% YOY AMRR growth (48% constant currency) driven by accelerated subscriber additions and stable ARPU trends. Revenue growth of 50% YOY (45% constant currency)

Attendance at Xerocon London in November 2018 increased by more than 50% to over 3,000

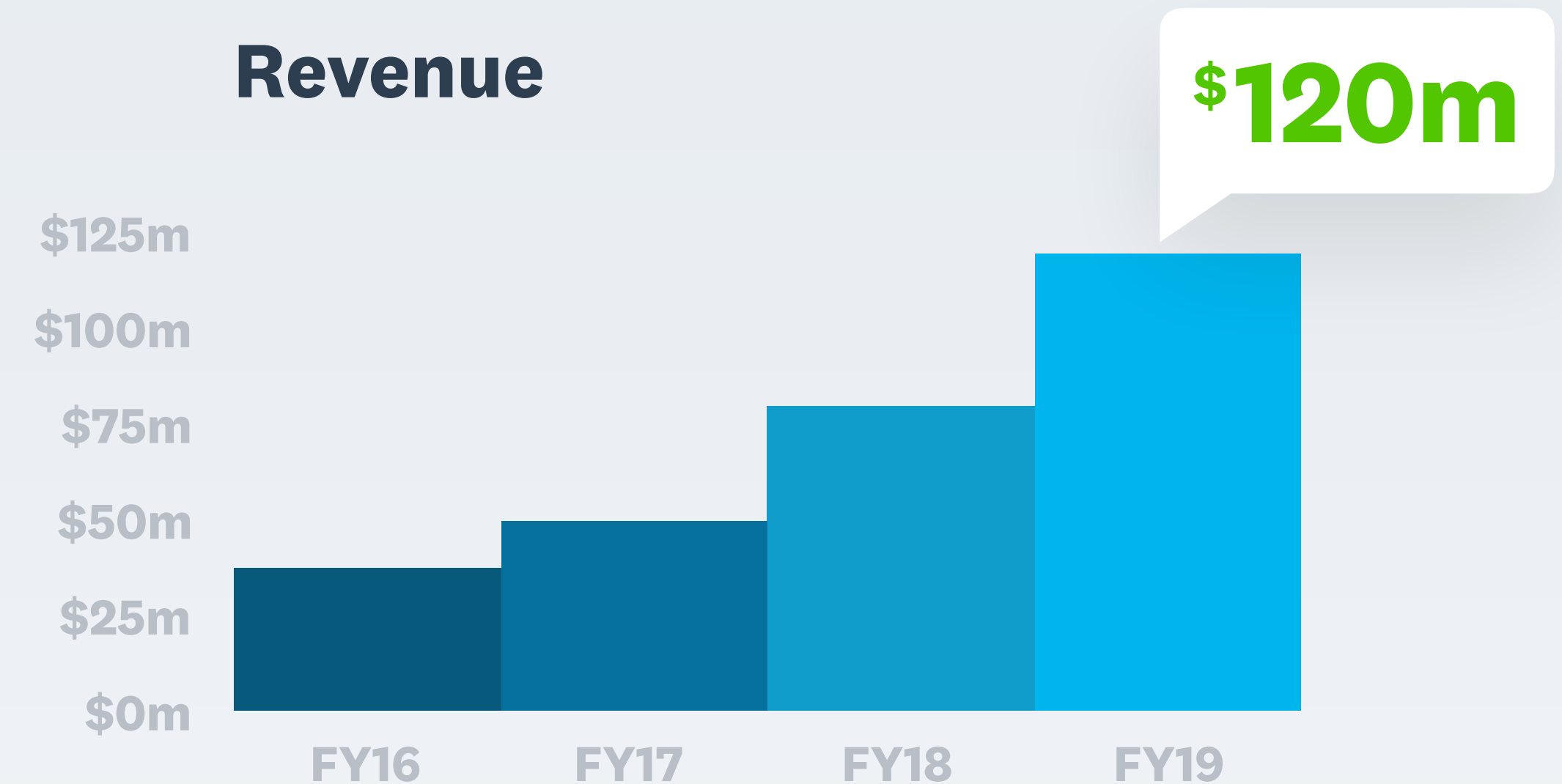
Instafyle acquisition completes Xero's UK tax compliance stack, helping to drive partner market penetration in the same way as in ANZ

Finweb partnerships announced with innovative neo-bank and fintechs including Starling, Tide and Transferwise

Subscribers



Revenue



North America

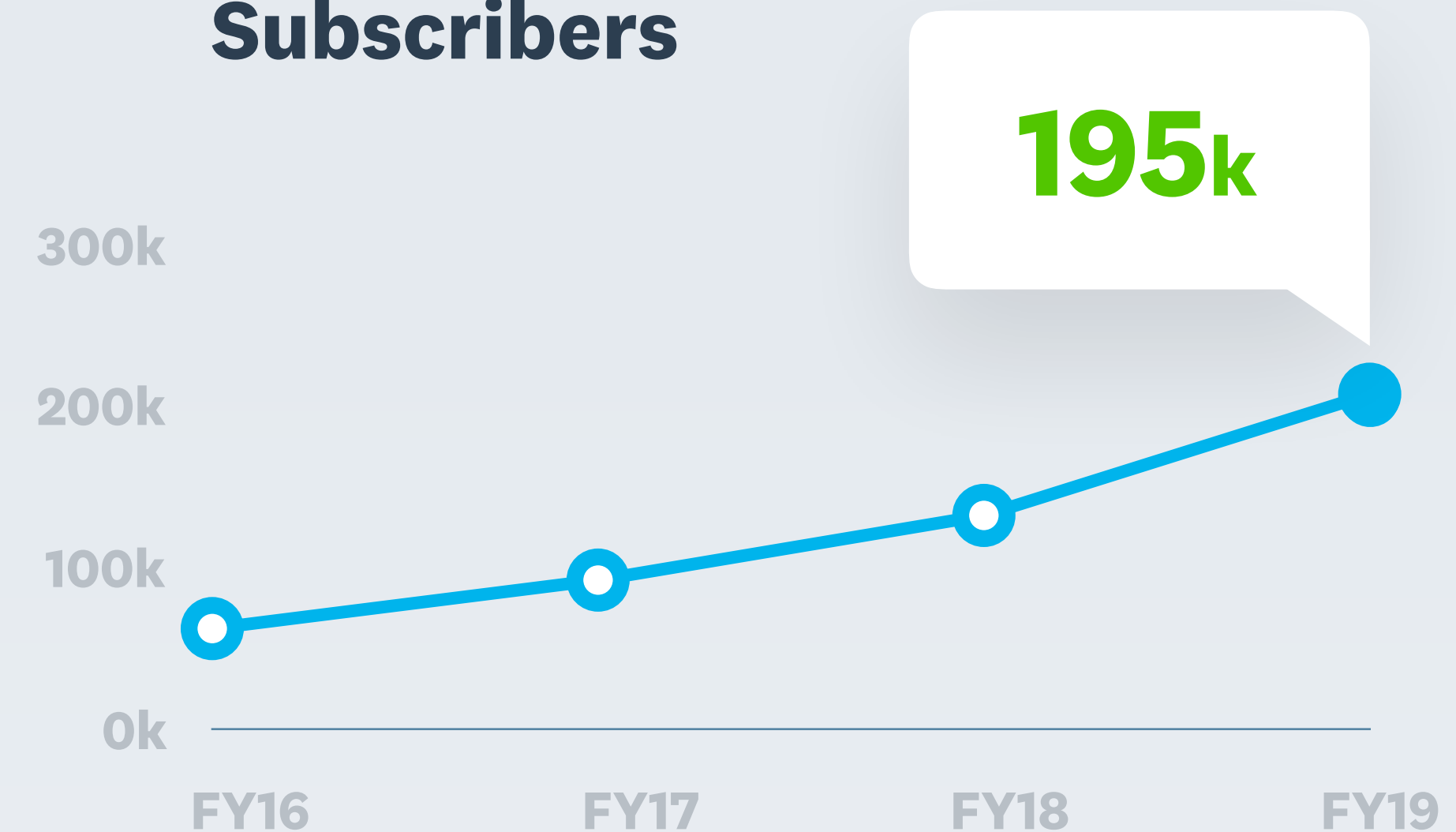
48% subscriber growth YOY to 195,000 subscribers. Revenue growth of 39% YOY (33% constant currency). 33% subscriber growth YOY excluding Hubdoc acquisition

Community-focused partner strategy continues to show promise with strong uplift in partner channel capacity, which now exceeds one million small businesses. In addition, we signed agreements with Chase, Citi and BBVA Compass during the year

