



Investor briefing

Half year results to 30 September 2015

5 NOVEMBER 2015

Important notice

This presentation is given on behalf of Xero Limited.

(Company number NZ 1830488, AU ARBN 160661183 NZX/ASX:XRO)

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- should be read in conjunction with, and is subject to, Xero's latest and prior Annual Reports, prior Interim Reports, Interim Report for the period ended 30 September 2015, and Xero's market releases on ASX and NZX;
- 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; and
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All information in this presentation is current at the date of this presentation, unless otherwise stated.

All currency amounts are in NZ dollars unless otherwise stated.

Agenda

 CEO update

 Financial update

 Scorecard

 Outlook

 Q&A



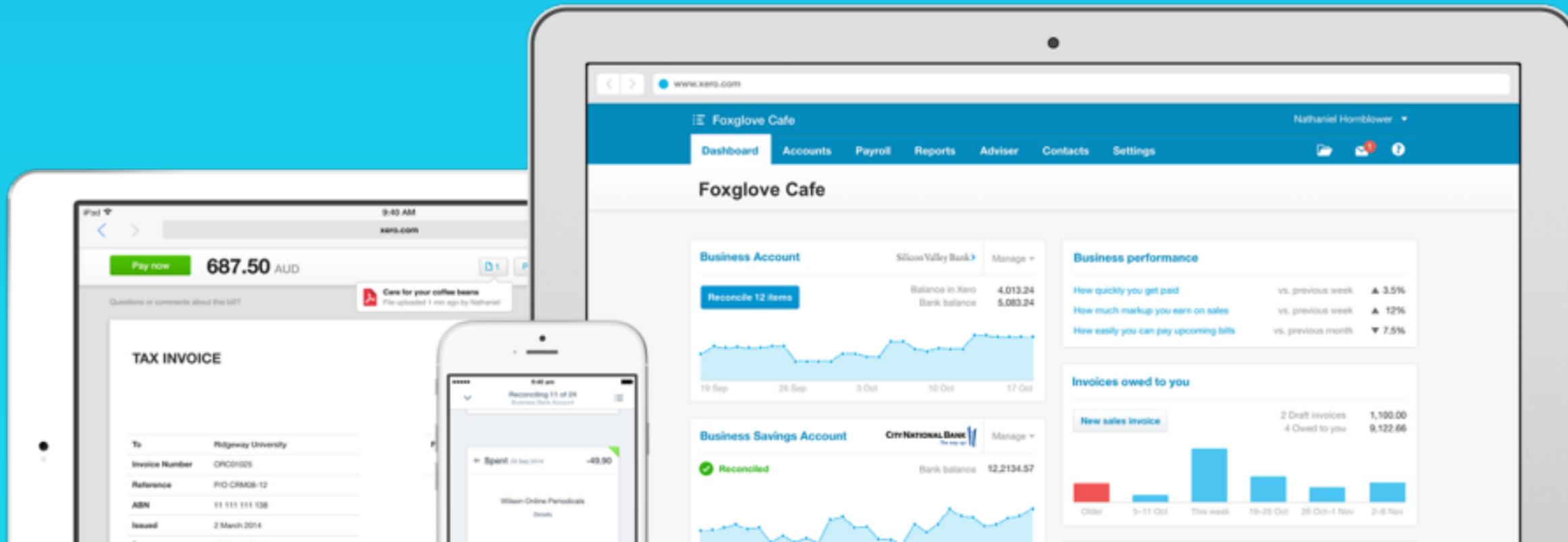
CEO update



Rod Drury
Chief Executive, Founder



Global small business platform and ecosystem
with over 600,000 subscribers today



Experienced leadership



Rod Drury
Chief Executive,
Founder



Tony Stewart
Chief Data Officer



Duncan Ritchie
Chief Platform Officer



Angus Norton
Chief Product Officer



Andy Lark
Chief Marketing Officer



Sankar Narayan
Chief Financial Officer



Gary Turner
UK Managing Director



Chris Ridd
AU Managing Director



Russ Fujioka
US President



Victoria Crone
NZ Managing Director

Team of 1,300+ worldwide



GTM = Go to Market (Sales and Marketing for each region)
Global = Product Development, Customer Experience and Admin

