



MARKET RELEASE

2020 Annual Meeting - Presentation

WELLINGTON, 13 August 2020 - Please see the attached Annual Meeting Presentation, which includes a COVID-19 subscriber update from 1 April to 31 July 2020 which shows total subscribers increased by 96,000 over this period reaching 2.38 million subscribers.

Authorised for release to the ASX by the Company Secretary.

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About Xero

[Xero](#) is a beautiful and easy-to-use cloud-based business platform for small businesses and their advisors around the world. Xero connects more than two million subscribers with an ecosystem of over 800 third-party apps and 200 plus connections to banks and financial service providers. The IDC MarketScape recognised Xero as a Leader in the Worldwide SaaS and Cloud-Enabled Small Business Finance and Accounting Applications 2020 Vendor Assessment. On the 2020 Financial Times' High-Growth Companies Asia Pacific list, Xero was the largest company by revenue to come from New Zealand or Australia. Xero has also been included in the 2020 Bloomberg Gender-Equality Index.

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 (small business subscriber) 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.

Xero Limited Annual Meeting

13 AUGUST 2020



Beautiful business



From top: KLAS Business + Accounting | AU
CV Ledger | US, Evansdale Cheese | NZ

Important notice

This presentation is given on 13 August 2020 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 2020, 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

All information in this presentation is current at 31 March 2020, 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 26 for a glossary of the key terms used in this presentation.

Board of Directors



David Thodey, AO

CHAIR OF THE BOARD
INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee (Chair)



Mark Cross

INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee



Rod Drury

XERO FOUNDER
NON-EXECUTIVE DIRECTOR



Lee Hatton

INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee (Chair)



Dale Murray, CBE

INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee
Nominations Committee



Susan Peterson

INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee (Chair)
Nominations Committee



Craig Winkler

NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee

Agenda

01

Chair's
address



David Thodey
CHAIR OF THE BOARD

02

CEO
update



Steve Vamos
CHIEF EXECUTIVE OFFICER

03

Financial
overview



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

04

Resolutions

05

Q&A

Using the online platform

Download the
Online Portal Guide at
xero.com/about/investors



Questions

Ask a Question



Ask a Question

Voting

Get a Voting Card



Get a Voting Card

Help number

1 800 990 363

if you are calling from Australia

+61 1800 990 363

if you are calling from outside Australia

Chair's address



David Thodey
CHAIR OF THE BOARD



CEO update



Steve Vamos
CHIEF EXECUTIVE OFFICER



Working under COVID-19



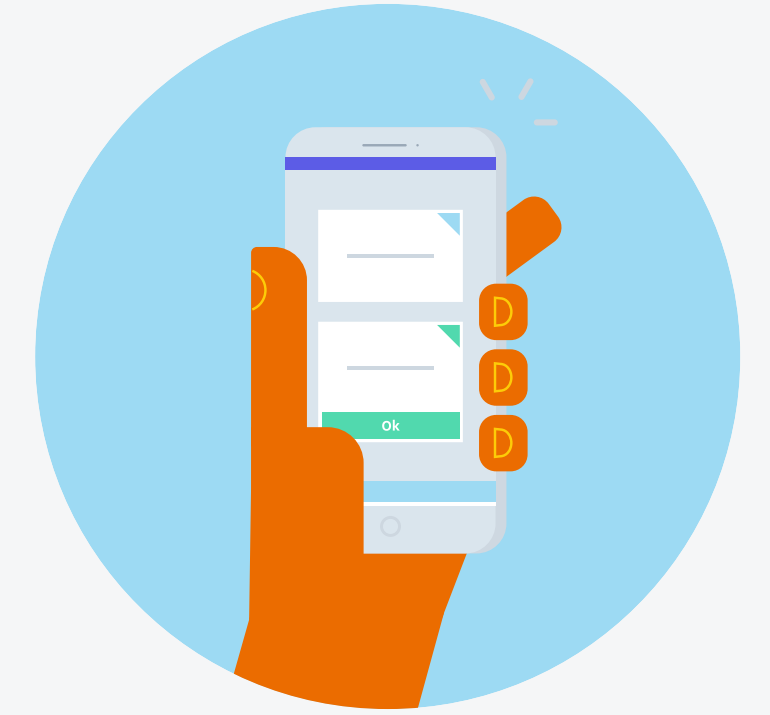
Supporting our people and maintaining productivity