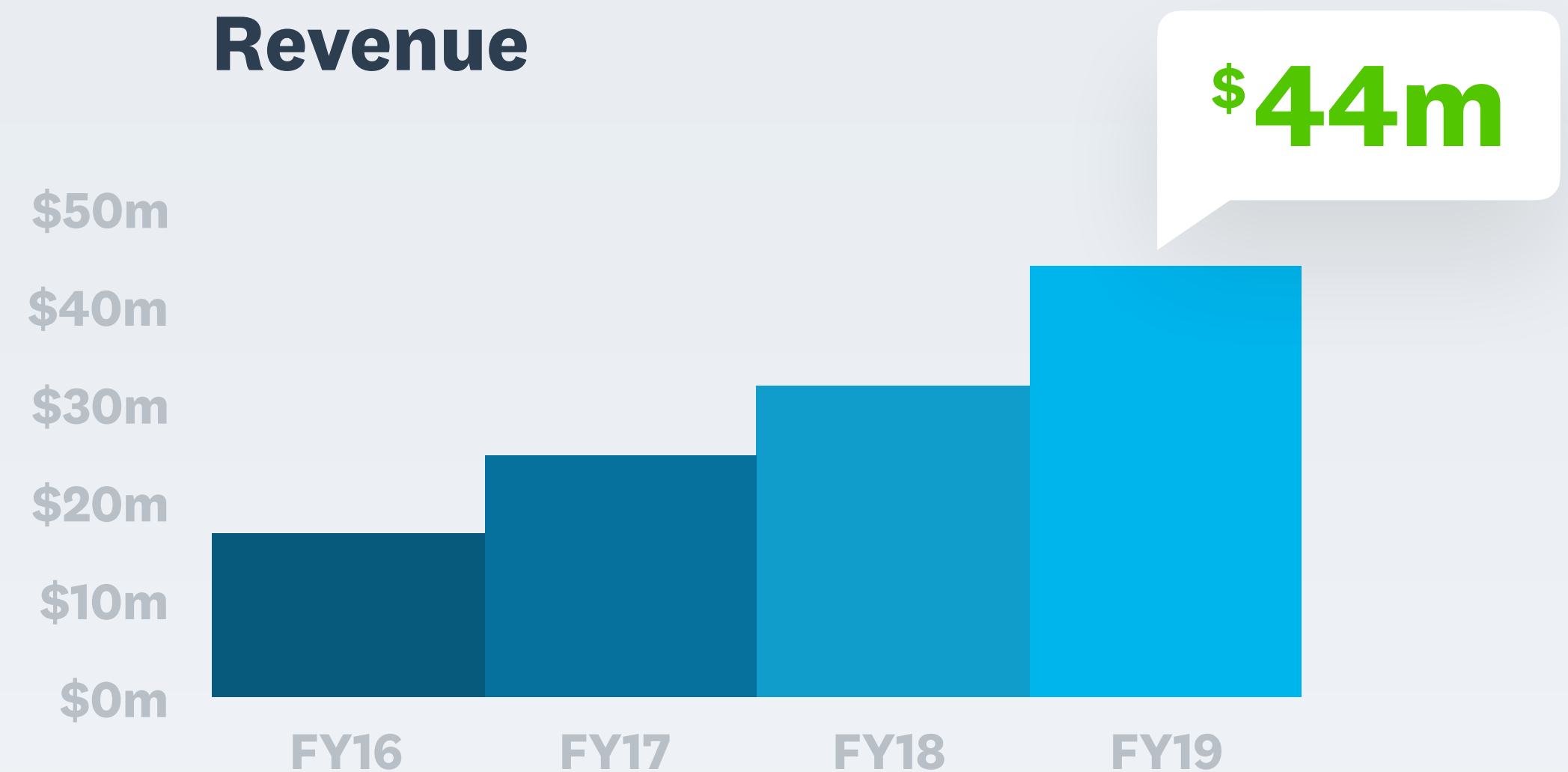
In Canada, launch partner on CIBC's SmartBanking for Business platform. Local accounting partner presence boosted by agreements with mid and large size accounting firms

Exploring vertical strategies with initial focus on agriculture, offering tight integration of Xero with lending and tailored app partner technology

Subscribers



Revenue



Rest of world

43% subscriber growth YOY to 83,000 subscribers.
Revenue growth of 55% YOY (48% constant
currency)

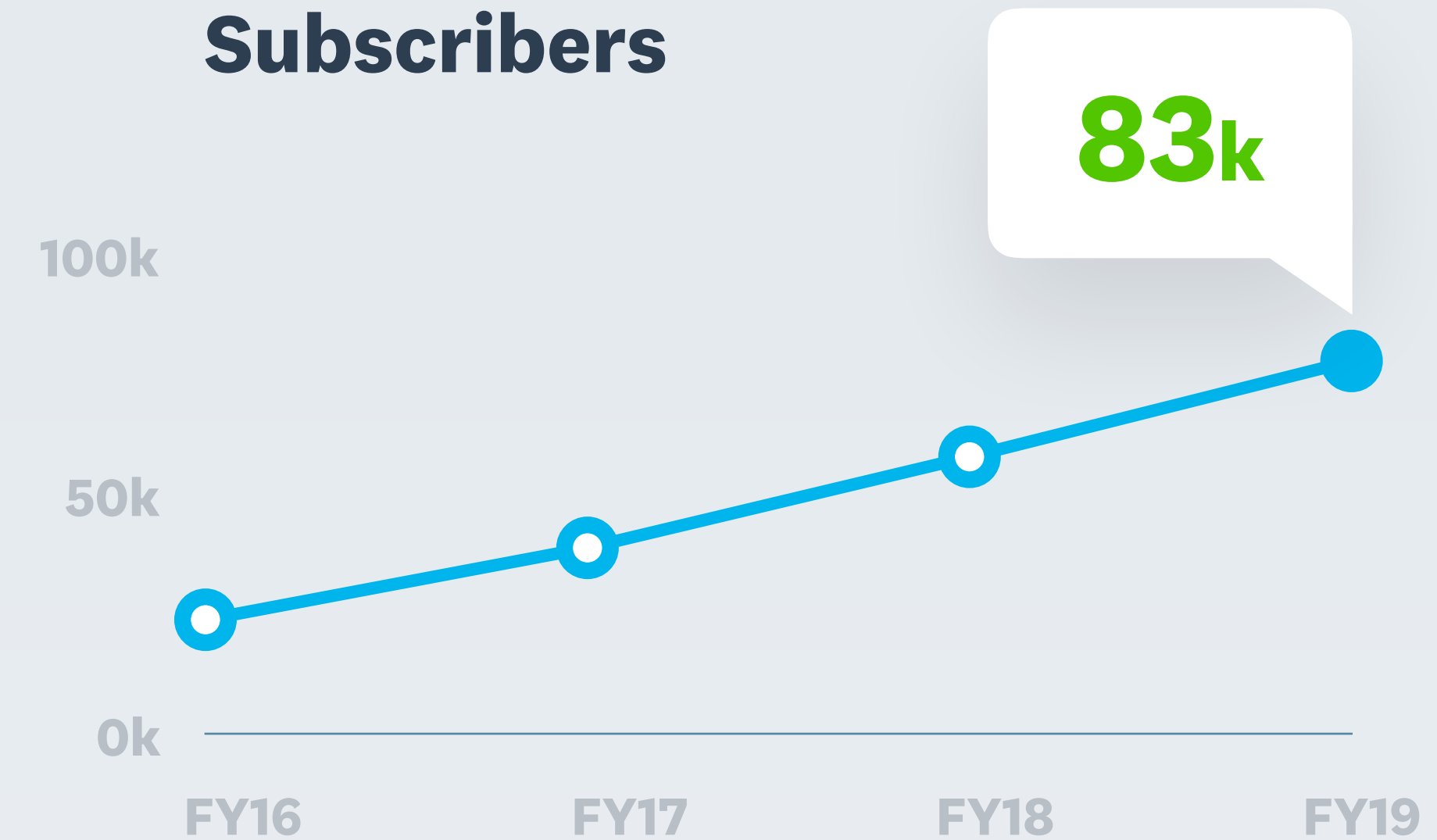
Asia

- Enhanced partnerships with DBS and OCBC, two of Singapore's largest banks
- Announced payment service API integration with NETS, a major electronic payment service provider in Singapore
- Bank feed integration announced with Neat, a leading neo bank in Hong Kong

