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MARKET RELEASE

2021 Annual Meeting - Chair, CEO Addresses

WELLINGTON, 12 August 2021 - Please see the attached Chair and CEO addresses for Xero's 2021 Annual Meeting.

Authorised for release to the ASX by the Company Secretary.

Contact

Toby Langley - Investor Relations
Mobile: +61 450 223995
toby.langley@xero.com

Kate McLaughlin - Communications
Mobile: +64 27 533 4529
kate.mclaughlin@xero.com

About Xero

[Xero](#) is a cloud-based accounting software platform for small businesses with over 2.7 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 1,000 third-party apps and 300 plus connections to banks and other financial partners. In 2020 and 2021, Xero was included in the Bloomberg Gender-Equality Index and in 2020, Xero was recognised by [IDC MarketScape](#) as a leader in its worldwide SaaS and cloud-enabled small business finance and accounting applications vendor assessment.

Xero Limited (XRO)
NZ Company no. 1830488
ARBN 160 661 183

Registered Address
19-23 Taranaki St
Te Aro
Wellington 6011
New Zealand

www.xero.com



XERO LIMITED - 2021 ANNUAL MEETING

Thursday 12 August 2021

Address by the Chair, David Thodey

Good Morning from Sydney Australia and welcome to Xero's 2021 Annual Meeting. I'm David Thodey and I am the Chair of Xero's Board of directors.

Before we begin, I'd like to acknowledge the Traditional Owners and Custodians of the land, sea and waters from where I am joining you today. For me, that is the Gadigal people of the Eora Nation. I also acknowledge the Traditional Owners and Custodians of the various lands from which you're all joining us today, and I wish to pay my respects to Elders past, present and emerging.

Thank you for attending today's meeting. As with last year's Annual Meeting, we are completely online today. I am with a small team broadcasting from our Sydney office, complying with government guidelines as Sydney is in lockdown. I hope you and those you care about are keeping safe and well in these challenging and uncertain times.

While this online format may be familiar to those of you who joined our meeting last year, or other virtual meetings, I acknowledge that for others, it might not be.

We have tried to design the procedures for this virtual meeting in a way that allows you the same opportunity to participate today as you would at a physical meeting. This includes being able to ask questions through the online platform and vote using an electronic voting card. I'll discuss this process shortly. I also encourage you to download and refer to the online portal guide from Xero's website if you haven't already done so.



In the event that we experience technical issues that impact the meeting, I'll assess the circumstances and communicate further with you. If this isn't possible, you will be emailed instructions on how and when to rejoin the Meeting.

I am informed by our Company Secretary that, in accordance with the company's constitution, a quorum is present and I now declare the meeting formally open.

First of all, I'd like to introduce the Board who are participating today. I also want to introduce the members of Xero's leadership team.

Joining from Wellington are directors Mark Cross, Susan Peterson, and Rod Drury. Also in Wellington, from Xero's leadership team, we have our Chief Executive Officer, Steve Vamos and our Chief Financial Officer, Kirsty Godfrey-Billy.

Joining the meeting remotely are directors Craig Winkler from Melbourne, Lee Hatton from Sydney, Steven Aldrich from California, and from London, Dale Murray.

Our Chief Legal Officer and Company Secretary, Chaman Sidhu joins us from Brisbane.

We are also joined by other members of Xero's leadership team and other Xero colleagues. Representatives from the company's auditors, Ernst & Young, are also online and available to answer any questions that apply to them.

Xero's Executive General Manager - Investor Relations, Toby Langley, will read out questions submitted by shareholders during the meeting.

I'll now turn to the agenda and order of events for today:

- I'll first say a few words.



- We'll then hear from our CEO Steve Vamos.
- Then we'll turn to the formal business of the Meeting and we have four resolutions today.
- After that, there will be an opportunity for any general shareholder questions before I will close the Meeting.

Just before I give my address I do want to go through a little about using the online platform.

Voting on the resolutions will be conducted by way of a poll, using the electronic voting card you should receive after clicking the 'Get a Voting Card' button.

Shareholders can submit written questions during the meeting by clicking on the 'Ask a Question' button. I encourage shareholders who have questions to submit them as soon as possible, including if you have questions about any of the resolutions.

If you have any issues using the platform, please check the online portal guide on Xero's website, or contact the phone help lines shown on this slide.

