

# Annual meeting

**15 August 2019**  
**Auckland, New Zealand**

 WELLINGTON | NEW ZEALAND



# Important notice

This presentation is given on 15 August 2019 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, securities in Xero Limited
- 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 23 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 36 for a glossary of the key terms used in this presentation

# Board of Directors

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## Graham Smith

CHAIR OF THE BOARD  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*Nominations Committee (Chair)*  
*Audit and Risk Management Committee*



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## Rod Drury

XERO FOUNDER  
NON-EXECUTIVE DIRECTOR



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## Lee Hatton

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



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## Dale Murray, CBE

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



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## Susan Peterson

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



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## David Thodey, AO

INDEPENDENT NON-EXECUTIVE DIRECTOR  
*People and Remuneration Committee*  
*Nominations Committee*



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## Bill Veghte

INDEPENDENT NON-EXECUTIVE DIRECTOR  
*Retiring 15 August 2019*



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## Craig Winkler

NON-EXECUTIVE DIRECTOR  
*People and Remuneration Committee*  
*Nominations Committee*

# Agenda

## Chair's address

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**Graham Smith**  
CHAIR OF THE BOARD



## Financial overview

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**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER



## CEO update

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**Steve Vamos**  
CHIEF EXECUTIVE OFFICER



## Q&A

# Chair's address

**Graham Smith**  
CHAIR OF THE BOARD



 LONDON | UNITED KINGDOM



# Resolutions

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## RESOLUTION 1

# Fixing the remuneration of the auditor

That the Board is authorised to fix the remuneration of the auditor for the ensuing year

For

**91,335,072**

96.96%

Against

**2,774,653**

2.95%

Discretionary

**86,088\***

0.09%

*\* 43,772 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

## RESOLUTION 2

# Re-election of Susan Peterson as a director

That Susan Peterson, retiring from office as a director of Xero at the meeting by rotation in accordance with Xero's Constitution, be re-elected as a director of Xero



For

**93,391,971**

99.15%

Against

**715,217**

0.76%

Discretionary

**83,434\***

0.09%

*\* 42,718 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

## RESOLUTION 3

# Election of David Thodey as a director

That David Thodey, appointed by the Board as a director on 27 June 2019, and who will retire at the meeting in accordance with Xero's Constitution and the ASX Listing Rules, be elected as a director of Xero



**For**

**94,096,987**

99.90%

**Against**

**7,814**

0.01%

**Discretionary**

**87,353\***

0.09%

*\* 45,037 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

## RESOLUTION 4

# Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ\$800,000 from NZ\$1,400,000 to NZ\$2,200,000 with immediate effect

For

**65,315,557**

99.61%

Against

**171,636**

0.26%

Discretionary

**82,078\***

0.13%

*\* 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 4

# Target director fees

## Target Xero director fees

New Zealand Dollars

Country	Chairman		Director		Audit Chair		Remuneration Chair		Nominations Chair	
	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21
NZ	\$180,000	<b>\$358,000</b>	\$90,000	<b>\$145,000</b>	\$20,000	<b>\$30,000</b>	\$15,000	<b>\$30,000</b>	-	-
AU	\$180,000	<b>\$358,000</b>	\$90,000	<b>\$145,000</b>	\$20,000	<b>\$30,000</b>	\$15,000	<b>\$30,000</b>	-	-
US	\$310,000	<b>\$358,000</b>	\$226,000	<b>\$252,000</b>	\$21,000	<b>\$30,000</b>	\$14,000	<b>\$30,000</b>	-	-
UK	\$260,000	<b>\$373,000</b>	\$115,000	<b>\$145,000</b>	\$19,000	<b>\$30,000</b>	\$19,000	<b>\$30,000</b>	-	-

RESOLUTION 4

# Director fees

## Director fees - by individual

New Zealand Dollars

Name	Previous Fees			Actual @ 27 Jun 2019			Proposed @ 1 Sept 2019		
	Director Fees	Committee Chair Fees	Total Fees	Director Fees	Committee Chair Fees	Total Fees	Director Fees	Committee Chair Fees	Total Fees
Graham Smith	\$310,000	-	<b>\$310,000</b>	\$342,000	-	<b>\$342,000</b>	\$440,000	-	<b>\$440,000</b>
Rod Drury	\$90,000	-	<b>\$90,000</b>	\$127,000	-	<b>\$127,000</b>	\$145,000	-	<b>\$145,000</b>
Lee Hatton	\$90,000	\$20,000	<b>\$110,000</b>	\$127,000	\$28,000	<b>\$155,000</b>	\$145,000	\$30,000	<b>\$175,000</b>
Dale Murray	\$115,000	-	<b>\$115,000</b>	\$127,000	-	<b>\$127,000</b>	\$145,000	-	<b>\$145,000</b>
Susan Peterson	\$90,000	-	<b>\$90,000</b>	\$127,000	-	<b>\$127,000</b>	\$145,000	\$30,000	<b>\$175,000</b>
David Thodey	-	-	-	\$127,000	-	<b>\$127,000</b>	\$145,000	-	<b>\$145,000</b>
Bill Veghte/TBD	\$226,000	\$14,000	<b>\$240,000</b>	\$240,000	\$27,000	<b>\$267,000</b>	\$252,000	-	<b>\$252,000</b>
Craig Winkler	\$90,000	-	<b>\$90,000</b>	\$127,000	-	<b>\$127,000</b>	\$145,000	-	<b>\$145,000</b>
<b>Total</b>	<b>\$1,011,000</b>	<b>\$34,000</b>	<b>\$1,045,000</b>	<b>\$1,344,000</b>	<b>\$55,000</b>	<b>\$1,399,000</b>	<b>\$1,562,000</b>	<b>\$60,000</b>	<b>\$1,622,000</b>

## RESOLUTION 4

# Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ\$800,000 from NZ\$1,400,000 to NZ\$2,200,000 with immediate effect