- Adapting to new ways of working
- Staying productive and engaged
- Xero On Air digital content series in September 2020



Continuing to help customers and partners

- Targeted support on topics such as
 - Accessing small business loans
 - Online sales and marketing
 - Returning safely to the workplace
- Deferral of price rise



Prioritised product development

- Responding to changes in leave entitlements, wage subsidies, tax and other government initiatives
- Financial dashboard and short term cash flow features rolled out to Business Edition customers

COVID-19 subscriber update

Operating conditions remain uncertain and we continue to anticipate an impact from COVID-19 on Xero's FY21 results

96,000

net subscriber additions in the first four months of FY21

Net subscriber additions were stronger in Xero's Australia and New Zealand segment compared to the International segment

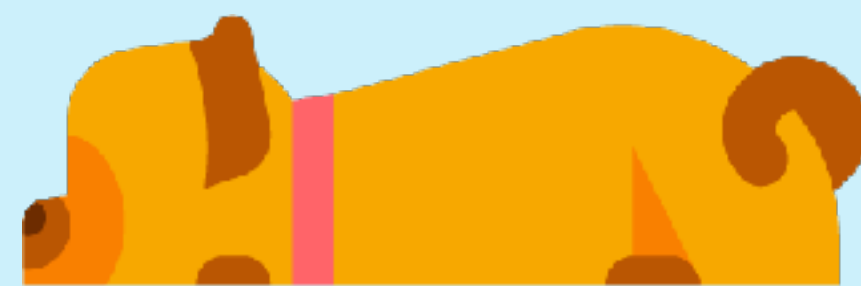
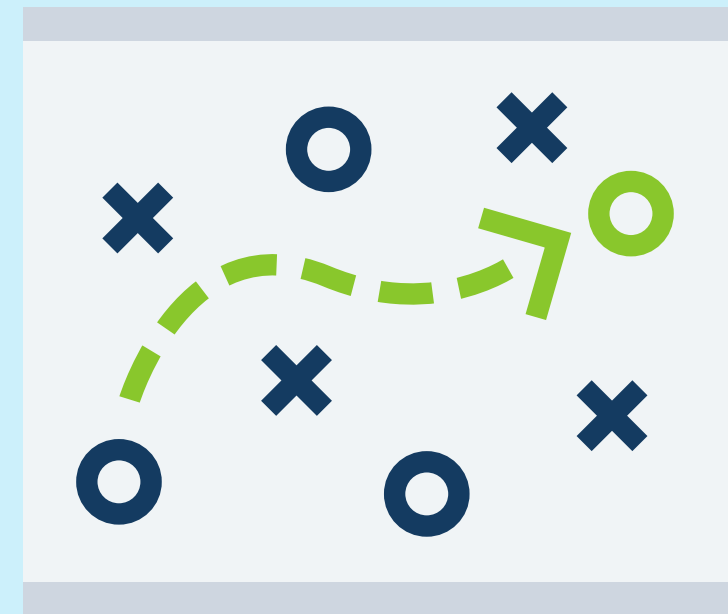
2.38 m

total subscribers as at 31 July 2020

Gross subscriber additions and churn trends have varied, however all geographies achieved positive net subscriber additions



Strategic trends



Adoption of cloud technologies

Digitisation of tax and compliance

Innovation in financial services

Post COVID-19 small business economy

Areas of planned strategic investment




STRATEGIC PRIORITIES

Drive cloud accounting




Grow small business platform

Build for global scale and innovation

AREAS OF PLANNED INVESTMENT

-  Best-in-class cloud accounting for small business
-  Extend access and distribution to serve all small businesses
-  Serve small businesses with multi-lingual editions