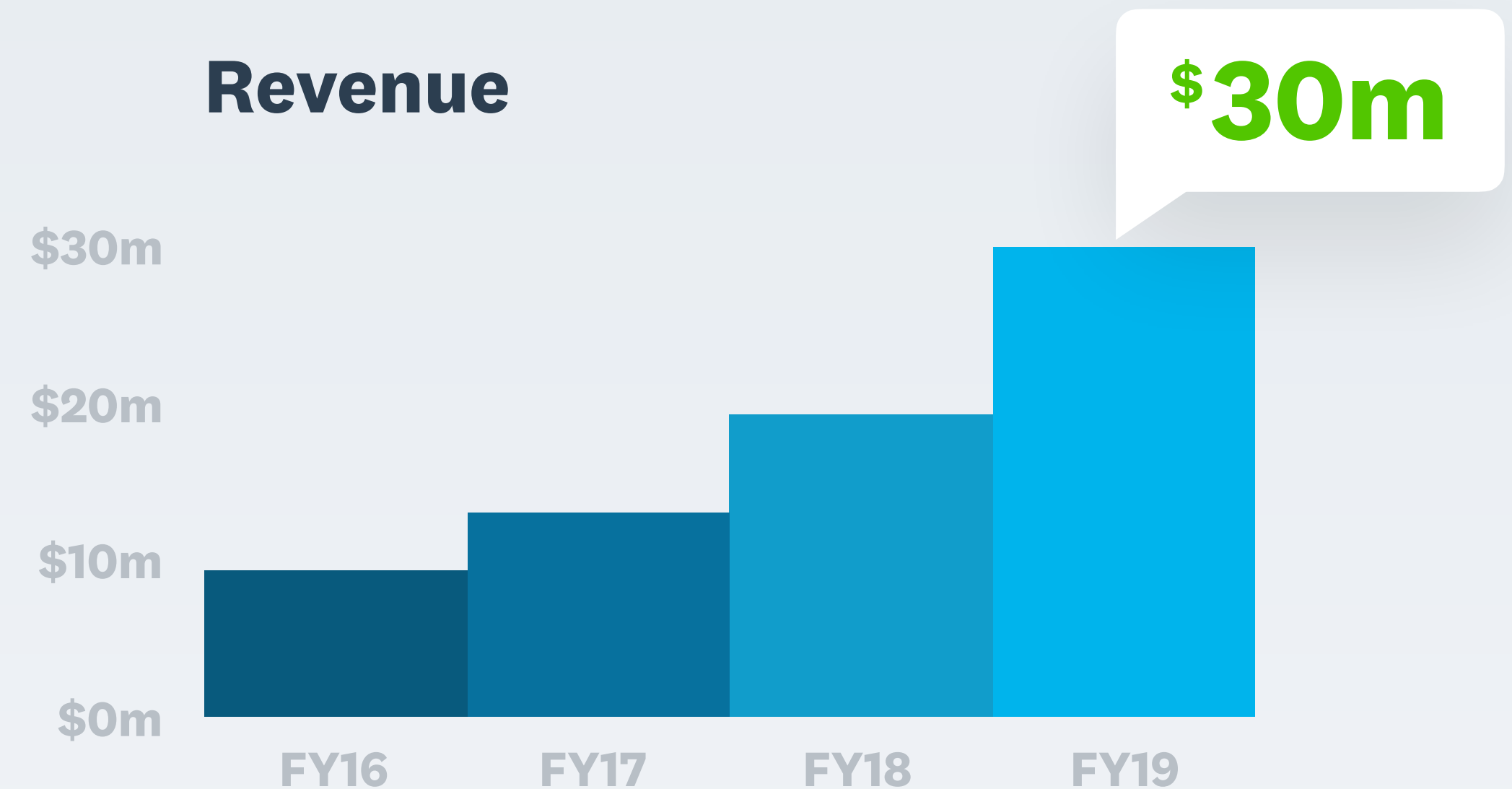
South Africa

- Bank feeds announced with ABSA, one of South Africa's largest banks

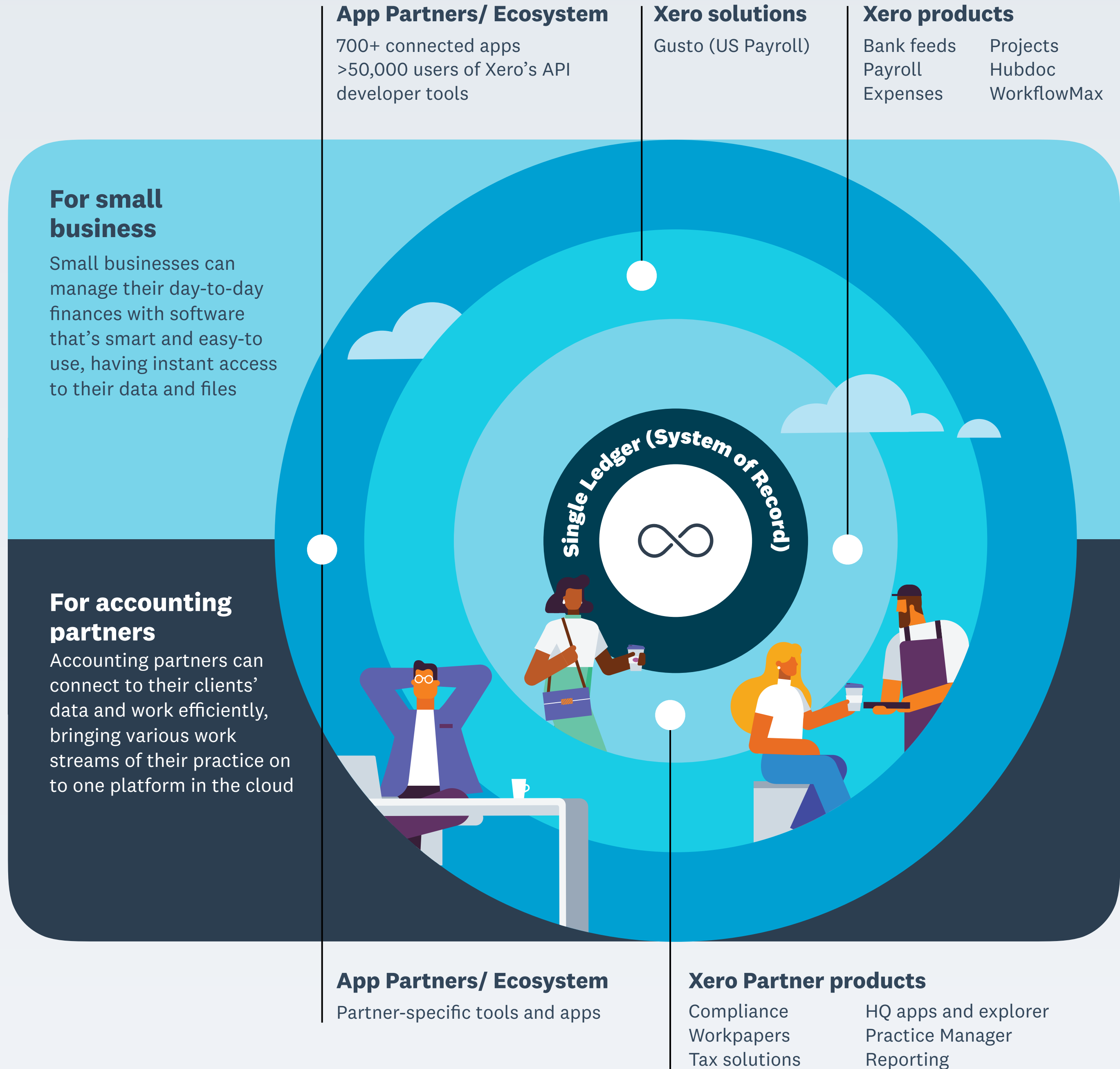
Subscribers



Revenue

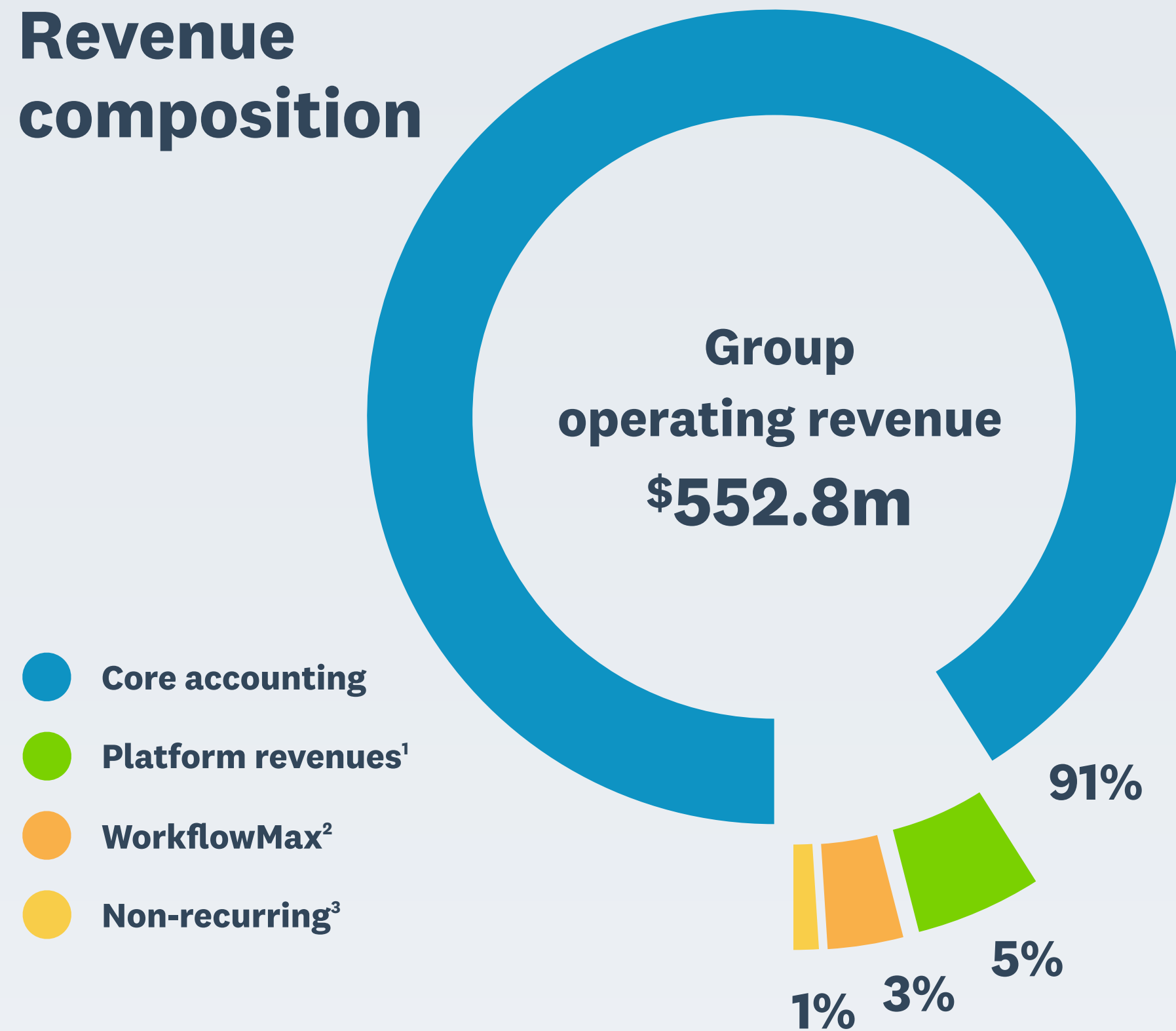


Xero platform

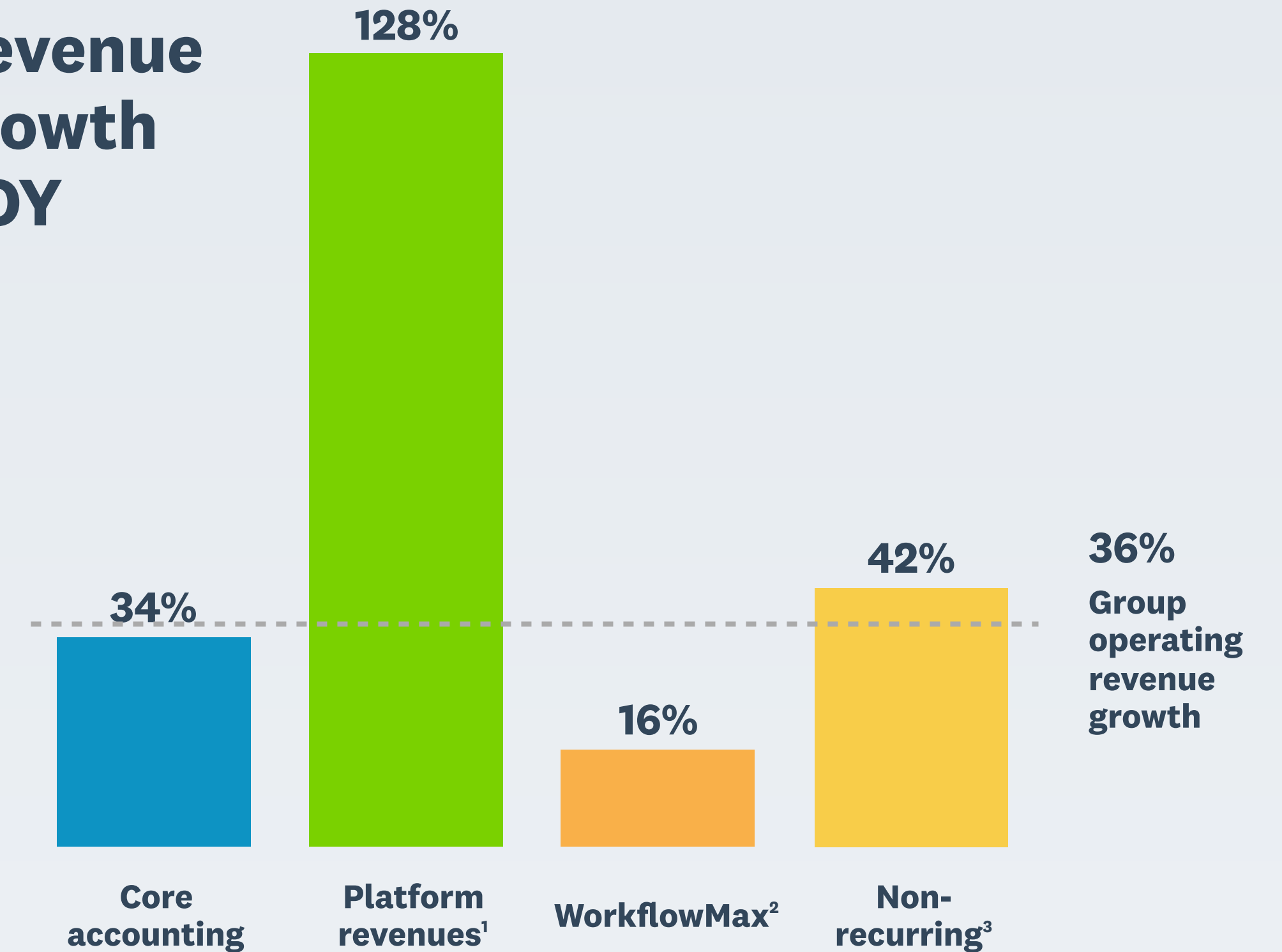


Growing the small business platform

Revenue composition



Revenue growth YOY



¹ Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), 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

Strategic initiatives

Acquisitions

Hubdoc is a leading data capture service that drives significant productivity improvement for both partners and small business owners

Instafile is a tax filing and compliance tool that completes our UK compliance stack and enhances readiness for Making Tax Digital

Innovative capital raise

US\$300m convertible notes offer demonstrates investor confidence in the business. Funds raised provide flexibility to execute acquisitions and investments that extend and enhance Xero's small business platform and ecosystem