For

**65,315,557**

99.61%

Against

**171,636**

0.26%

Discretionary

**82,078\***

0.13%

*\* 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

## RESOLUTION 5

# Approval of the issue of shares to a director - Lee Hatton

That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for Xero to issue shares to Lee Hatton in lieu of her remuneration on the terms and conditions set out in the Explanatory Notes of the Notice of Meeting

For

**94,045,433**

99.85%

Against

**54,438**

0.06%

Discretionary

**90,575\***

0.10%

*\* 45,859 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

# Financial overview

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**Kirsty Godfrey-Billy**

CHIEF FINANCIAL OFFICER



# Proof points of a strong business model

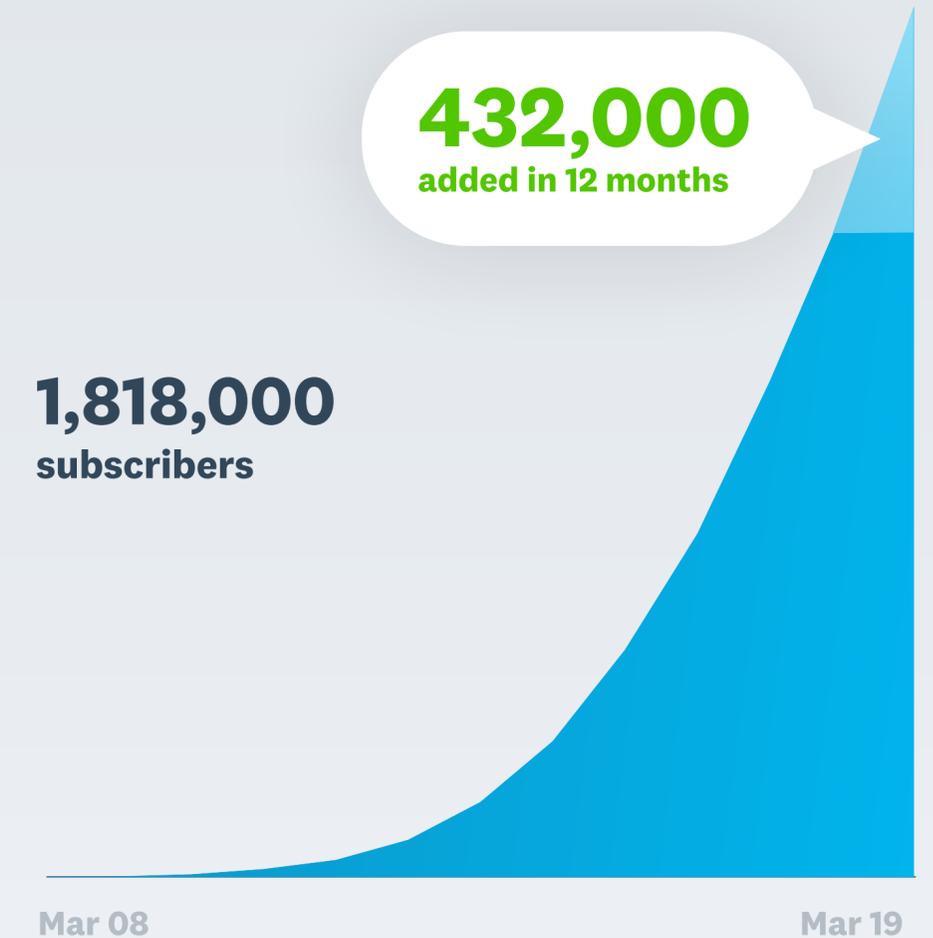
## Annualised monthly recurring revenue



## Free cash flow<sup>1</sup> as % of revenue



## Xero subscriber growth



<sup>1</sup> See glossary for definition

# Global growth and major cash flow milestone

AMRR

**\$638.2m**

+ 32% YOY (32% in constant currency<sup>1</sup>)

FREE CASH FLOW

**\$6.5m**

+ \$35.0m YOY

SUBSCRIBERS

**1.8m**

+ 432,000 YOY

ARPU

**\$29.25**

+ 0.4% YOY (0.8% in constant currency<sup>1</sup>)

OPERATING REVENUE

**\$552.8m**

+ 36% YOY (34% in constant currency<sup>1</sup>)