I'll now move on to my address.

It has been a challenging year for so many people, businesses and governments around the world so I would like to start by acknowledging the disruptive and tragic circumstances people have experienced related to COVID-19. While many economies have adapted well, we remain in the midst of a worldwide health pandemic.

I have been inspired by the resilience, tenacity and enterprise of small businesses during this period. And, I am encouraged to see many of them navigating their way through constantly changing market conditions and their fast-changing customer needs.



We are continuing to see a significant shift in the way business is conducted, as digitisation accelerates across industries and small businesses adopt cloud technologies as part of their core business toolkit.

This is supported by governments enacting measures to boost digitisation as an enabler of greater economic productivity. There are a number of examples of this including:

- The UK Government's push, to digitise the UK tax system and digitally enable small businesses through Making Tax Digital measures.
- The Australian Government's Digital Economy Strategy, aimed at lifting digital capability and adoption across the economy and supporting new ways to work and do business.
- In the US, President Biden signed an Executive Order last month that appears likely to result in a move towards open banking, in one of our largest markets that we're in.
- In Canada, the government has just announced last week a formal commitment and plan to adopt open banking from January 2023.
- And in Singapore, there have also been a number of government initiatives that have sought to drive adoption of digital technologies SMEs Go Digital program.

Xero is strongly positioned for this accelerating global trend - operating at the intersection of technology and finance, and with the opportunity to serve the global small business community. I've been encouraged by the Xero leadership team's continuing engagement with policymakers around the world as we seek to play our role in enabling small businesses to be more productive, and in doing so, making their lives better.

During the 2021 financial year, Xero made strong progress and we are pleased to report that we added a record number of new subscribers in the second half of the year, highlighting the continued demand for cloud-based tools across all our markets.



We remain very positive about the market opportunity for our solutions. Our estimates suggest that cloud accounting adoption rates by small businesses remain low at around 20% globally. We see significant potential for further take up of our platform and services from current levels.

We continue to scale Xero to become a global platform provider for small businesses around the world. However, to realise this ambition, we must be very focused on a few important things:

- We must continue to keep the customer at the heart of everything we do.
- We must remain disciplined in our capital allocation process to ensure that we add value for all stakeholders, including customers, partners and shareholders. We need to prioritise wisely where we invest, as well as how we sequence our investments and execute our strategy.
- We will continue to use M&A to add capabilities that enable our strategy and help us to achieve our ambitions.
- Our processes, systems, skills and operating model need to develop at pace and continue to scale effectively as we grow. This is a focus for the Board.
- It's also important that we optimise Xero's operational and financial structure. A great example during FY21 was our convertible note refinancing and then deploying some of these funds for the three acquisitions we made during the year.
- Strong risk management and understanding and awareness across our people, partners and other stakeholders is also a priority. This is particularly the case in the area of cyber risk. The board remains actively engaged to support management in addressing these cyber risks.
- Lastly, and importantly we must maintain our unique culture and values as we expand our global presence.



Growing in a sustainable way is also a very important consideration and it's a big part of who we are. It aligns very closely with our culture and values. There are four areas that we believe are particularly relevant for Xero. These are climate, supply chain, data privacy, and diversity & inclusion. I'd like to touch on each of these areas briefly today.

Firstly on climate. In February this year Xero was recognised as a certified carbon neutral organisation by the Australian Government's Climate Active program. This was the culmination of a number of years' work as part of our environmental sustainability program, Net Zero @ Xero.

Each year, our business grows to serve more customers. As we do this, we remain mindful of Xero's impact on our climate and our environment.

We are pleased with our progress on carbon neutrality, but we continue to look at ways to better understand and minimise our emissions. An important step we intend to take in FY22 is to formalise our emissions reduction plans and set science based targets. We have work underway in this area, and are focused on ensuring our plans are appropriate and sustainable for the long term.

We are developing an environmental roadmap aligned to the Task Force on Climate-related Financial Disclosures, or TCFD standard, to address any risks or opportunities in the short, medium and long term.

Moving to diversity & inclusion. At Xero, this means acknowledging, appreciating, and celebrating all the many ways we are different. Diversity in the workplace is essential for high-performing and healthy teams.