Financial results

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

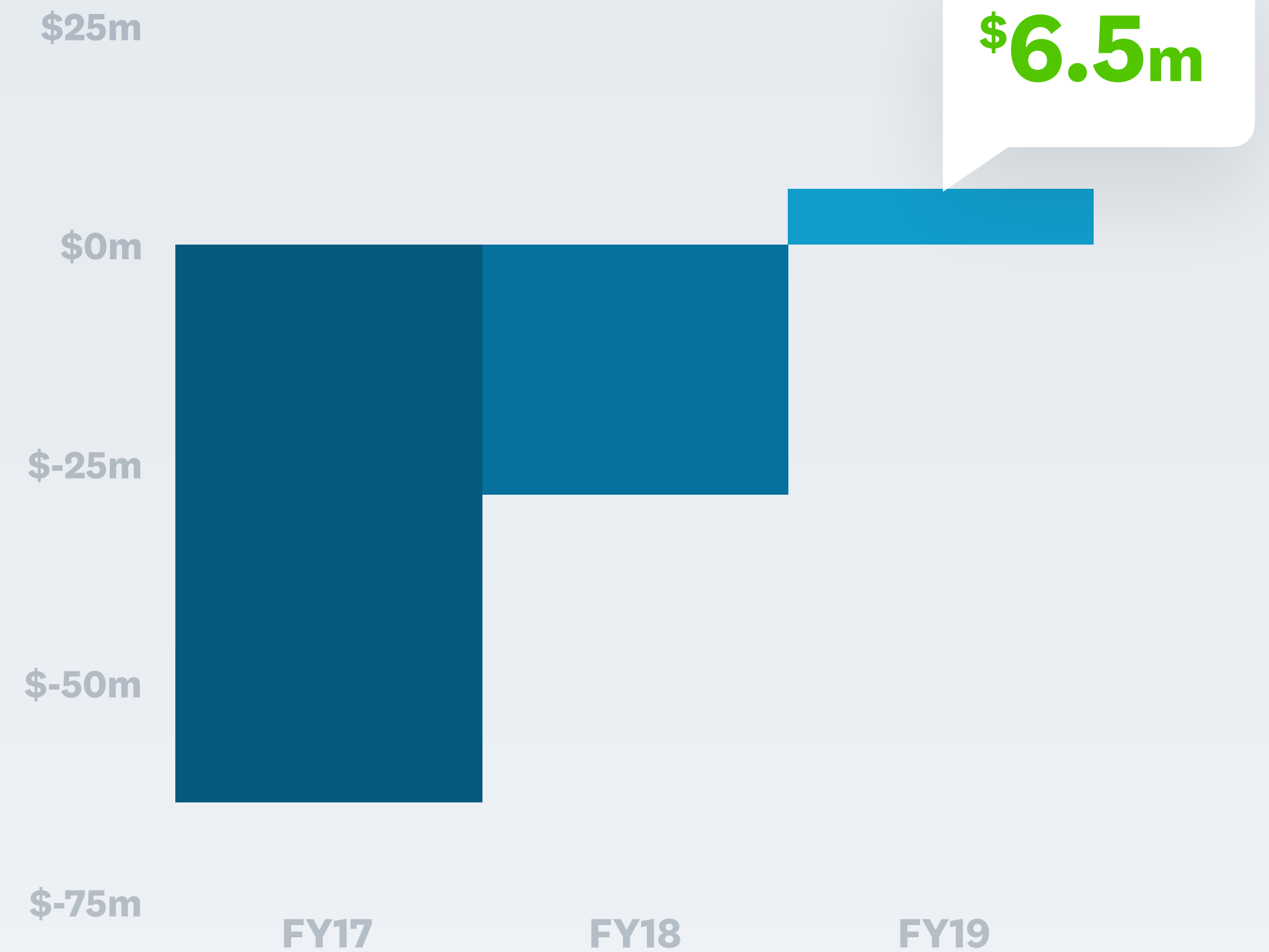


Strong top-line momentum with significant free cash flow milestone

Annualised monthly recurring revenue



Free cash flow

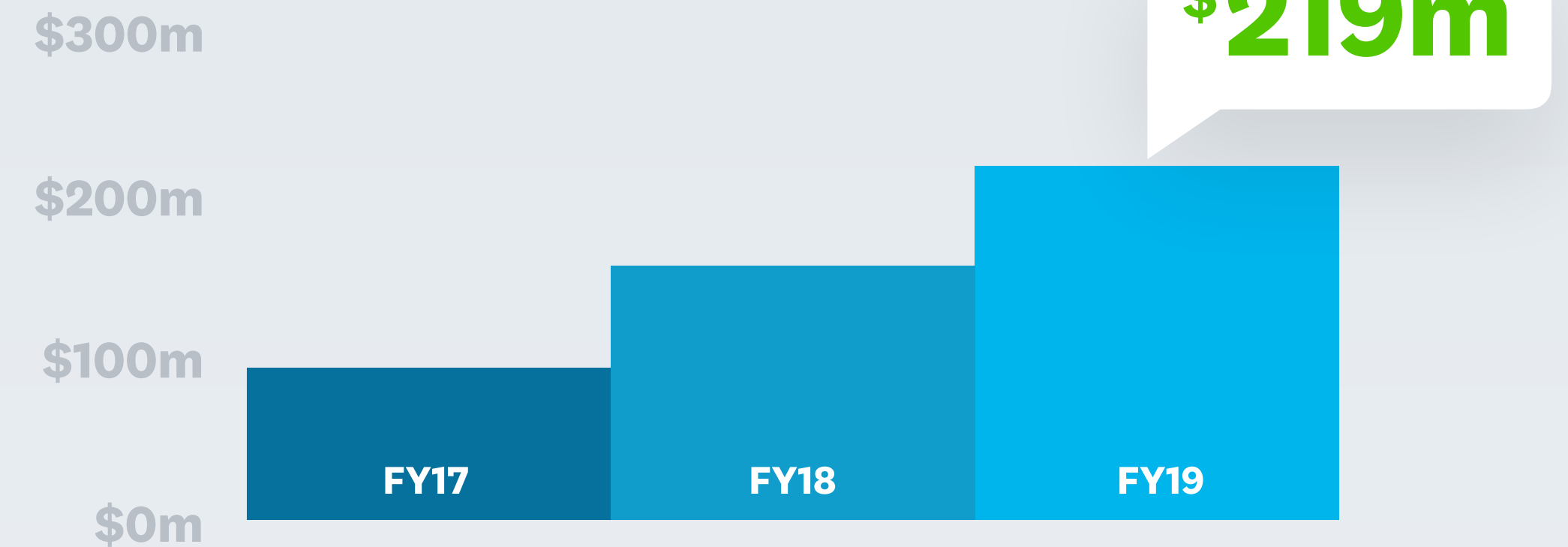


Contribution margins driven by further scaling

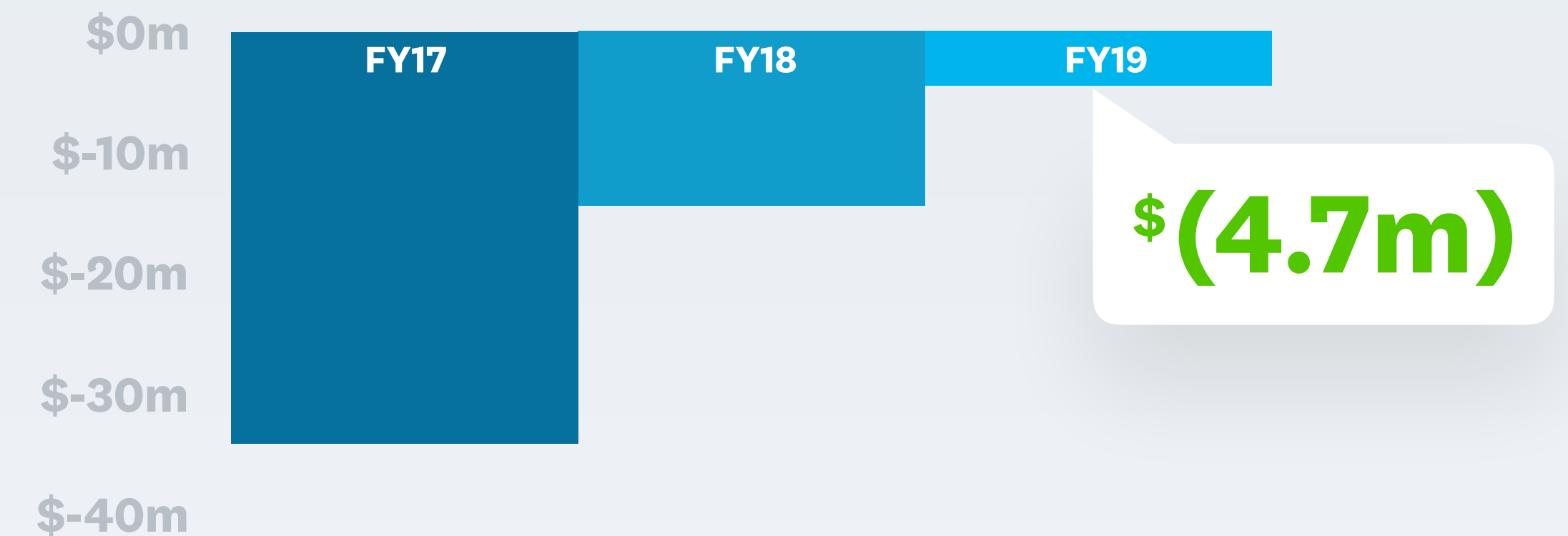
Australia and New Zealand contribution improved 39% YOY, exceeding revenue trends and highlighting continuing efficiencies and operating leverage

International contribution loss improved on further scaling and efficiencies but remained negative due to continuing preference for growth investment to drive strong subscriber additions

Australia and New Zealand contribution



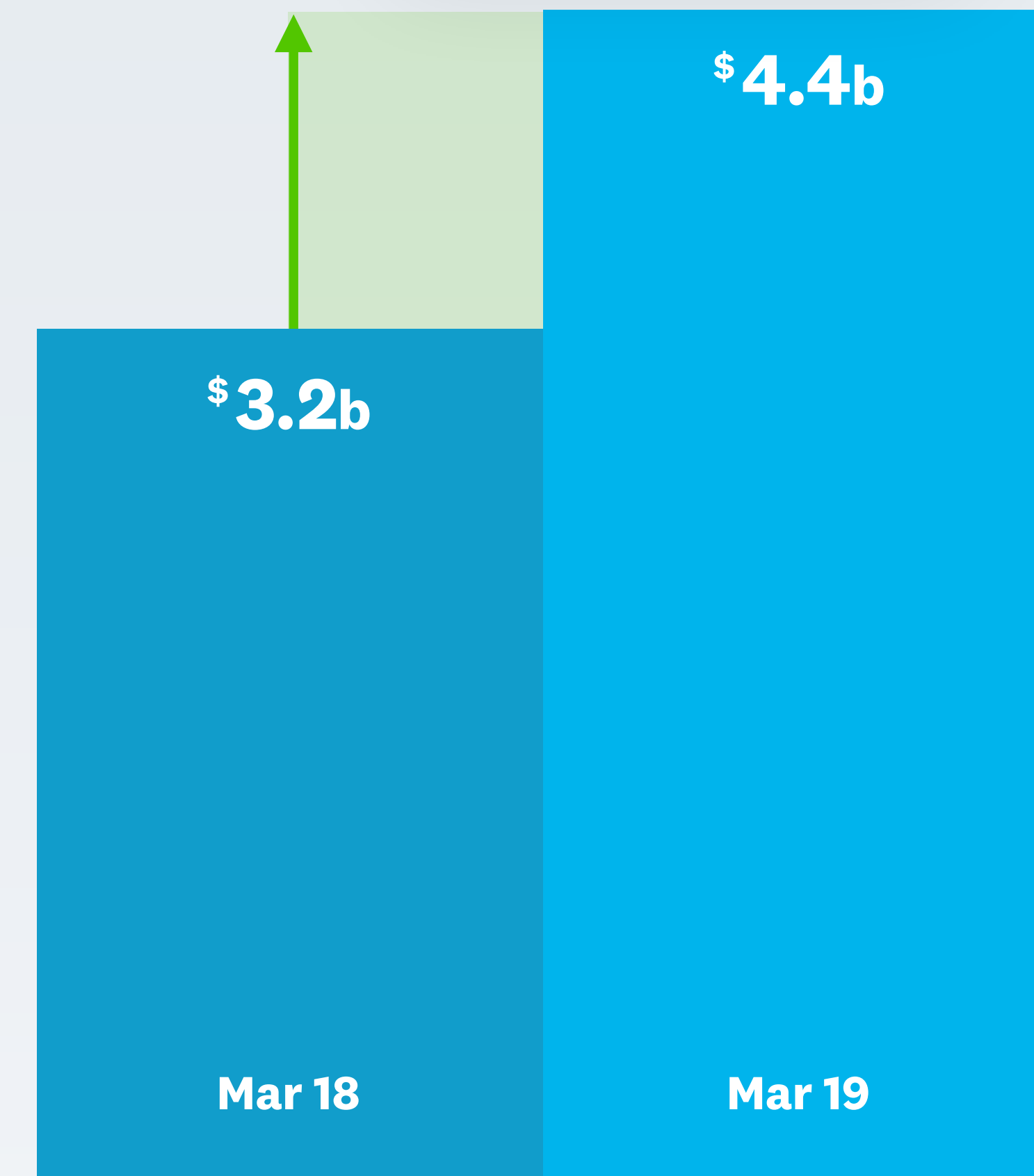
International segment contribution



Positive LTV trends with strong subscriber growth

Total subscriber lifetime value (LTV)

> \$1.1b
added in 12 months



	March 2019	Progress from March 2018
ARPU	\$29.25	↑
Churn %	1.1%	—
Gross margin	84%	↑
LTV per subscriber	\$2,398	+4% ¹

¹ Constant currency based on FX rates 31 March 2018. 3% increase in nominal terms

Financial performance

Operating revenue growth of 36% YOY (34% constant currency) driven primarily by subscriber growth in all markets with Australia and New Zealand segment growth of 30% and international segment growth of 48%

Positive ARPU contribution to both AMRR and operating revenue

EBITDA improved by 52% YOY, despite \$18.6 million of impairments. Excluding impairments and non-cash share-based payments, EBITDA climbed 81% YOY as the business continues to extend its track-record of scale and efficiency improvements

Reported net loss for FY19 also impacted by impairments in addition to higher finance costs but 2H FY19 saw a first time net profit of \$1.4 million

	FY18 (\$000s)	FY19 (\$000s)	YOY change (%)
Total operating revenue	406,659	552,819	36%
Gross profit	331,310	461,904	39%
Gross margin	81.5%	83.6%	+2.1pp
EBITDA	48,197	73,171	52%
EBITDA margin	11.9%	13.2%	+1.3pp
Net loss after tax	(24,914)	(27,143)	9%
Net loss after tax excl. impairments	(23,364)	(8,539)	-63%
EBITDA excl. SBP ¹ and impairments	66,751	120,721	81%
EBITDA margin excl. SBP¹ and impairments	16.4%	21.8%	+5.4pp