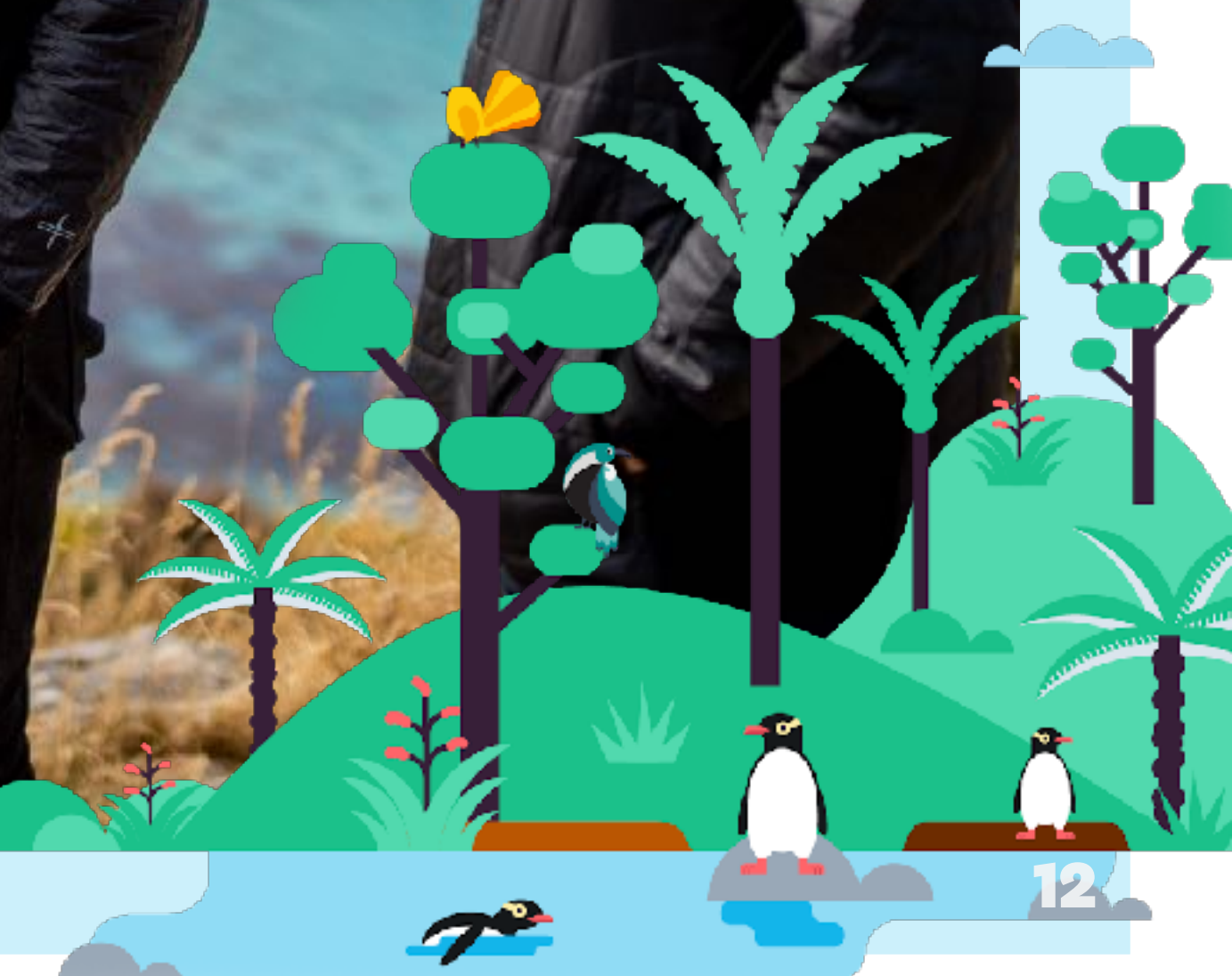
-  Small business needs beyond accounting and compliance
-  Payments and access to capital
-  New applications leveraging data, AI and machine learning

-  Attract, inspire and retain world class talent
-  Robust technology to drive innovation at speed
-  Optimised operational and financial structure