\$218M

Annualised Committed Monthly Revenue



47k SUBSCRIBERS

102k SUBSCRIBERS

19k SUBSCRIBERS

262k SUBSCRIBERS

163k SUBSCRIBERS

593,000 paying global subscribers*

*As at 30 September 2015

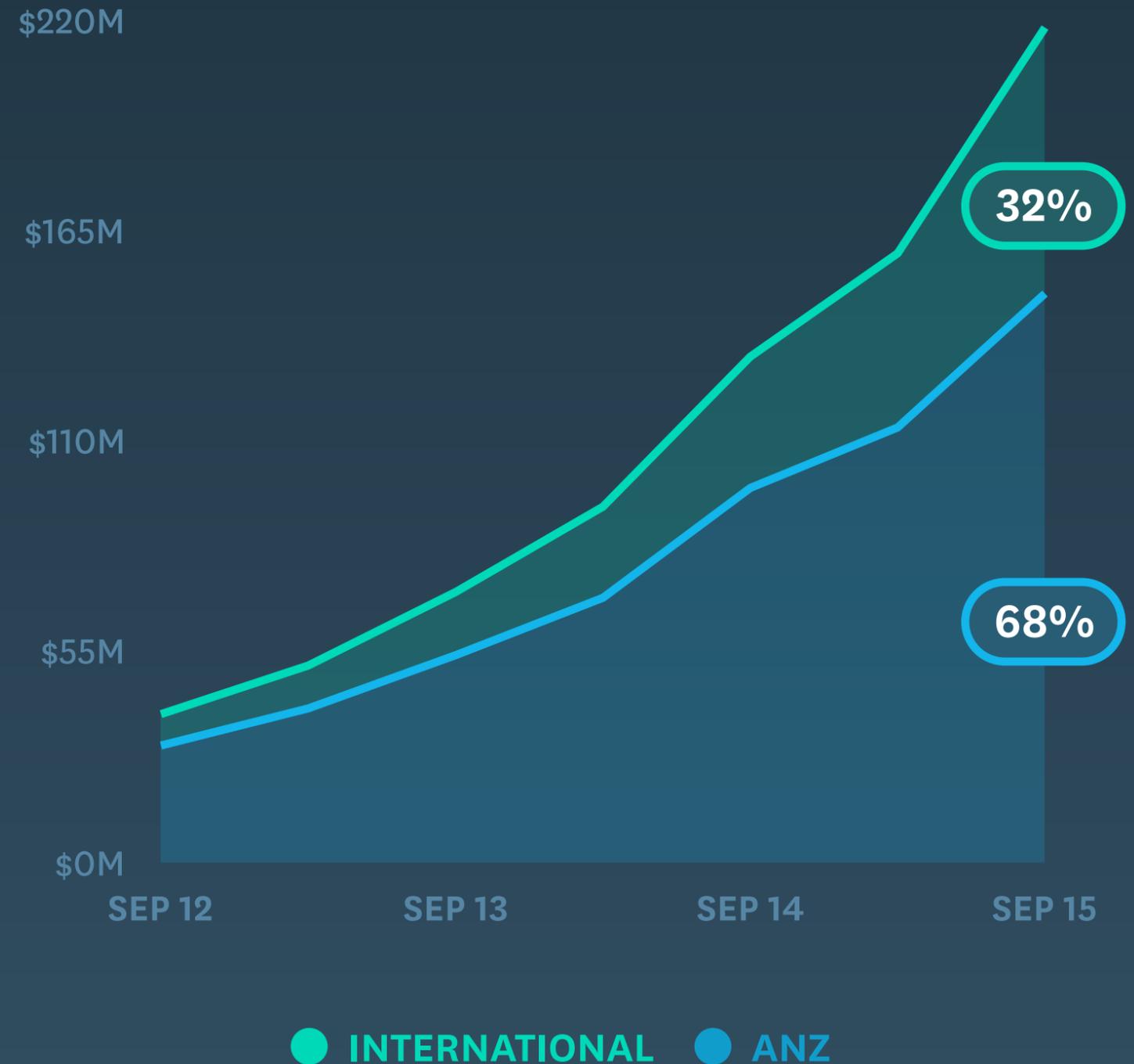
International markets: Meaningful with fast growth