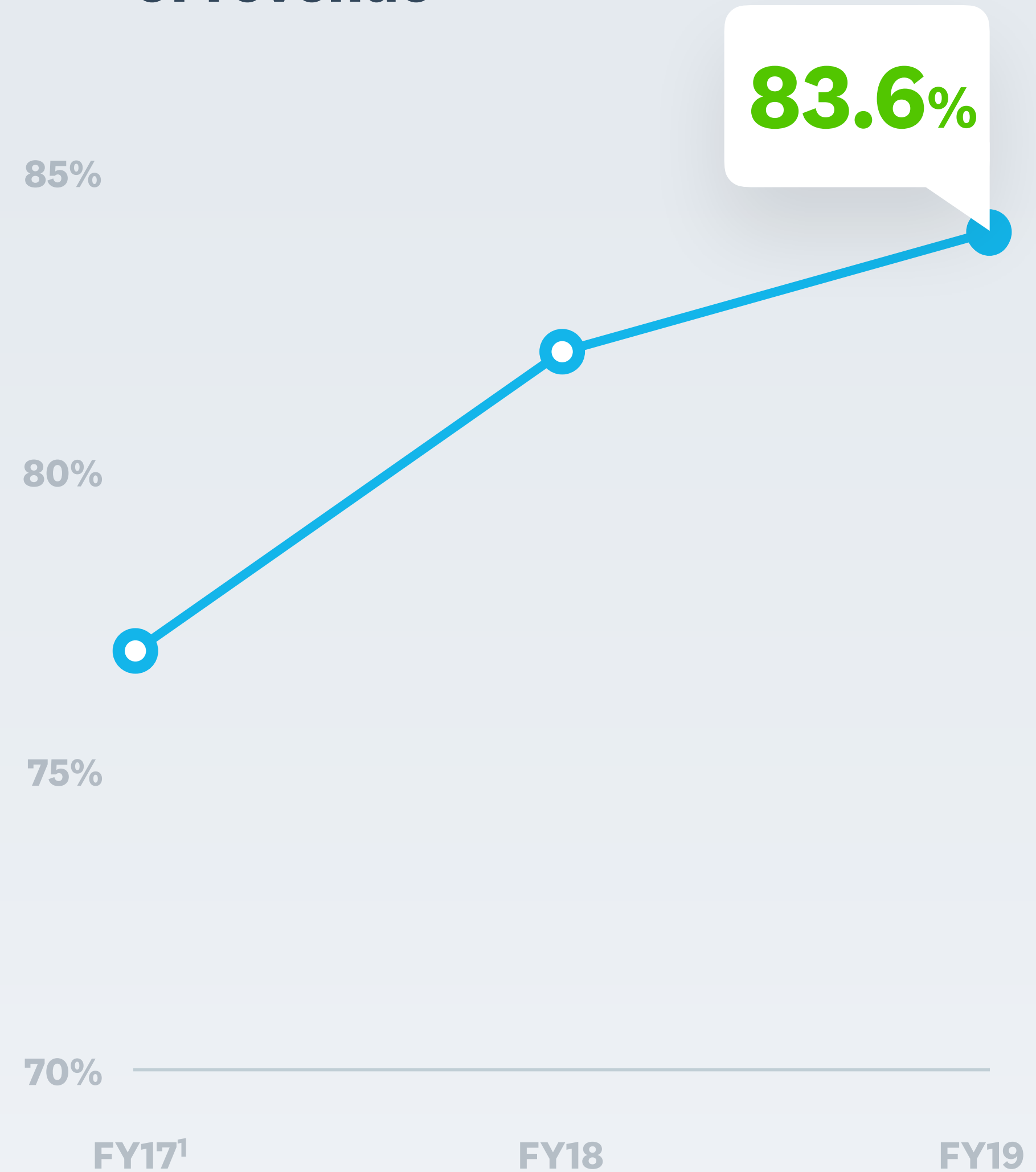
¹ SBP is a non-cash cost to Xero

Continued gross margin improvement

Gross margin of 83.6% for FY19, +2.1pp over prior year with positive gross margin trends across both Australia and New Zealand and International segments

Gross margin improvement powered by incremental cloud hosting cost efficiencies combined with launch of Xero Central which utilises machine learning to drive further improved customer service quality at a lower cost

Gross profit as percentage of revenue



¹ Includes duplicated costs due to transition to AWS

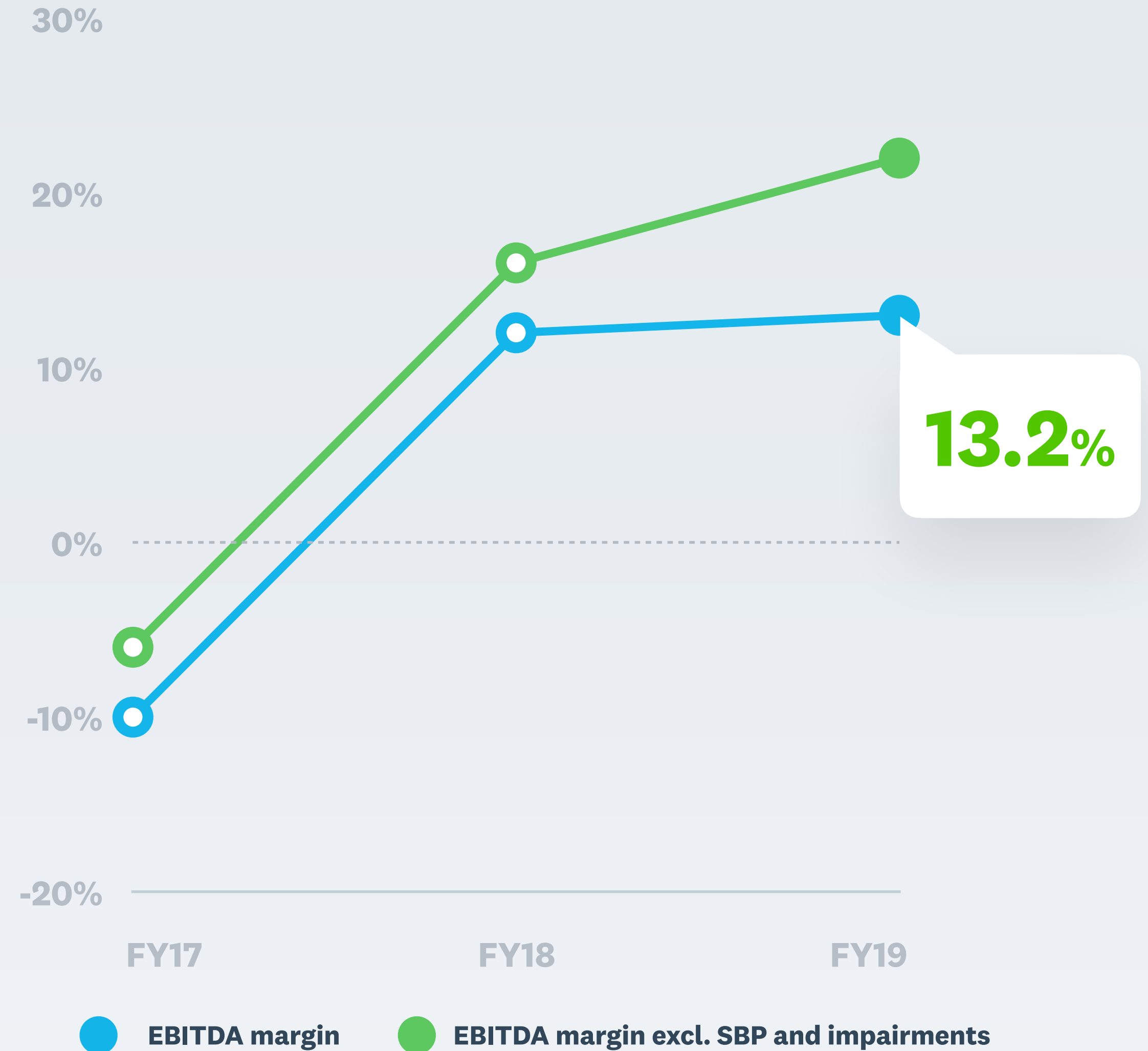
Positive EBITDA momentum

Continued EBITDA momentum over FY19

EBITDA margin improved modestly due to \$18.6m of impairment costs, relating to costs associated with our change in US payroll strategy and acquisition related costs of \$1.3 million, relating to the acquisitions of Hubdoc and Instafle

EBITDA excluding SBP and impairment costs increased by \$54.0m to \$120.7m, 81% YOY, in FY19

EBITDA margin



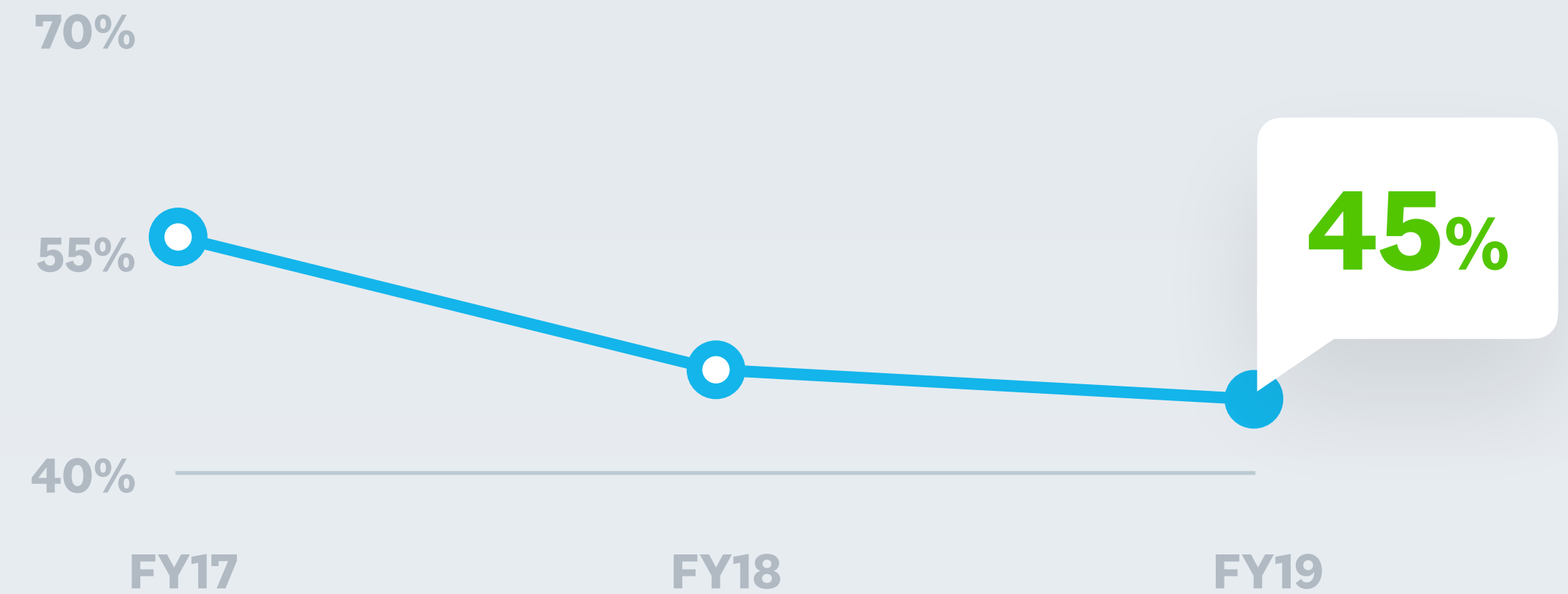
Continued drive for CAC and product efficiency