Social and environmental impact



Fishermans Bay Conservation Project
NEW ZEALAND



Financial overview



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



Continued **global** growth drives FY20 results

Financial performance highlights for the year ended 31 March 2020

SUBSCRIBERS

2.285m

+ 467,000 YOY

ARPU

\$29.93

+ 2% YOY (-1% in constant currency)

AMRR

\$820.6m

+ 29% YOY (25% in constant currency)

TOTAL LIFETIME VALUE

\$5.5b

+ \$1.2b YOY

OPERATING REVENUE

\$718.2m

+ 30% YOY (29% in constant currency)

EBITDA

\$137.7m

+ \$64.6m YOY

NET PROFIT AFTER TAX

\$3.3m

+ \$30.5m YOY

FREE CASH FLOW

\$27.1m

+ \$20.7m YOY

Drive cloud accounting



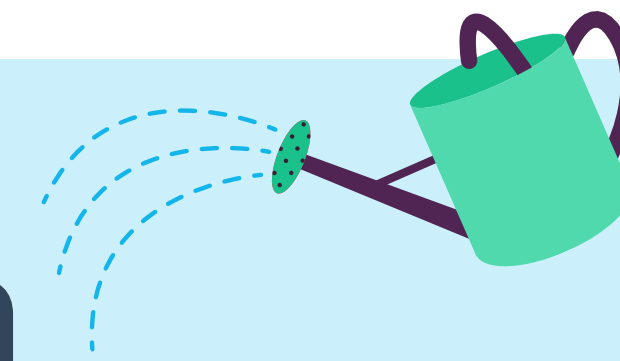
FY20
Subscribers
Net additions
Revenue

	Australia		New Zealand		United Kingdom		North America		Rest of World	
Subscribers	914k	+26%	392k	+12%	613k	+32%	241k	+24%	125k	+51%
Net additions	188k	+31%	41k	-18%	150k	-1%	46k	+5%¹	42k	+68%
Revenue	\$320m	+23%	\$116m	+19%	\$184m	+54%	\$55m	+25%	\$43m	+43%
	>50% cloud adoption²				<20% cloud adoption²					

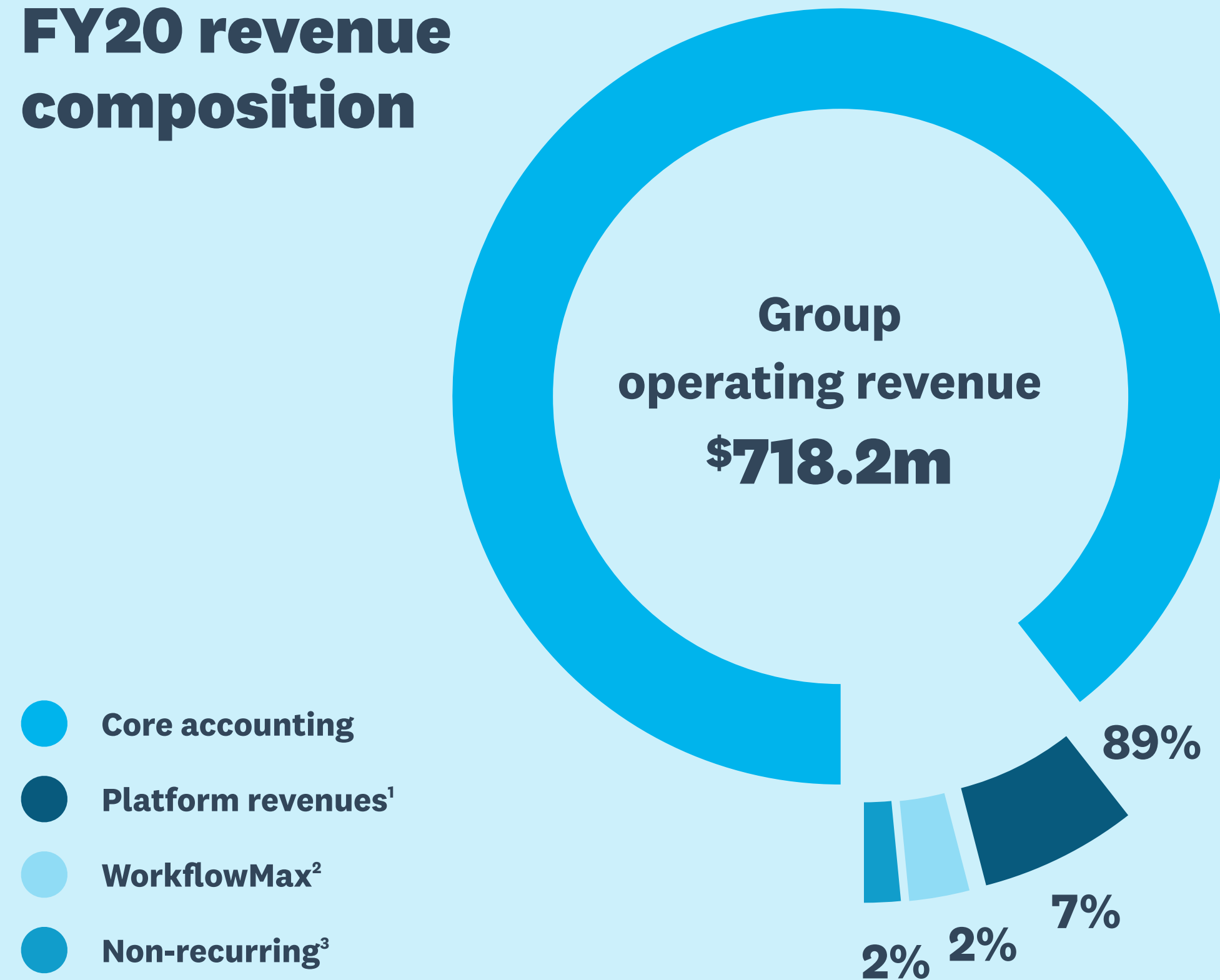
¹ Excludes acquired Hubdoc subscribers in FY19

² Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

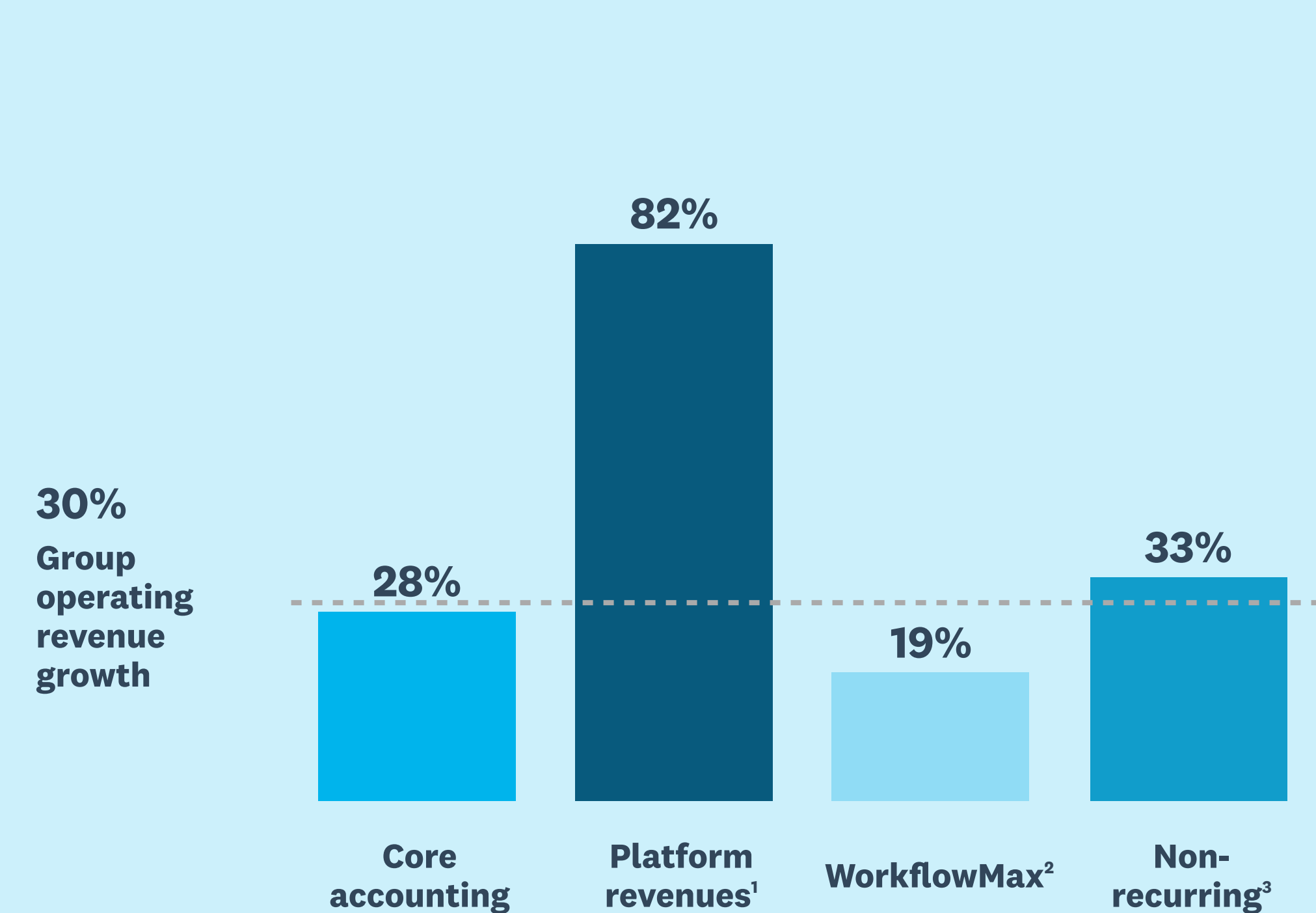
Grow the small business platform



FY20 revenue composition



FY20 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), payments 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