International ACMR expanded to 32% of Group ACMR

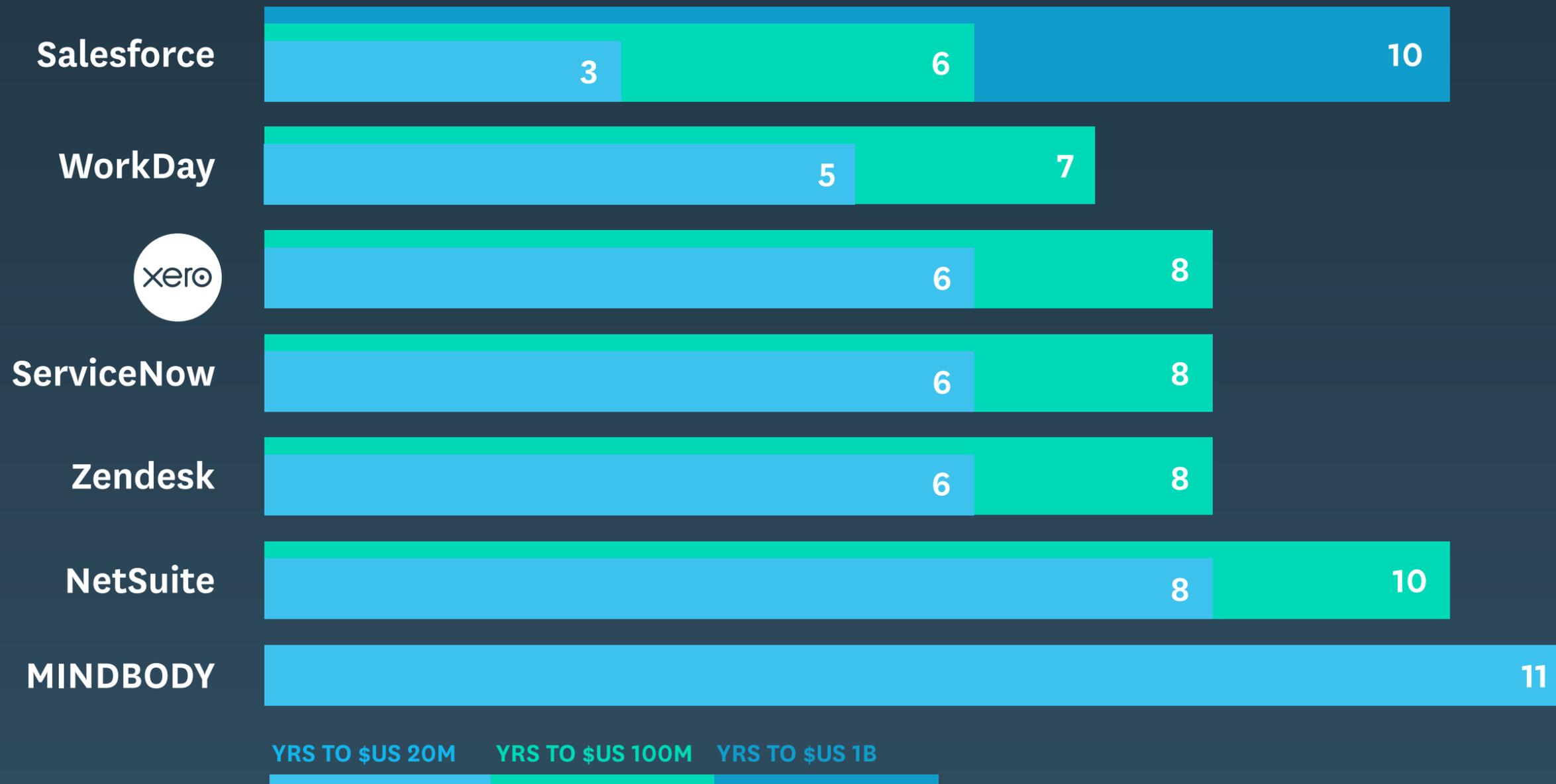
Operating revenue for the Group has grown by 71% YoY with ANZ growing by 59% YoY and International growing by 110% YoY