EBITDA  
EXCLUDING IMPAIRMENTS

**\$91.8m**

+ \$42.0m YOY

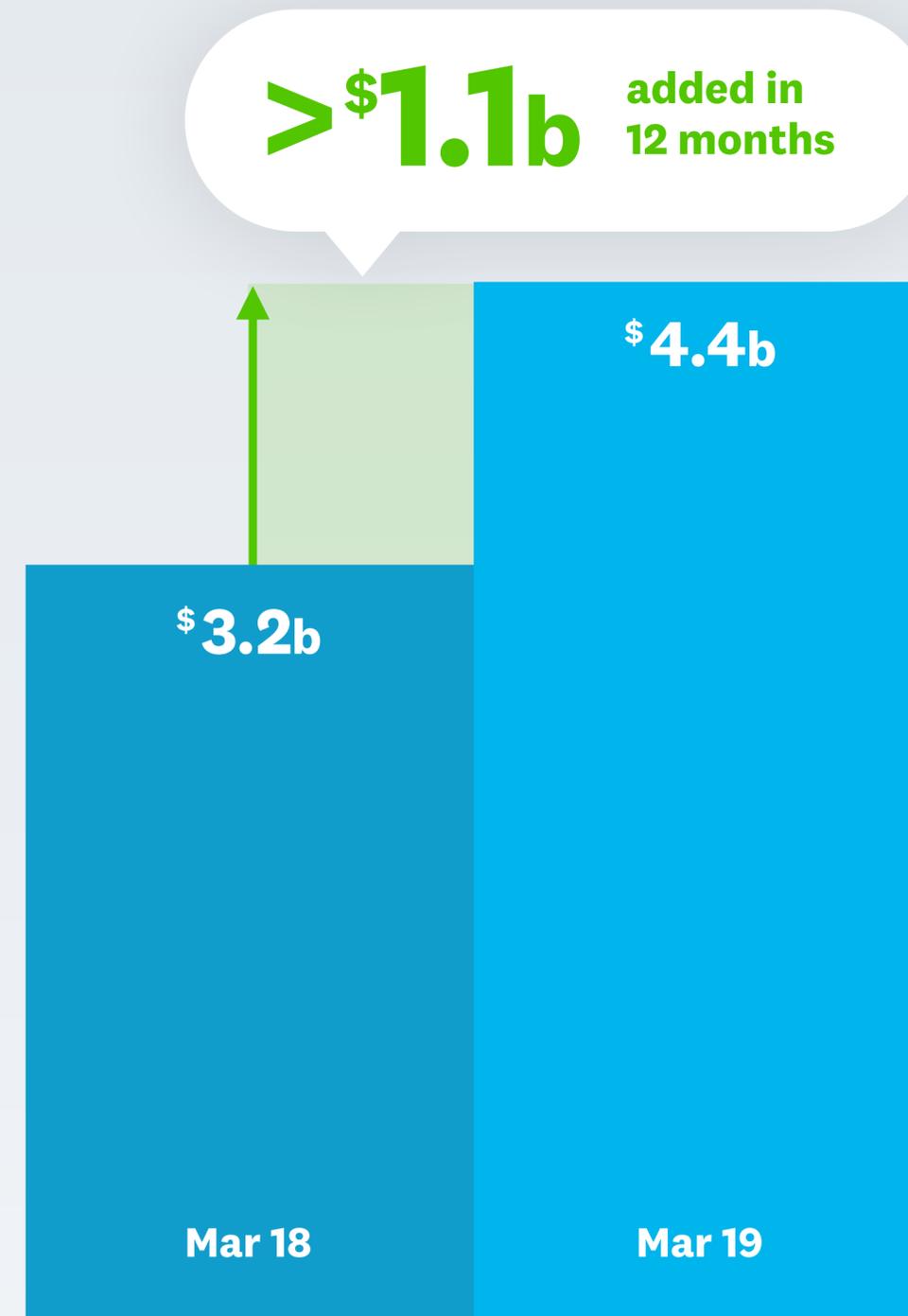
<sup>1</sup> See glossary for definition

# Positive LTV trends plus strong subscriber growth

	March 2019	Progress from March 2018
ARPU	\$29.25	↑
Churn %	1.10%	—
Gross margin	84%	↑
LTV per subscriber	\$2,398	+4% <sup>1</sup>

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

## Total subscriber lifetime value (LTV)



# Positive EBITDA momentum

Continued scale and efficiency progress contributed to FY19 performance:

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

Gross margin improved by 2pp to 84%

CAC (customer acquisition costs) improved by 2pp to 45% of revenues

Product costs, including opex and capex, improved by 4pp to 31% of revenues

## EBITDA margin



# 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

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	<b>121,527</b>	100,572
Short-term deposits	59,000	<b>336,819</b>	277,819
<b>Total cash and short-term deposits</b>	<b>79,955</b>	<b>458,346</b>	<b>378,391</b>
Convertible notes – term debt liability	–	<b>(357,731)</b>	(357,731)
<b>Net cash</b>	<b>79,955</b>	<b>100,615</b>	<b>20,660</b>

# Beauty of Xero's SaaS model

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**Generate long-term value**