We actively seek a diverse pool of candidates for roles at Xero and maintain a culture of inclusion to help our people feel valued and respected, and to have a sense of belonging and fairness. We are all accountable to create an inclusive culture, and are committed to supporting flexible work and equal pay for equal work.



We made good progress in FY21, with several initiatives and partnerships focusing on racial equality and diversity. Xero also maintained our inclusion in the Bloomberg Gender Equality Index in 2021.

At the same time, we recognise there is more to do, and we look forward to creating a more diverse and inclusive organisation in the facets of race, gender and other attributes.

Now turning to our supply chain. We aim to have a positive impact through our supply chain by working with socially conscious vendors. We understand and remain vigilant on our key modern slavery risks, have policies and processes in place to help us monitor and mitigate them, and we regularly assess the effectiveness of our actions.

And then to data use. Last month, Xero launched our responsible data use commitments.

These commitments state our position and guide us to make decisions around the use of our customers' data. This data informs how we build our products through to how data is converted into insights to ultimately benefit small businesses, advisors and communities.

We are taking responsible data use seriously. These commitments broadly outline our approach to keep data secure and protect the privacy of our customers' data at all times. We also expect our trusted partners to approach responsible data use in the same way that we do.

We have also launched a long term education program for our customers. We believe we have an opportunity - and an obligation, to educate small businesses about the power of data - as well as highlighting the challenges and opportunities in an area that is constantly changing.



Steve will talk more about our business performance and how we're delivering on our strategic priorities. However I'd like to acknowledge the progress made during FY21 in executing on our financial and strategic objectives. We've also managed to maintain and build further operating discipline, during a highly disruptive period.

Turning to the Board - we are pleased to welcome Steven Aldrich as an independent, non-executive director who joined us on 1 October 2020. Steven brings to the Board extensive product experience within the technology and accounting software industries, and you'll hear from Steven later in the Meeting.

I'd like to recognise and thank my fellow directors for their contribution throughout the year. We continue to focus on how best to enable Xero to scale internationally while never losing our focus on great products and customer service.

In particular, I'd like to extend our thanks to Craig Winkler. As detailed within the Notice of Meeting, after completing over 12 years of service on the Board Craig has not sought re-election today having decided to retire from the Board at the end of today's Meeting.

Craig has made an extraordinary commitment of his time and energy during those 12 years. As one of Xero's early directors and a significant long-term investor in Xero, Craig has been instrumental in helping to build Xero's success to date. He has made an incredible contribution through a period of enormous growth. On behalf of the entire Board, I thank Craig for his thoughtful insights and significant contribution to Xero. We will miss Craig and we wish him all the very best for the future.

The Board is proactively recruiting for a new Director as we embark on the next stage of our journey.



Finally and very importantly, on behalf of the Board, I'd like to thank Steve and the Xero leadership team for a strong performance in a very challenging year. We are also immensely grateful for the dedication and passion shown by all of Xero's people which is fundamental to Xero's continued success. I'd also like to thank you, our shareholders, for your ongoing support.

That brings me to the end of my address. Let me now hand over to Steve before we commence the formal business for the day. Over to you Steve.

--ENDS--



XERO LIMITED - 2021 ANNUAL MEETING

Thursday 12 August 2021

Address by the CEO, Steve Vamos

Thanks David and hello everyone. Kia ora, tēnā koutou katoa - greetings from Wellington.

The backdrop continues to be challenging for our customers, partners and their communities and our thoughts are with the many people who are continuing to experience the impacts of COVID-19. With that context, we continue to focus our efforts on doing what we can to support our customers and partners' immediate needs, while continuing to invest to pursue our longer-term strategy.

I'd like to summarise the financial year 2021 result and also briefly discuss the progress we made executing our strategy.

After the initial disruption from COVID-19 during the early stages of FY21, it was pleasing to see growing momentum as the year progressed, and we entered FY22 with confidence in our long-term strategy.

Overall, our performance in FY21 reflected the value of a Xero subscription to our customers. We believe it also indicates that cloud accounting, alongside other digital services, is increasingly seen as essential by a growing number of small businesses and their advisors.

Turning to a quick summary of our FY21 results.

Xero's total subscribers increased by 456,000 to reach more than 2.7 million at the end of March. In the second half of the year, we added 288,000 subscribers - our strongest half-year period ever.