Group subscription revenue for the 6 months to 30 September 2015 is \$89.8m representing 72% YoY growth

ACMR growth



Achieving revenue milestones – \$30 at a time*



*\$NZ 30 average monthly ARPU. Years to each milestone determined by taking the difference between the closest calendar year in which each revenue milestone was reached and the company's founding year, assuming the founding year was a full year of operations



Financial update



Sankar Narayan
Chief Financial Officer

Key financial achievements

Australia and New Zealand delivering positive contribution

Group

71% YoY operating revenue growth

Average revenue per subscriber increased to \$30.70

Added 222,000 subscribers at CAC 13.7 months

Retention at 84%

Grew lifetime value 16% to \$1,805

International – investing

110% YoY operating revenue growth

Average revenue per subscriber increased to \$34.50

Added 74,000 subscribers at CAC of 21 months

Improved retention to 78%

Grew lifetime value 45% to \$1,396

ANZ – contributing

59% YoY operating revenue growth

Average revenue per subscriber maintained at \$29.20

Added 148,000 subscribers at CAC of 9 months

Retention at 88%

Grew lifetime value 6% to \$2,069

Financial performance

Gross margins have improved with efficiencies and economies of scale

Continued investment in distribution channels and product development drove global revenue and subscriber growth

Subscriber acquisition costs (CAC) are incurred prior to revenues. High growth strategy impacts the current period P&L

NZD deterioration adversely impacted operating costs while improving revenues

EBITDA margin improved from H2 FY15

	H1 FY15 (\$000s)	H2 FY15 (\$000s)	H1 FY16 (\$000s)
Total revenue	54,295	69,555	92,864
Cost of revenues	18,016	19,387	24,497
Gross profit	36,279	50,168	68,367
Gross margin	67%	72%	74%
Sales and marketing	38,329	55,149	70,885
Product design & development	17,221	28,792	34,454
General & administration	9,612	14,936	14,261
Total operating expenses	65,162	98,877	119,600
Net loss after tax	(24,471)	(45,063)	(44,327)
EBITDA	(20,207)	(36,947)	(33,804)
EBITDA margin	(37%)	(53%)	(36%)