Unit economics and track record of value creation

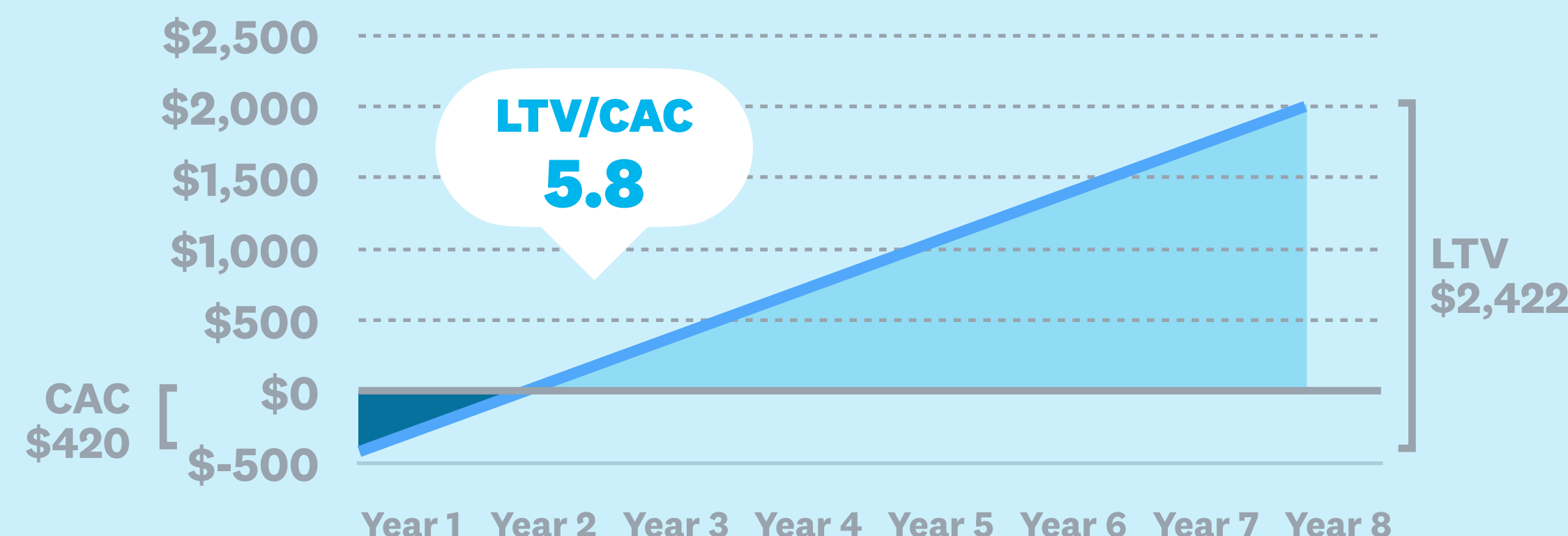
	March 2020	Δ YOY
ARPU	\$29.93	↑
MRR churn	1.13%	↓
Gross margin	85%	↑
LTV per subscriber	\$2,422	1% ¹
LTV/CAC	5.8	↓
CAC months	14.0	↑