Our operating revenue climbed 18 percent year on year to \$849 million.



Alongside the top line measures, Xero delivered a strong set of profit outcomes, although the two halves of the year were very different.

We reduced sales and marketing spend in response to the uncertainties around COVID-19 in the first half of FY21. This had a commensurate uplift in EBITDA. As conditions improved through the year, we increased our spending which impacted EBITDA but contributed to higher subscriber additions in the second half.

I'll sum up by saying that while we had an unusual first half, momentum built during the year and the overall FY21 result reflects the ongoing growth of our customer base and the value of a Xero subscription to our customers.

If we move to the charts on the next slide, we can see indicators of customer engagement in the churn and other customer activity metrics shown.

We saw a significant fall in churn in FY21 and this was evident in all regions. Overall, monthly churn dropped by 12 basis points to 1.01 percent over the course of the year.

In terms of customer activity, we saw the number of employees paid on Xero increase 29 percent from the low point seen in May 2020. Monthly invoice payment value also grew by more than 50 percent from pre-COVID levels.

All of this reflects the determination that small businesses continue to have, operating in an environment that remains challenging.

I'd now like to talk about progress we've made executing our strategy.

Our current three year strategy was developed with a 10 year lens. This ensures that we do as much as we can now, to seed the growth opportunities that, over time, will be substantial contributors to our future success.



As a reminder, we have three strategic priorities - which are to drive cloud accounting, to grow the small business platform, and to build Xero for global scale and innovation.

We made good progress against each of these priorities in FY21.

On driving cloud accounting, we've delivered strong subscriber growth across all our regions and H2 FY21 was a record half in terms of net additions for most geographies.

On growing the small business platform, we continue to expand platform revenue. Growth in our adjacent products, and service driven income - which was largely in the form of payments - grew at just under 40 percent.

We've also continued to build for global scale and innovation. As we grow, we think carefully about how we can scale effectively through investment in people, systems and processes. We are disciplined about our investment decisions to ensure we add value for all our stakeholders, including of course our shareholders.

In FY21, we added a record net number of new employees with total FTEs increasing by more than 550. We continued to build and enhance our capabilities by recruiting, and developing our people and teams in the year - particularly as the demand for skills in our industry remains so high. COVID-19 has changed working styles forever and we're evolving our strategy around remote working and other alternative resourcing models.

During FY21 we made changes to our go to market model to implement a scalable and globally consistent approach to meeting the needs of our customers and adding new partners. Our global sales and customer functions have come together, under our Chief Customer Officer Rachael Powell. This structure helps to ensure there is alignment of global and regional sales and customer teams as Xero's customer base grows globally.



As David has discussed, we are conscious of the need to grow sustainably, and consider our social and environmental impact while also upholding good governance. All of these factors help us build stakeholder trust as we continue to scale our business.

Our progress on M&A has been supported in part by our second convertible note capital raise in late 2020.

We raised 700 million US dollars via zero-coupon convertible notes in November 2020. After repaying Xero's existing 2023 convertible notes and associated transaction costs, total new capital raised amounted to US\$408 million.

The proceeds give us flexibility to pursue strategic investments such as the three acquisitions we announced in the year of Waddle, a cloud-based lending platform; Planday, a workforce management solution; and Tickstar, an e-invoicing infrastructure business. Information about these acquisitions is summarised on the next slide.

The acquisitions varied in size from a consideration of up to \$25 million for Tickstar, \$87 million for Waddle and \$305 million for Planday.

The first of these transactions was Waddle, which completed in October 2020. Waddle helps to solve customers' financial needs by leveraging invoice financing as a means to access capital and help manage cash flow.

In April we completed the acquisition of Tickstar, a provider of e-invoicing infrastructure. We anticipate e-invoicing will be widely adopted by more governments and countries around the world, with initial traction most marked in Singapore, Australia, New Zealand and the UK.

Lastly, Planday is our largest acquisition to date. Also completed in April, the purchase of Planday marks Xero's entry into workforce management as a new category. Planday helps to extend the surface area of the Xero platform to better serve employers and, importantly, their employees.