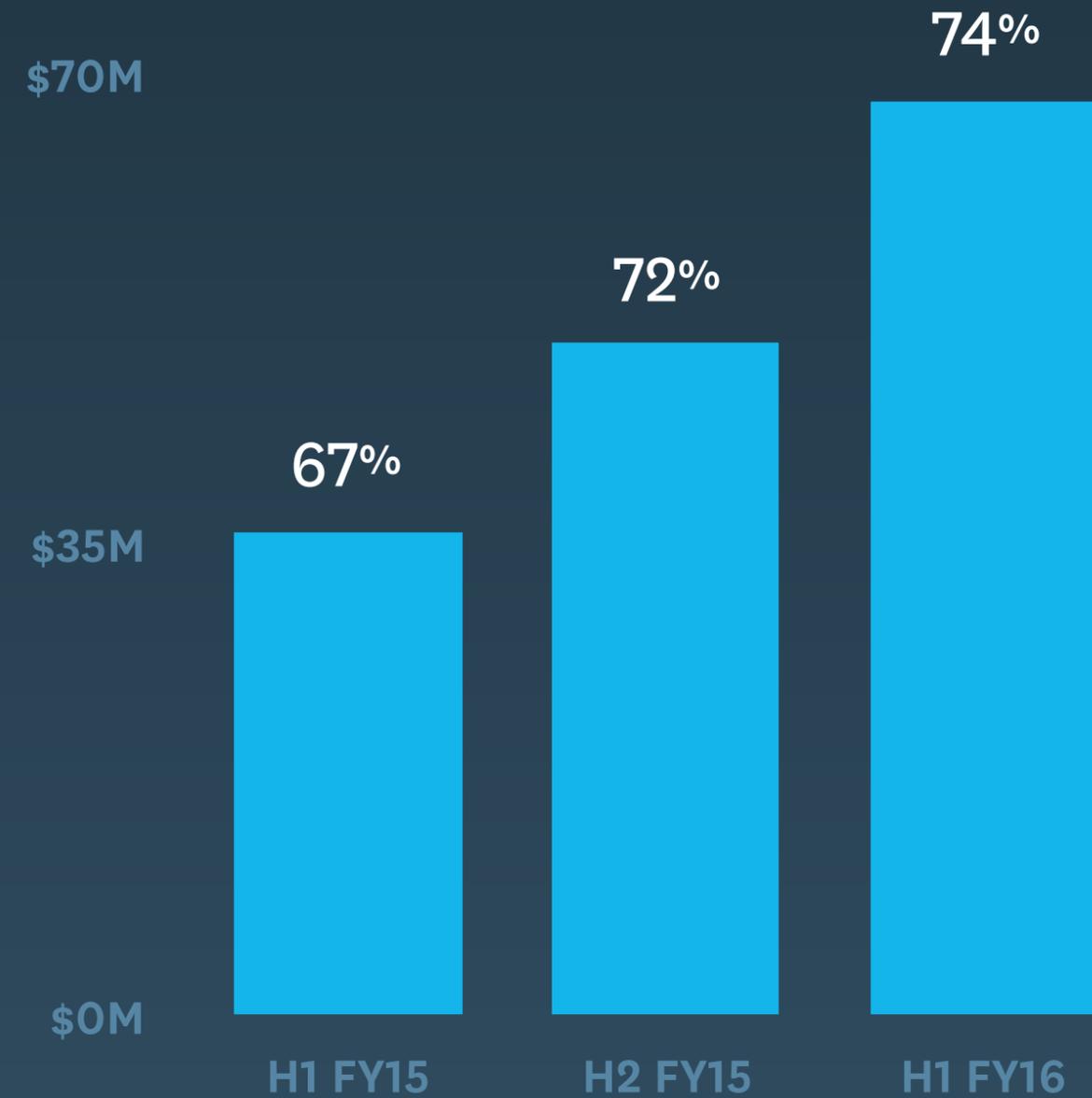
Improving gross margins at scale

Demonstrating ability to drive material improvements in gross margin

Driven by operating efficiencies and economies of scale