LTV grew 1.7x in the last 2 years

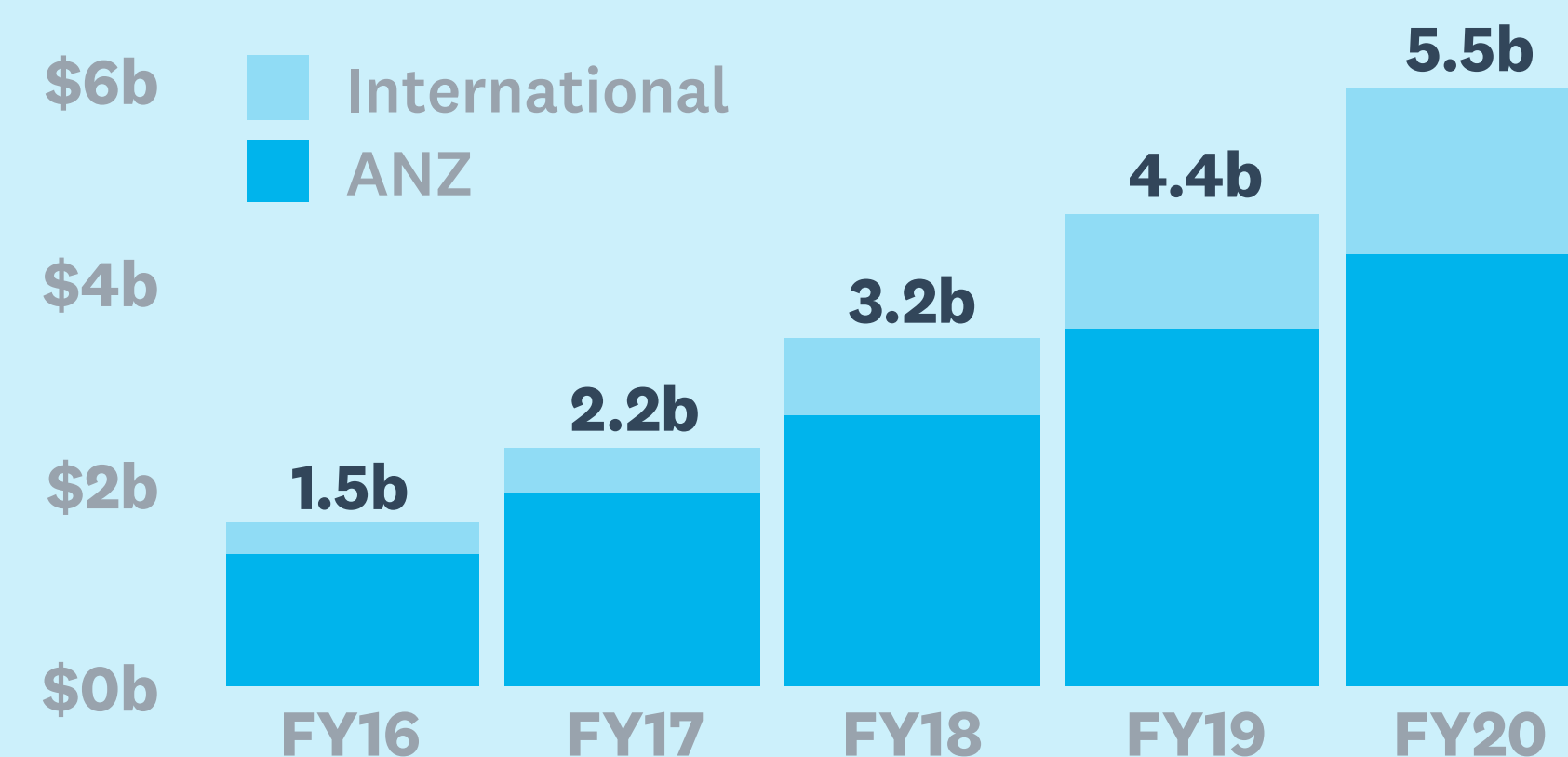
LTV CAGR FY16 to FY20 was 34% for ANZ and 52% for International