Sales and marketing costs increased at the same rate as the 31% growth seen in subscribers in FY19. Offsetting efficiencies saw a 2pp improvement YOY in CAC as percentage of revenue

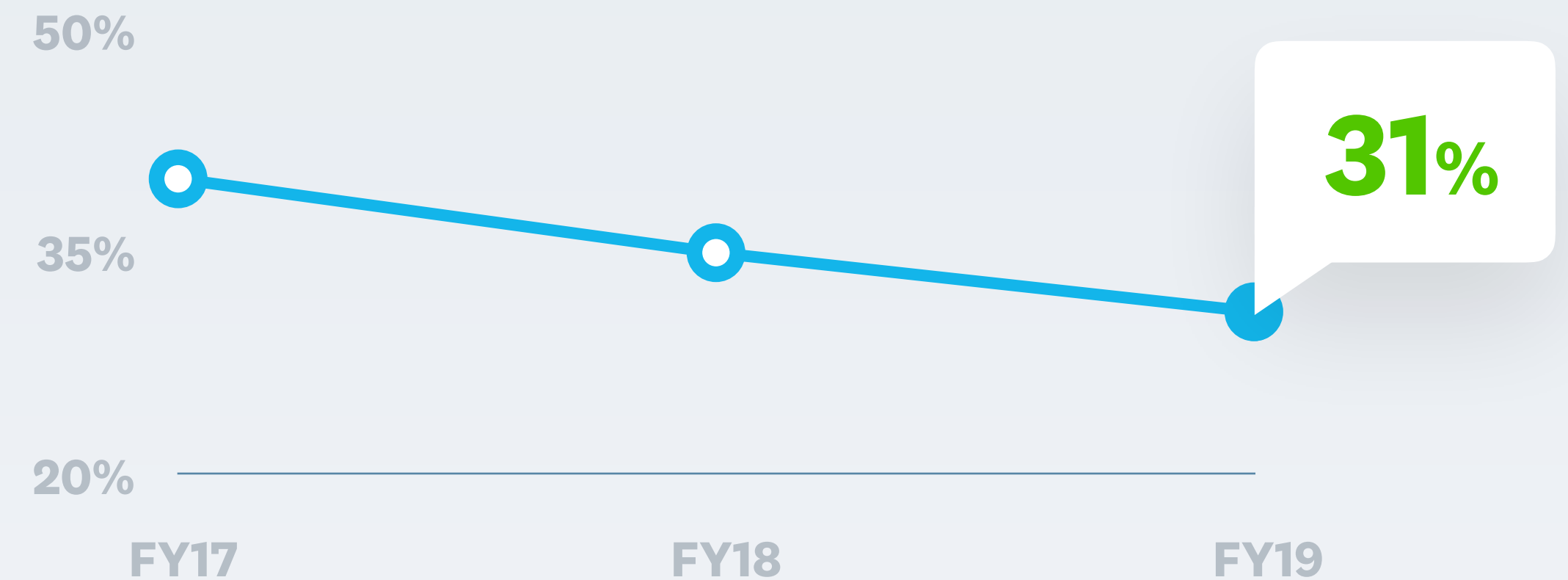
Product investment spend grew 22% YOY supporting a range of new global features and more specific functionality to support areas of strategic focus such as Making Tax Digital in the UK and Single Touch Payroll in Australia

Scale benefits continued to emerge with product costs including opex and capex, as a percentage of revenue, improving by 4pp YOY to 31% FY19

CAC as % of revenue



Product costs including opex and capex as % of revenue¹



¹ Net of government grants

First positive free cash flow result

Significant milestone passed with first positive free cash flow result in FY19 of \$6.5m, equivalent to 1.2% of FY19 operating revenues

Operating cash flow of \$114.2m for FY19, was an improvement of \$53.0m from \$61.2m in FY18

Net cash position at 31 March 2019 was \$100.6m (comprising cash and short-term deposits less term debt) compared to \$80.0m at 31 March 2018

Movement in net cash position

	FY18 (\$000s)	FY19 (\$000s)	YOY change (\$000s)
Cash and cash equivalents	20,955	121,527	100,572
Short-term deposits	59,000	336,819	277,819
Total cash and short-term deposits	79,955	458,346	378,391
Convertible notes – term debt liability	–	(357,731)	(357,731)
Net cash	79,955	100,615	20,660

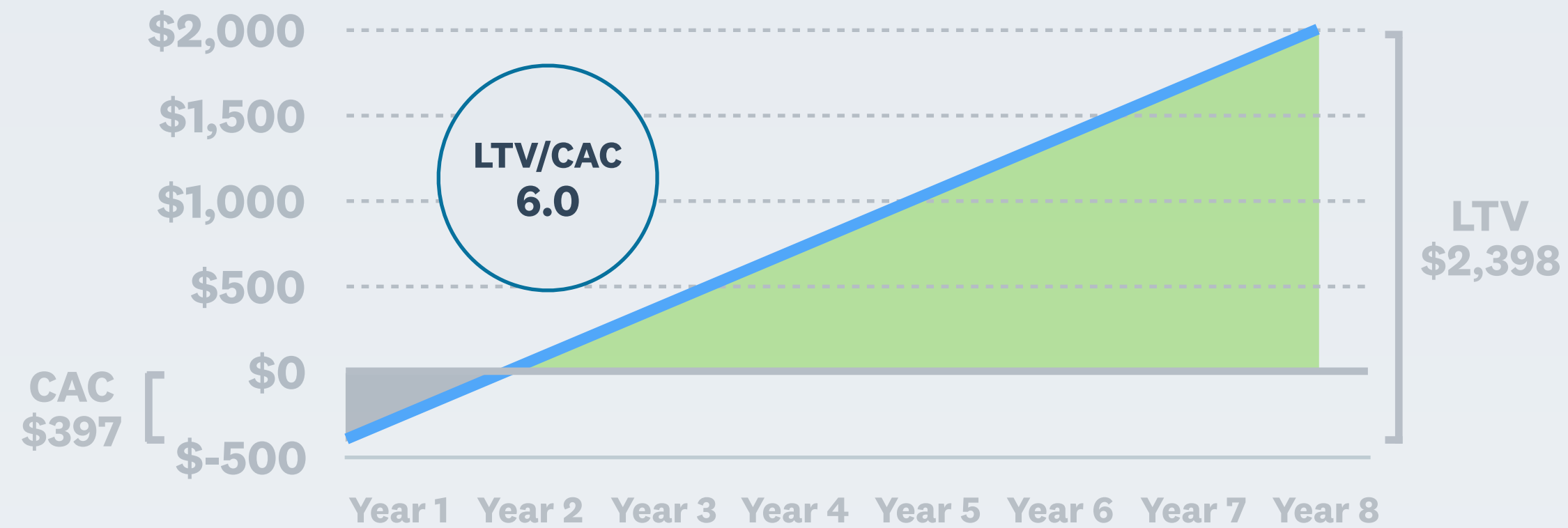
Outlook



Lune | Melbourne

Unit economics and track record of value creation

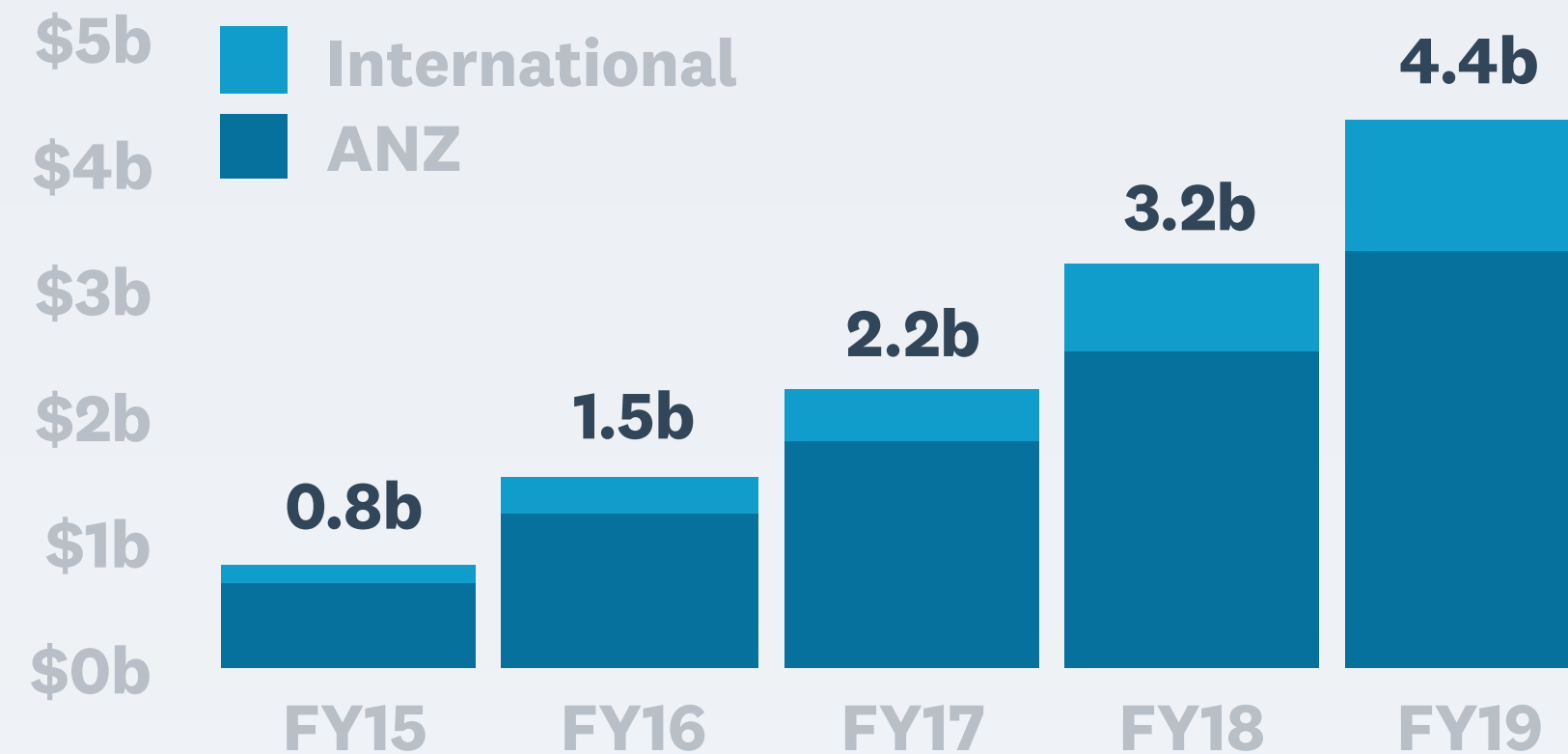
Value of a Xero subscriber



Compelling SAAS unit economics

CAC months 13.6
MRR churn 1.10%
LTV/CAC 6.0
LTV \$2,398

Total lifetime value



Strong track record of value creation

>\$1.1 billion in LTV added in FY19
LTV doubled in last two years
ANZ: FY15-19 LTV CAGR 48%
International: FY15-19 CAGR 65%