**Acquire subscribers economically at scale**



**Grow revenue per subscriber**



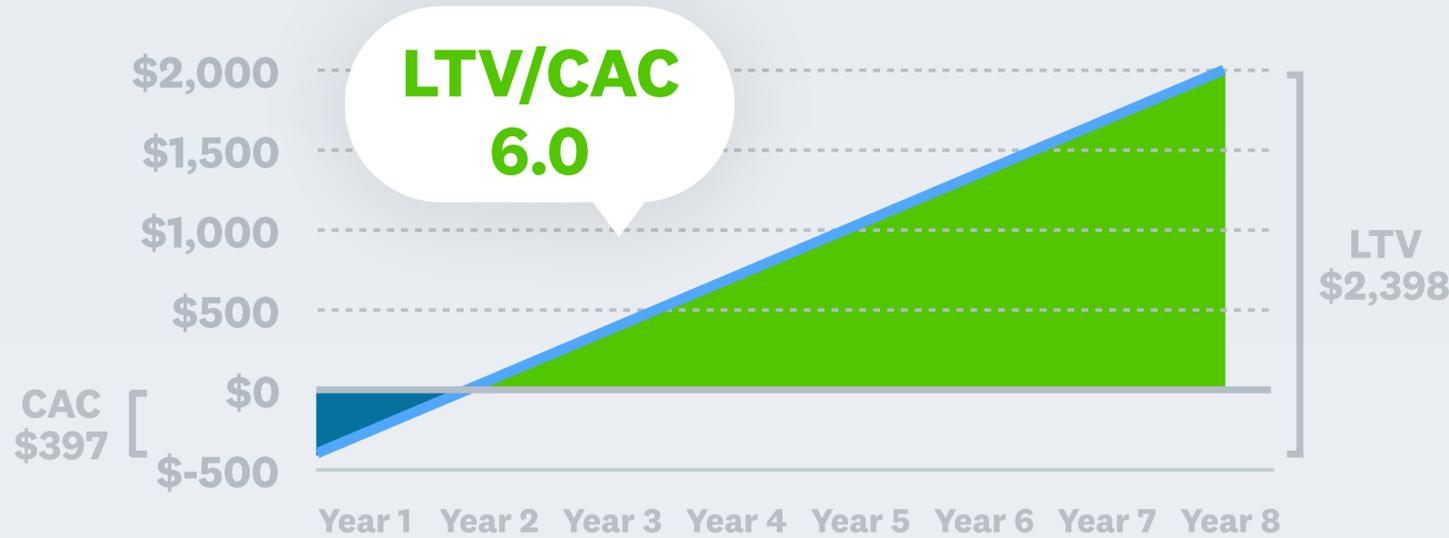
**Grow gross margins**



**Retention at scale**

# Unit economics and track record of value creation

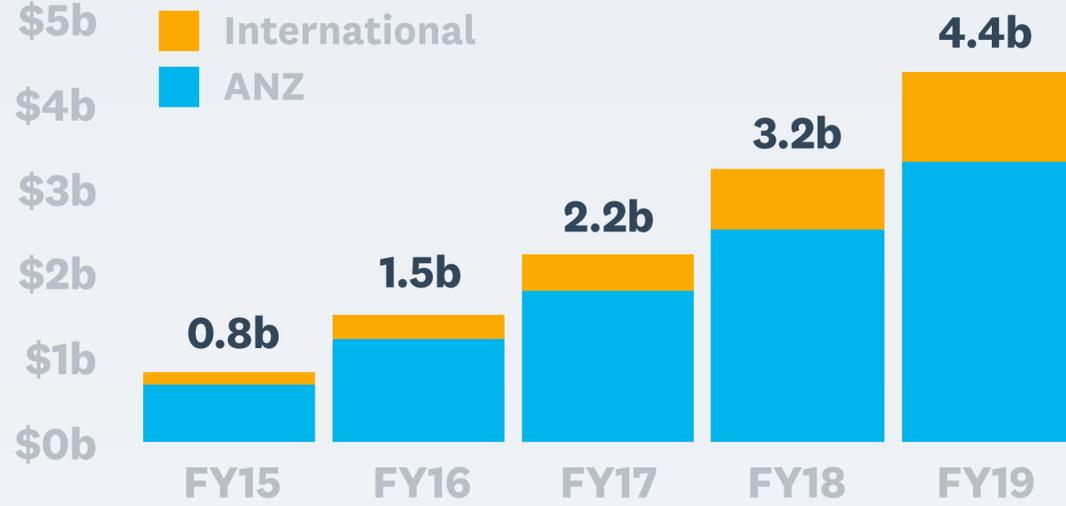
Value of a Xero subscriber



**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%

# New accounting standards

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Xero adopted three new accounting standards from 1 April 2018

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## 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

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## 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

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## 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

# CEO update

**Steve Vamos**  
CHIEF EXECUTIVE OFFICER



**OUR PURPOSE IS**

“

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

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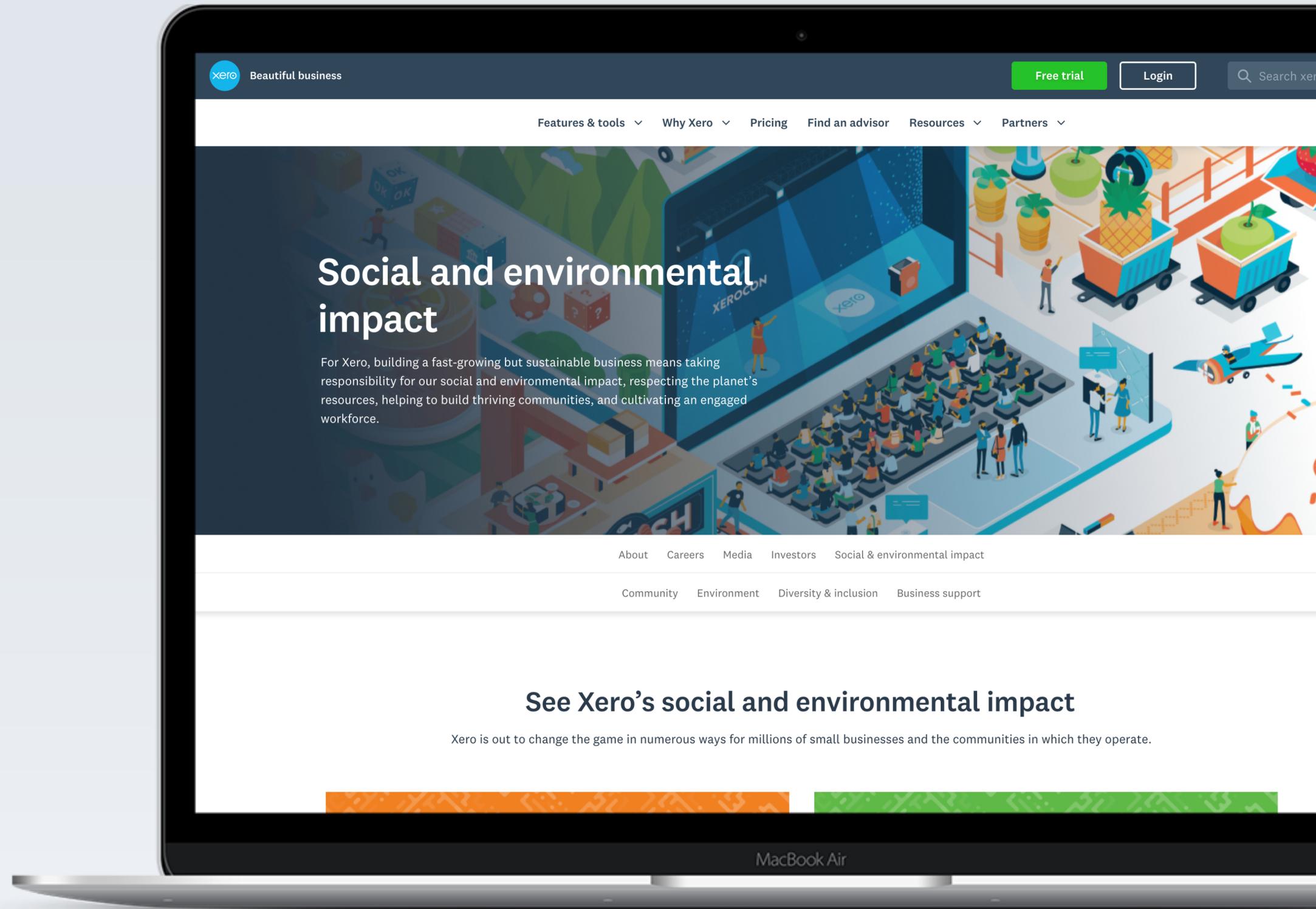
**OUR MISSION IS**