Opportunities to further improve gross margin

Gross margin



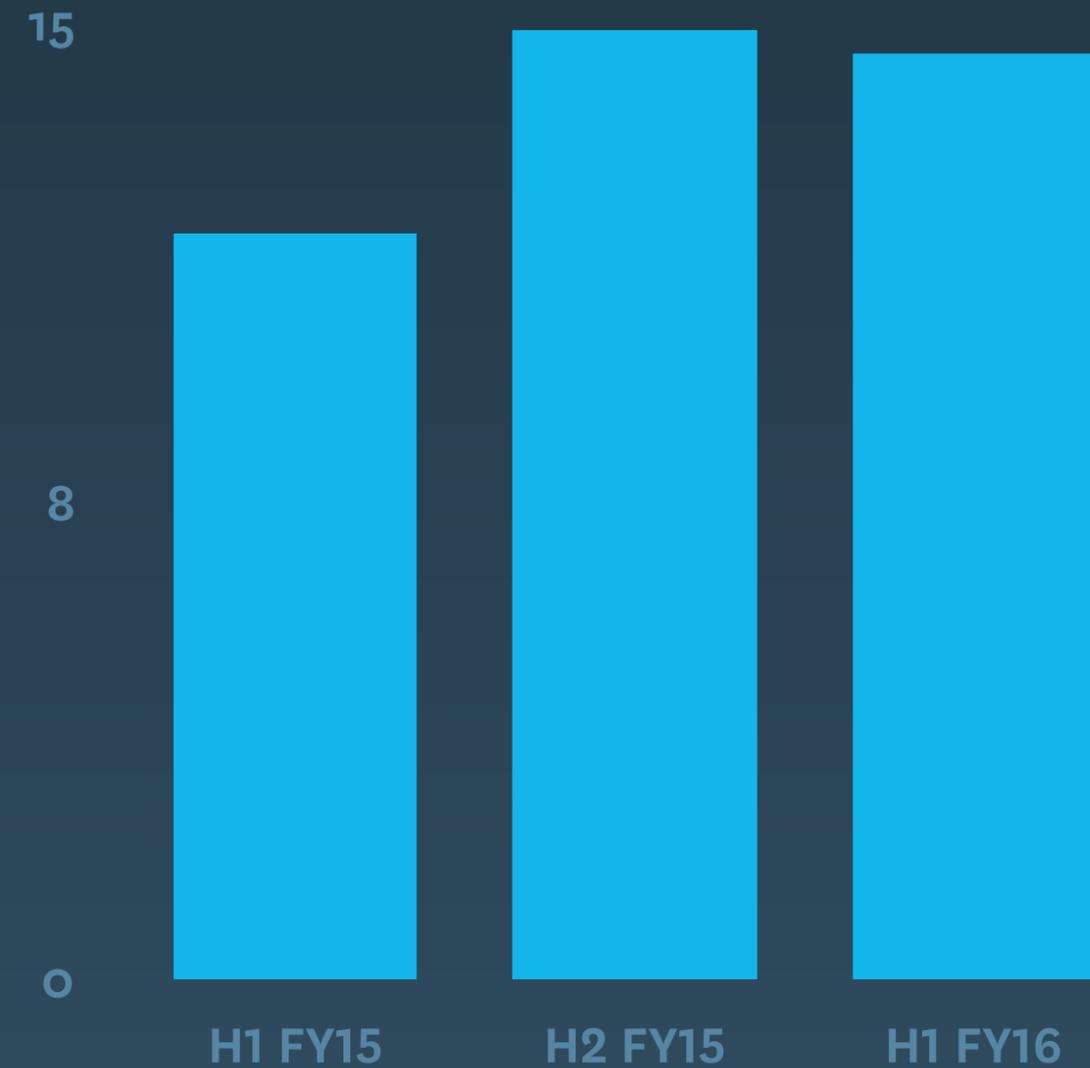
Efficient subscriber acquisition

Increase in CAC months in H2 FY15 driven by investments in distribution channels in international markets