¹ LTV per subscriber growth in nominal terms. 0.6% decrease in constant currency terms based on exchange rates at 31 March 2019

Value of a Xero subscriber at 31 March 2020



Total lifetime value



Total available liquid resources of \$686 million

Positive free cash flow result in FY20 of \$27.1m, equivalent to 3.8% of operating revenues

Operating cash flow increased 46% to \$166.6m for FY20, an improvement of \$52.4m from \$114.2m in FY19

Net cash position at 31 March 2020 was \$111.5m (comprising cash and short-term deposits less term debt) compared to \$100.6m at 31 March 2019

Total available liquid resources, inclusive of \$150m of undrawn committed debt facilities, of \$686m

Movement in net cash position

	FY19 (\$000s)	FY20 (\$000s)	YOY change (\$000s)
Cash and cash equivalents	121,527	108,027	(13,500)
Short-term deposits	336,819	428,052	91,233
Total cash and short-term deposits	458,346	536,079	77,733
Convertible notes – term debt liability	(357,731)	(424,587)	(66,856)
Net cash	100,615	111,492	10,877

Outlook

The continuing uncertainty surrounding the COVID-19 environment means it remains speculative to comment further on the potential impact on our expected performance for FY21.

Xero's ambition is to be a long-term oriented, high-growth business. We continue to operate with disciplined cost management and targeted allocation of capital. This allows us to remain agile so we can continue to innovate, invest, support our customers, and respond to opportunities and changes in our operating environment.



Resolutions



RESOLUTION 1

Fixing the remuneration of the auditor

That the Board is authorised to fix the fees and expenses of Ernst & Young as auditor for the ensuing year

For

101,582,181

98.66%

Against

1,293,393

1.26%

Discretionary

82,964*

0.08%

* 32,135 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution

RESOLUTION 2

Re-election of Lee Hatton as a director



That Lee Hatton, retiring from office as a director of Xero at the Meeting, and being eligible, be re-elected as a director of Xero

For

102,328,883

99.39%

Against

549,599

0.53%

Discretionary

82,606*

0.08%

* 31,777 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution

RESOLUTION 3

Re-election of Rod Drury as a director



That Rod Drury, retiring from office as a director of Xero at the Meeting, and being eligible, be re-elected as a director of Xero

For

102,857,696

99.89%

Against

29,326

0.03%

Discretionary

81,857*

0.08%

* 31,028 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution

RESOLUTION 4

Election of Mark Cross as a director



That Mark Cross, appointed by the Board as a director of Xero on 1 April 2020, and who will retire at the Meeting in accordance with clause 20.4 of Xero's Constitution, and being eligible, be elected as a director of Xero

For

102,841,925

99.88%

Against

41,833

0.04%

Discretionary

82,516*

0.08%

* 31,687 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution

Q&A



Glossary

Subscribers

Subscriber means each unique subscription to a Xero-offered product that is purchased by an accounting partner or an end user (small business subscriber) 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 average exchange rates for the 12 months ended 31 March 2019. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2019

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 capitalisation 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

Liquid resources

Liquid resources comprises cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities

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

SBP

Share-based payments

TAM

Total addressable market

GAAP

Generally accepted accounting principles



Beautiful business

xero.com/investors