“

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

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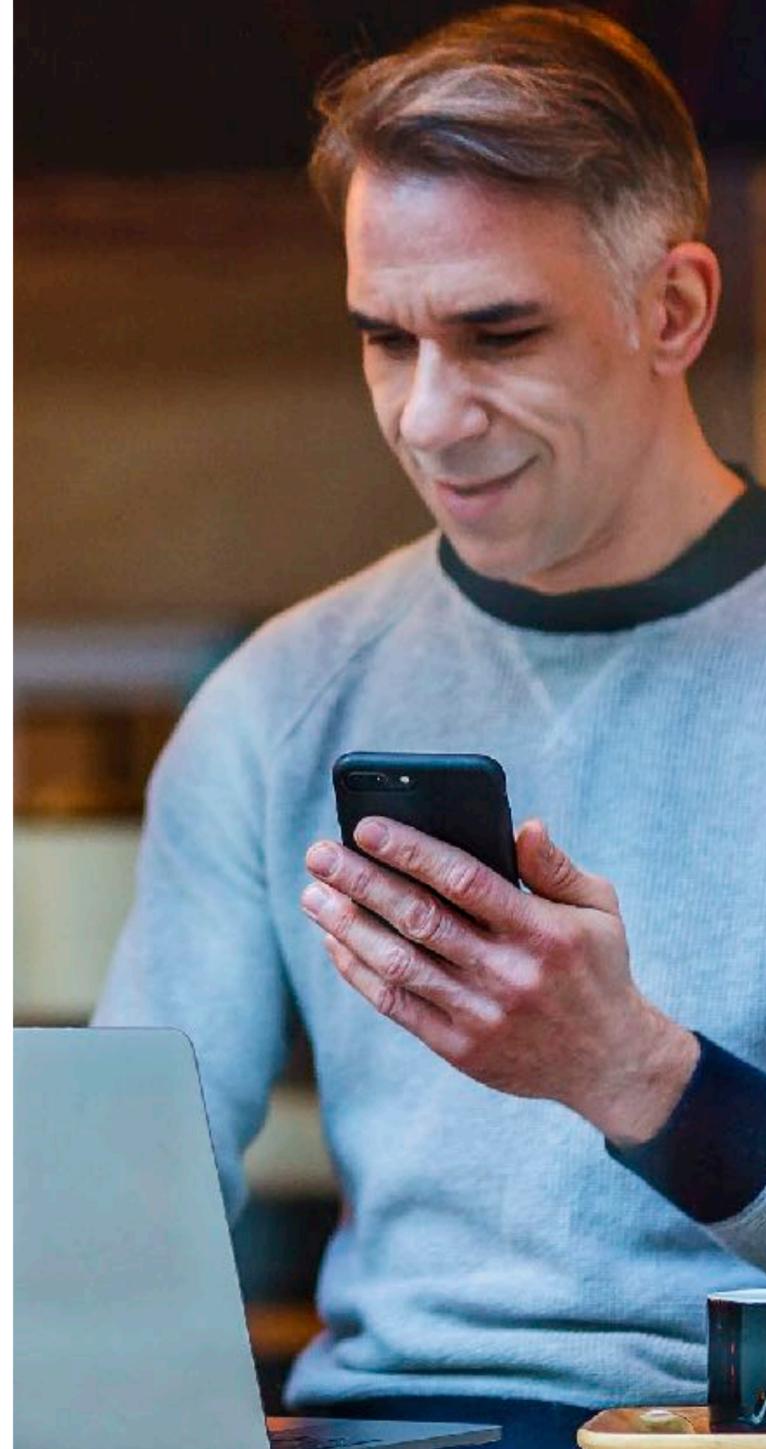
# Social and environmental impact