CAC months reduced in H1 FY16 reflecting improved efficiency

Continued focus to further improve efficiency

CAC months*



Product investment

Substantially increased product team over the last 18 months

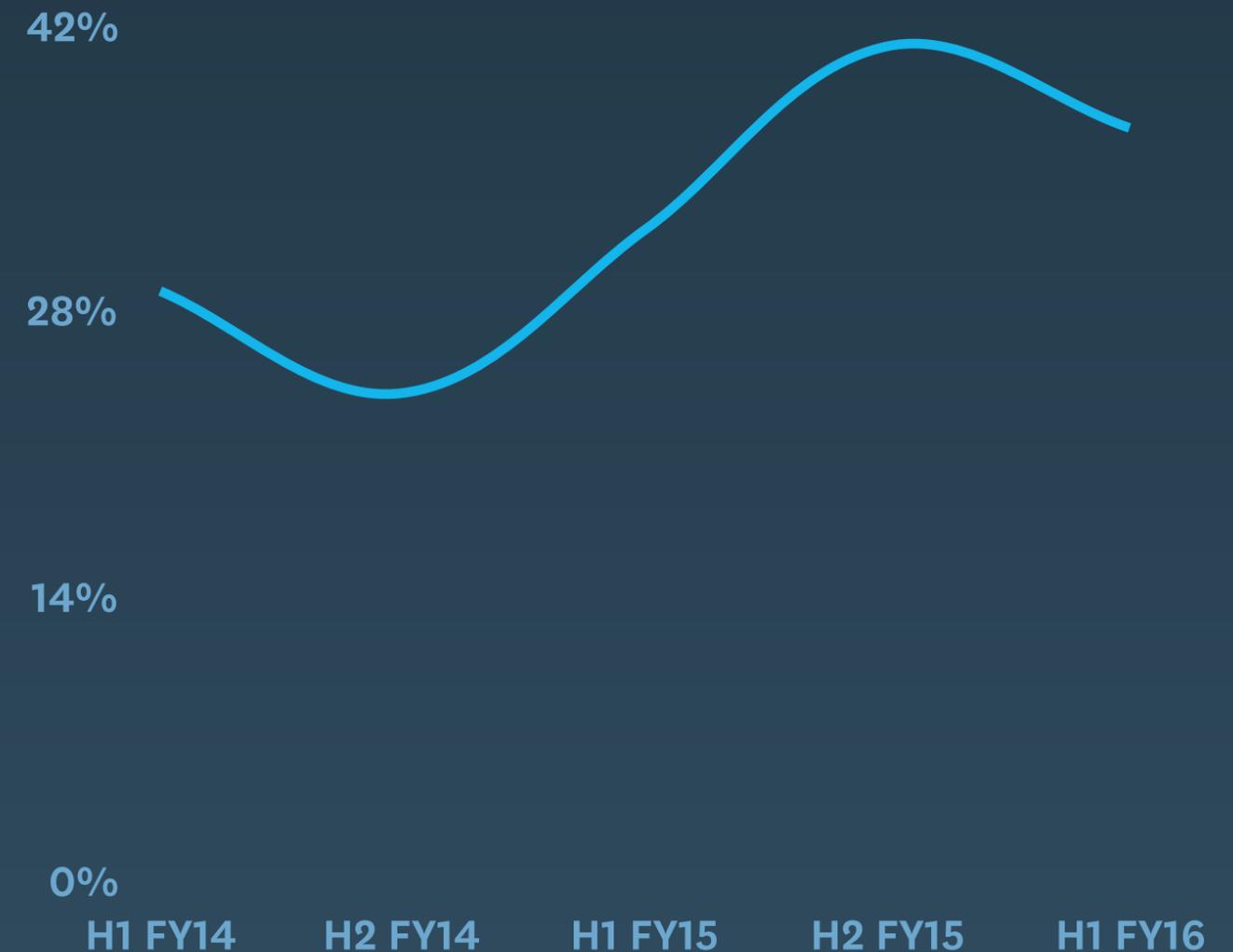
Focus on improving scale efficiency and effectiveness of product investment effort