The capabilities that we add through acquisitions are important enablers of our strategy. Additionally, we continue to focus on and invest in product and partnerships:

- We rolled out pilot versions of short-term cash flow and business snapshot - to help customers plan during the early stages of the pandemic. Last month, we officially launched these features as a new, AI-powered forecasting tool suite called Xero Analytics, and introduced an advanced version called Xero Analytics Plus. Through pattern matching and predictive algorithms, these tools provide powerful insights and enable more meaningful conversations between our customers and their advisors regarding their financial position, by analysing cash flow trends and identifying areas for improvement in their business.
- In terms of core product, we've just announced Xero's bank reconciliation feature has been enhanced with smarter matching algorithms and will leverage artificial intelligence to produce coding suggestions, reducing data entry.
- We've also enhanced tax schedules and reporting in the US and Canada and the ability to make end-to-end tax lodgements in South Africa. In the U.K. we invest in readiness for the next phases of Making Tax Digital - for V-A-T from April 2022, and Income Tax from April 2023.
- We refreshed the user interface for our Xero Me app, an app for employees that currently works with our Payroll solution and is one of the apps that Xero has developed to help customers manage their businesses - along with Xero Projects and Expenses.
- Looking to partnerships and the small business platform - Waddle entered an agreement with the Commonwealth Bank of Australia back in June to support their new invoice financing offer. Waddle now has two major banking partnerships, the other is with NatWest and their Rapid Cash offer in the UK.



- Last week, we launched the Xero App Store, a move towards a more commercial model for this crucial and growing part of our business and ecosystem which now offers more than 1000 apps. The Xero App Store provides an easier way for small businesses, accountants and bookkeepers to discover and purchase apps to help run their business, while helping our app partners grow on the Xero platform.

Overall, FY21 was a challenging year. But, against this backdrop, we have demonstrated our ability to execute our strategy.

We continue to deliver sustained growth, adding subscribers, enhancing our core product proposition, and further activating growth opportunities in financial services and adjacent product categories.

We've built a business that our customers and partners value, and you can see that in our total LTV of \$7.6 billion.

We are a business with a focus on sustainable, long-term growth and, given the opportunities we continue to identify, our intent remains to reinvest cash generated.

We provided an outlook statement in our FY21 investor briefing. We are making no update today but as a reminder, the key elements of the guidance provided for FY22 were as follows:

- For FY22, total operating expenses as a percentage of operating revenue (excluding acquisition integration costs) are expected to be in a range of 80-85%.
- Integration costs associated with acquisitions announced during FY21 are expected to increase total operating expenses as a percentage of operating revenue by up to a further 2% for FY22.
- And lastly, Planday is expected to contribute approximately three percentage points of additional operating revenue growth in FY22.

The investments we are making today are crucial to the development of the long term growth opportunities that we have.



Our capacity to generate free cash flow, combined with our capital allocation framework and existing financial resources, puts us in a strong position.

When we see fit, this gives us the capacity to adapt quickly to changing conditions, and vary the pace of our investment spend as we move towards our long-term objectives.

It's fitting to note that we celebrated our first 'Xero Day' last month on 6 July. This marked the 15th anniversary of our establishment as a company on the 6th of July 2006, here in Wellington by our founder, Rod Drury. 'Xero Day' will be an annual event going forward, celebrating and acknowledging all the people, partners and customers who've played, and continue to play, an important role in our journey.

Among these, I want to highlight the contribution of Trent Innes, our former Managing Director of Australia and Asia, and Gary Turner, our Managing Director of UK and EMEA. Trent stepped down from his role at the end of June while Gary announced last month he will retire later this calendar year.

Under Trent's leadership, the Australian business has grown from 300,000 to more than 1.1 million subscribers. Trent has been succeeded by Joseph Lyons, who previously led our global sales team and brings deep experience prior to Xero, in senior leadership roles across the technology, financial services and healthcare sectors.

In the UK, Gary has been instrumental in building our presence, leading the business from only a few hundred to 720,000 subscribers. We've commenced an internal and external recruitment search, and Gary will continue to work with Xero in an advisory role once a successor has been appointed.

Before I conclude, I'd like to thank you, our shareholders, for your support during the year. I'd also like to thank the Board, and in particular Craig Winkler for his support and dedication to Xero over the last 12 years. And finally, I want to acknowledge and thank the entire team across Xero for their hard work this year.



Beautiful business

I'll now hand back to David for the formal business of today's Meeting.

--ENDS--