# Strategic priorities

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**Drive cloud accounting**



**Grow small business platform**



**Building for global scale and innovation**



# Drive cloud accounting



<sup>1</sup> Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

## Cloud accounting adoption<sup>1</sup>



>50%

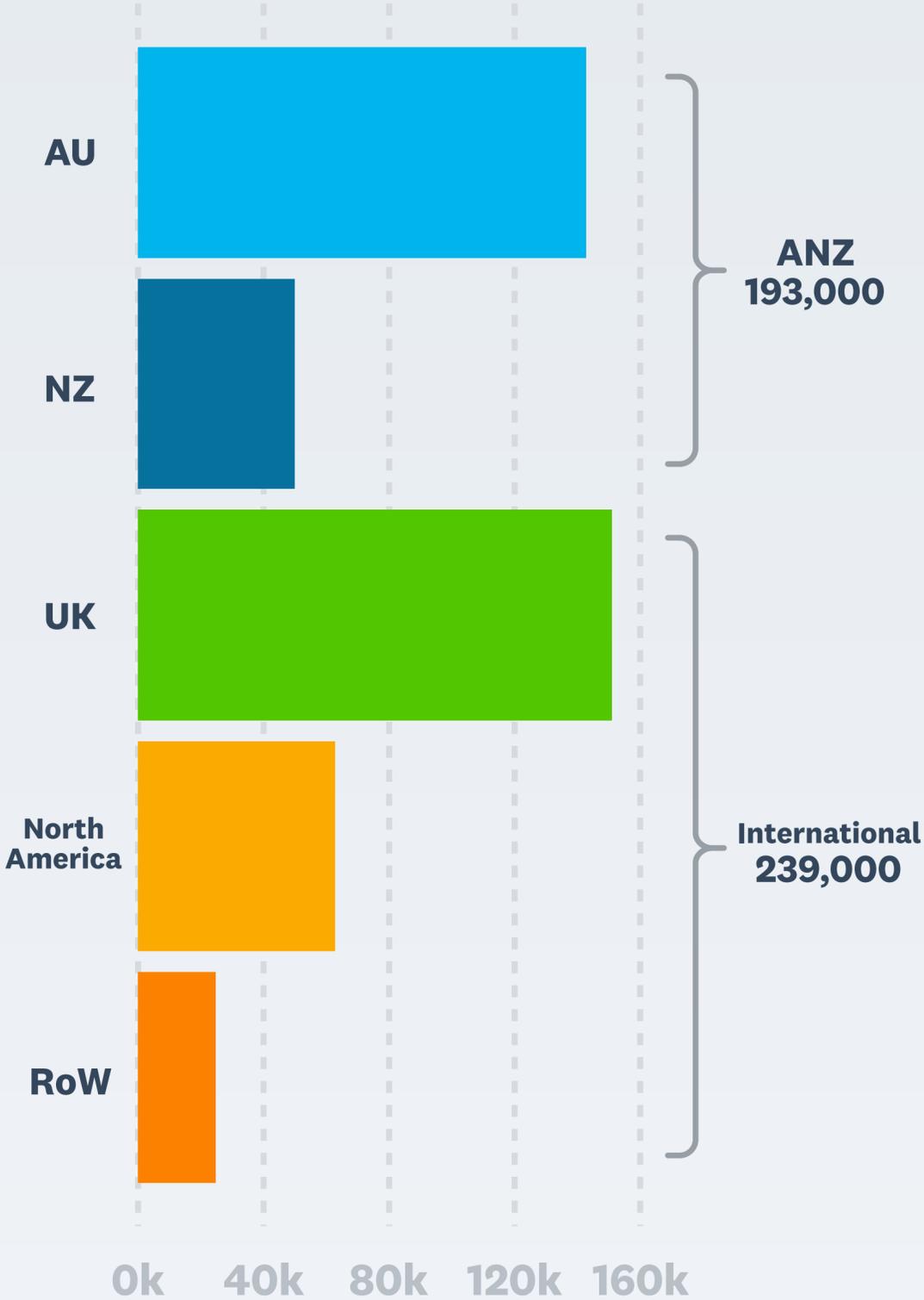
Australia and New Zealand



<20%

Global

## FY19 subscriber additions by geography



# Grow small business platform

### For small business

Small businesses can manage their day-to-day finances with software that's smart and easy-to-use, having instant access to their data and files

### For accounting partners

Accounting partners can connect to their clients' data and work efficiently, bringing various work streams of their practice on to one platform in the cloud

### App Partners / Ecosystem

700+ connected apps  
>50,000 users of Xero's API  
developer tools

### Xero solutions

Gusto (US Payroll)

### Xero products

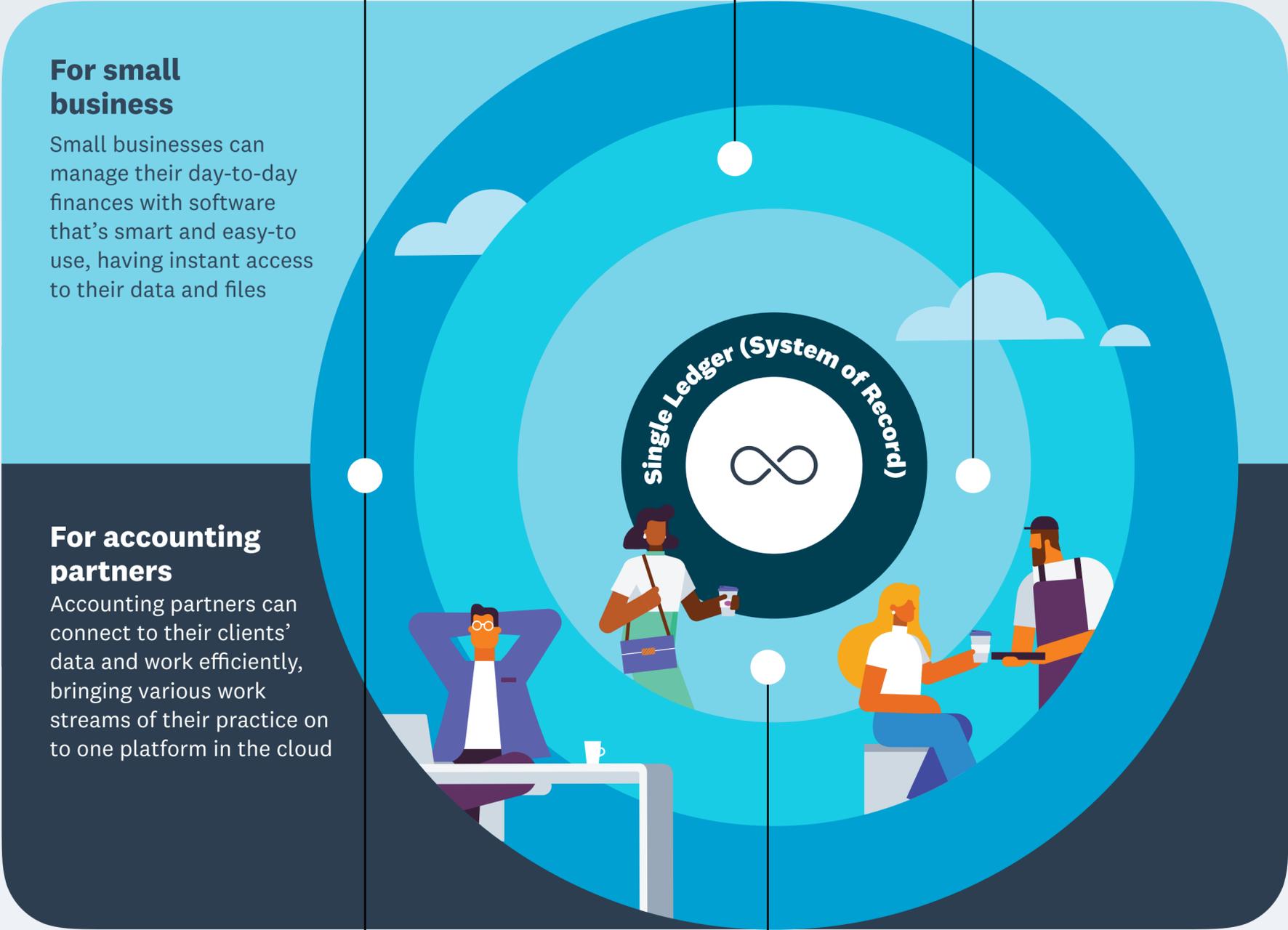
Bank feeds	Projects
Payroll	Hubdoc
Expenses	WorkflowMax