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 flow¹ 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

¹ 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



Q&A



Starward | Melbourne

Appendix



New accounting standards

Xero adopted three new accounting standards from 1 April 2018

Prior year comparatives have been restated with the impact on restated net loss and EBITDA outlined on the next page

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

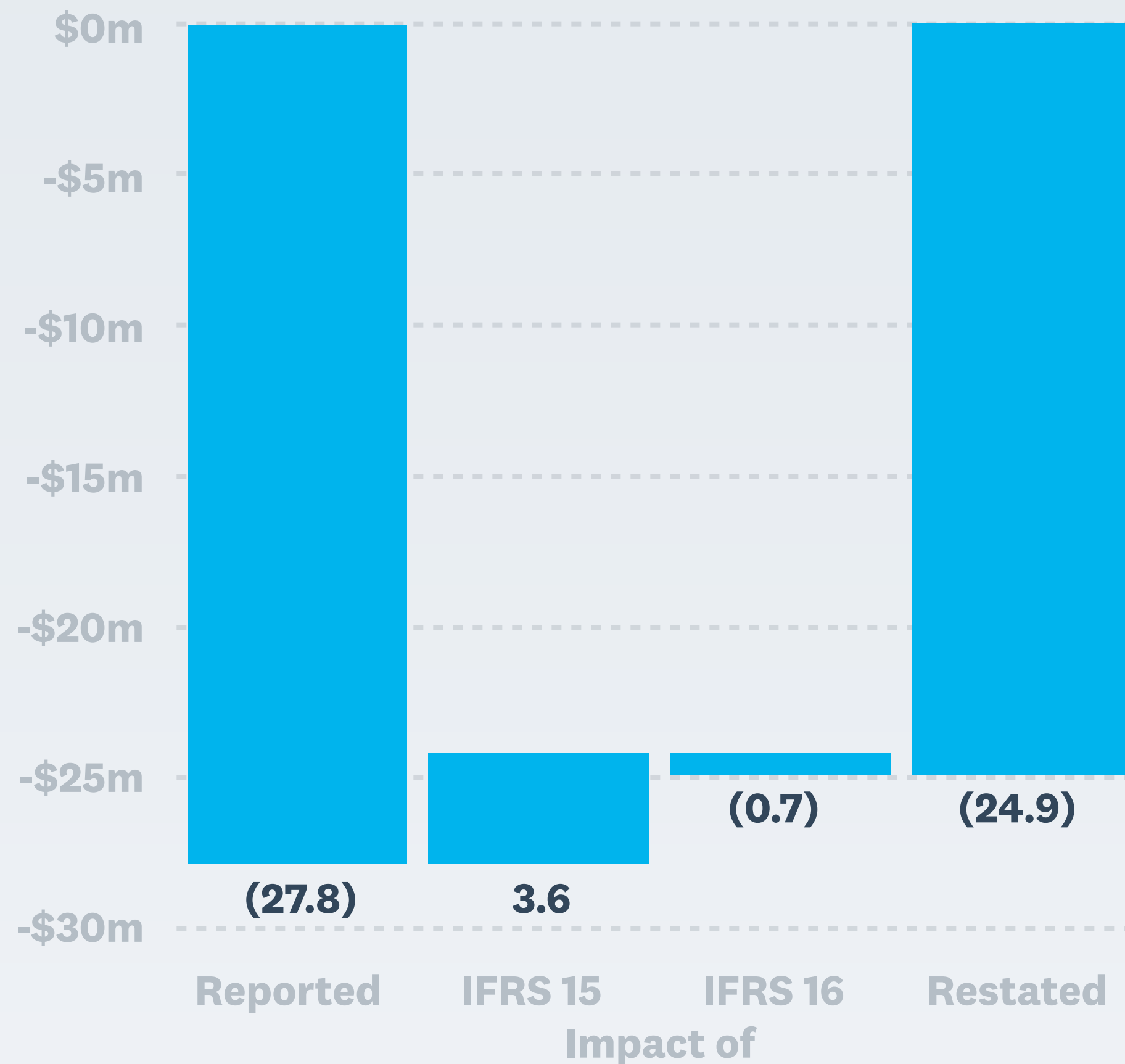
IFRS 9

Financial instruments

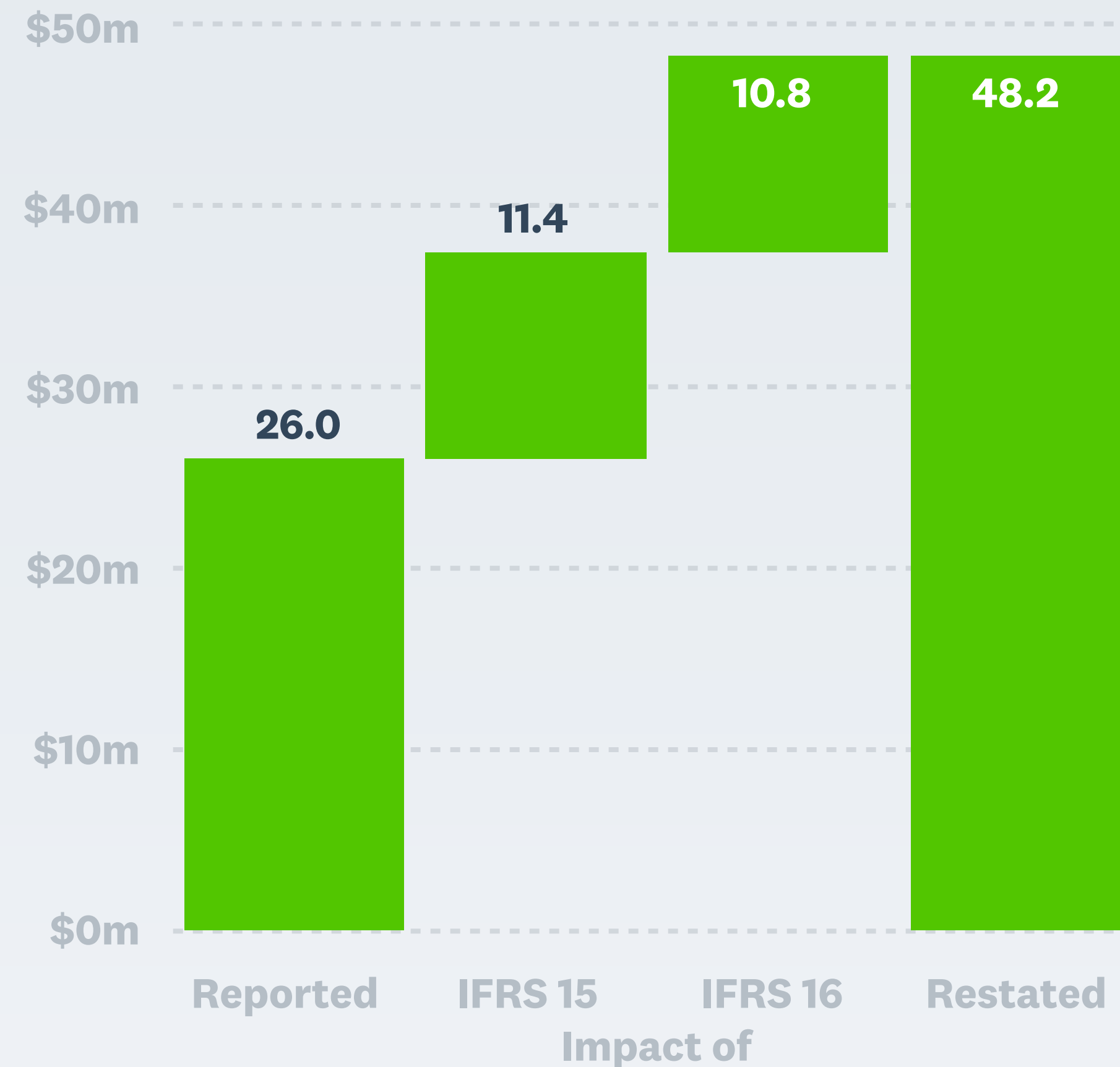
- Amends the classification and measurement of Xero's financial instruments and simplifies its hedge accounting model to align more closely to risk management strategies and objectives

Impact of new accounting standards

Impact of accounting standard changes on restated FY18 net loss



Impact of accounting standard changes on restated FY18 EBITDA



Note: Impact of IFRS 9 adoption excluded from above charts. Adverse impact on restated FY18 net loss is \$42,000

Glossary

Subscribers

Subscriber means 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

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

Average revenue per user (ARPU) is calculated as AMRR at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)

Churn

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

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

Lifetime value (LTV)

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 churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by their respective segment subscribers, divided by total Group subscribers

CAC months

Customer Acquisition Cost (CAC) months are months of ARPU to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the year excluding the deferral and amortisation of commissions paid to sales people, less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU

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

Finweb

Financial web

GAAP

Generally accepted accounting principles

SBP

Share-based payments

TAM

Total addressable market



Beautiful business

xero.com/investors