### App Partners / Ecosystem

Partner-specific tools and apps

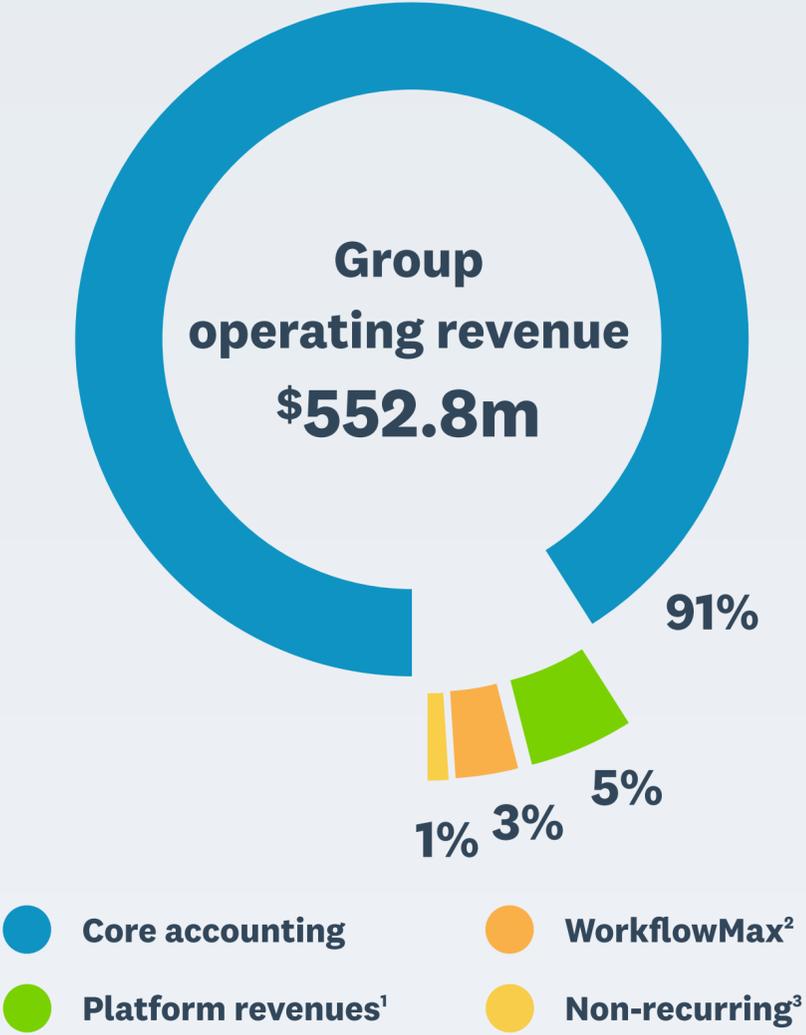
### Xero Partner products

Compliance	HQ apps and explorer
Workpapers	Practice Manager
Tax solutions	Reporting

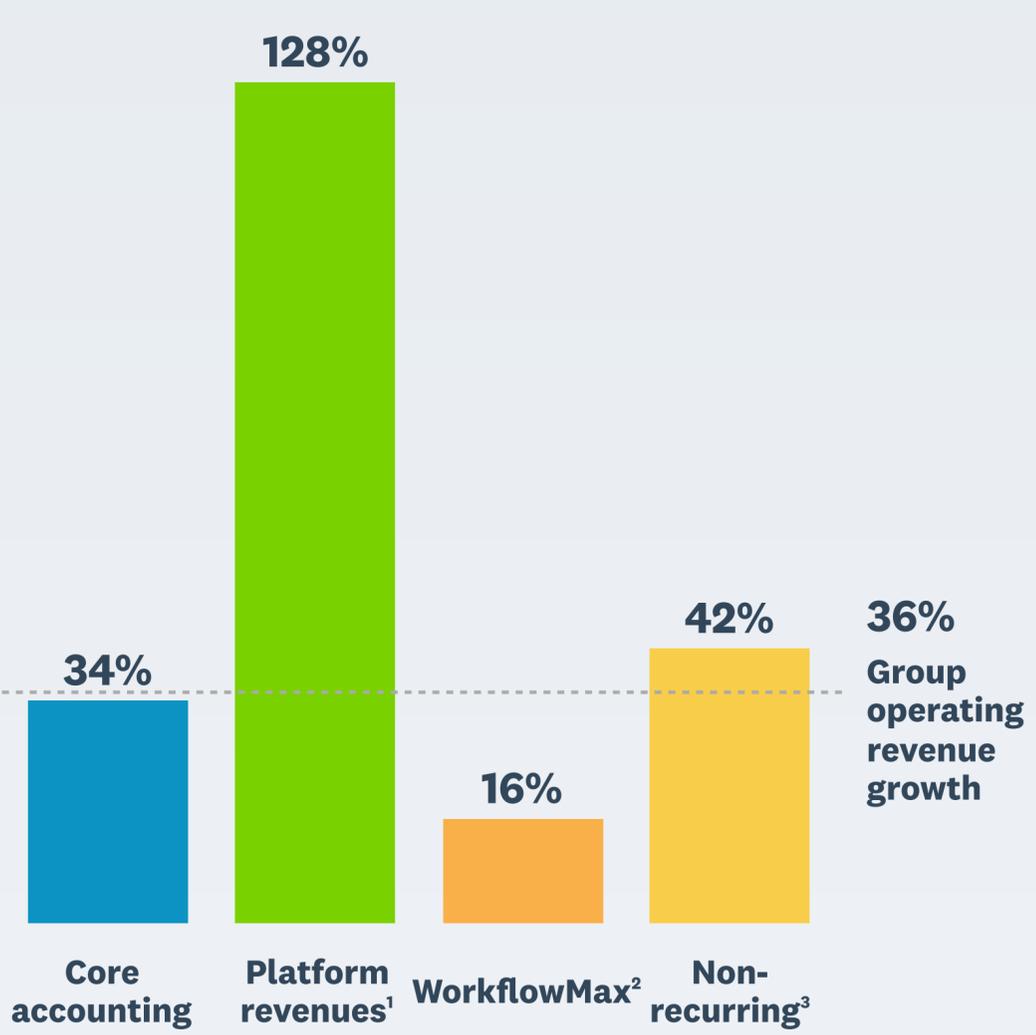


# Grow small business platform

## Revenue composition



## Revenue growth YOY



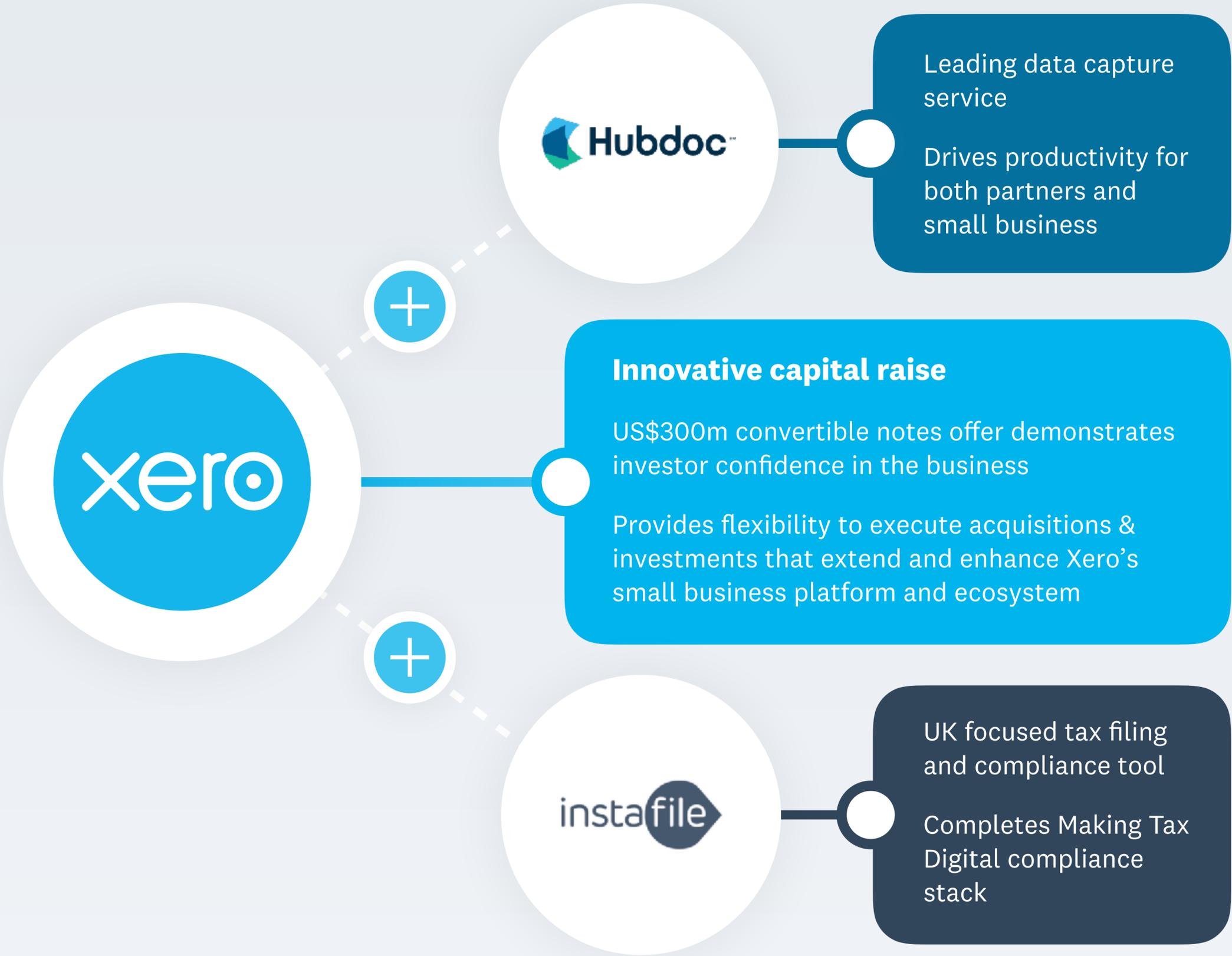
<sup>1</sup> Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), add-ons with incremental revenue (such as payroll and expenses modules) and revenue share agreements with partners

<sup>2</sup> Revenues relating to WorkflowMax, online workflow and job management software

<sup>3</sup> Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services

# Building for global scale and innovation

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# Xero Leadership Team

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**Steve Vamos**  
CHIEF EXECUTIVE OFFICER



**Anna Curzon**  
CHIEF PRODUCT OFFICER



**Kirsty  
Godfrey-Billy**  
CHIEF FINANCIAL 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 OF AMERICAS

# Outlook

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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<sup>1</sup> 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

<sup>1</sup> 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

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# Appendix

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# 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](https://xero.com/investors)