Investing in new products and services to drive future ARPU and growth

Expanding category from accounting to business software

Taking advantage of commodity innovation in global PaaS platforms

Product costs* as percentage of revenue



* Product P&L expense

Driving lifetime value

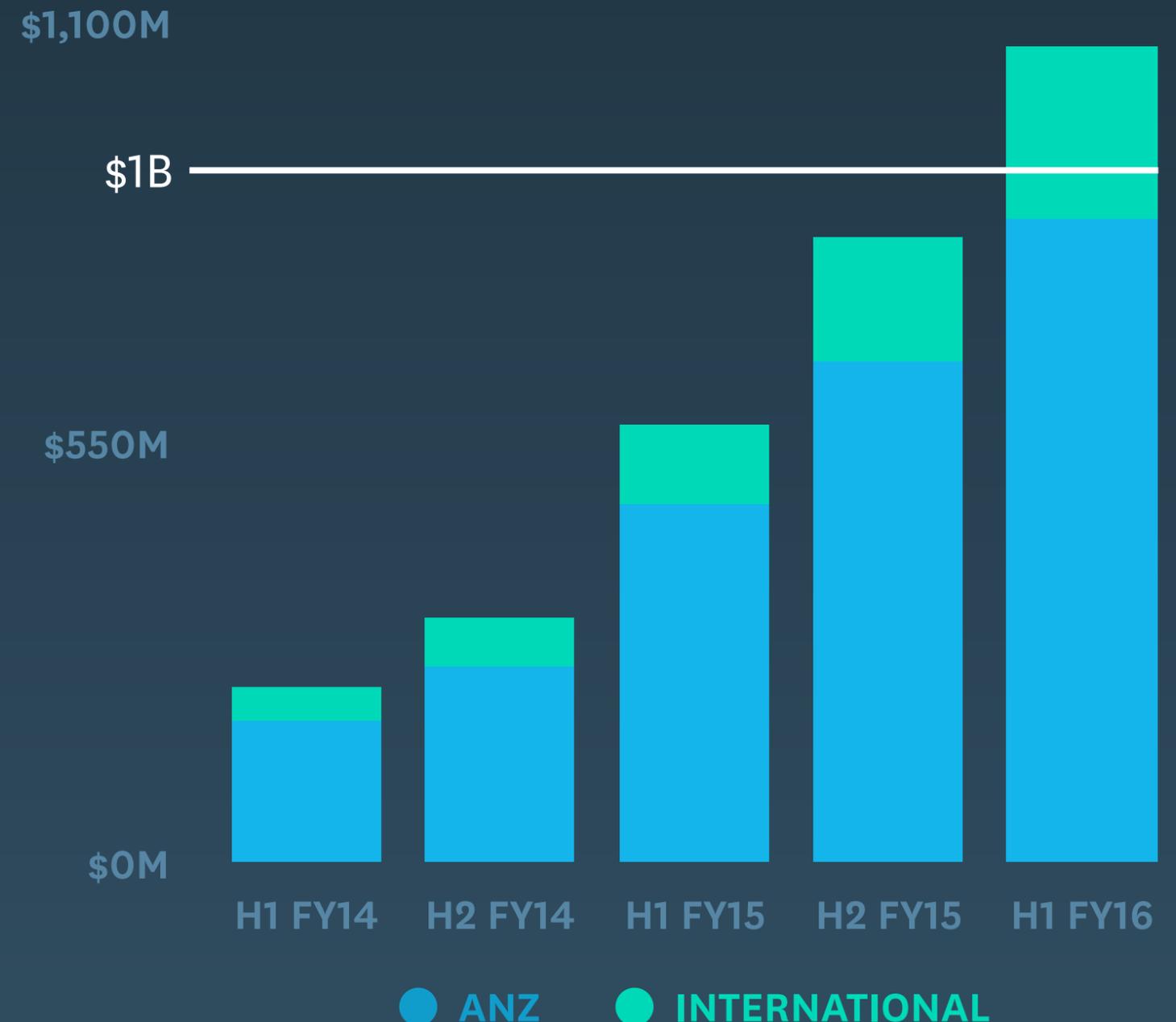
In SaaS current period expenditure provides long-term value gain

Future lifetime value of existing subscribers now exceeds \$1bn, \$250m higher than six months ago

International subscribers represent 21% of total LTV up from 14% at 30 September 2014

The ability to create such significant long term value is why we choose to continue to invest strongly now

Total lifetime value*



*See appendix for lifetime value definition

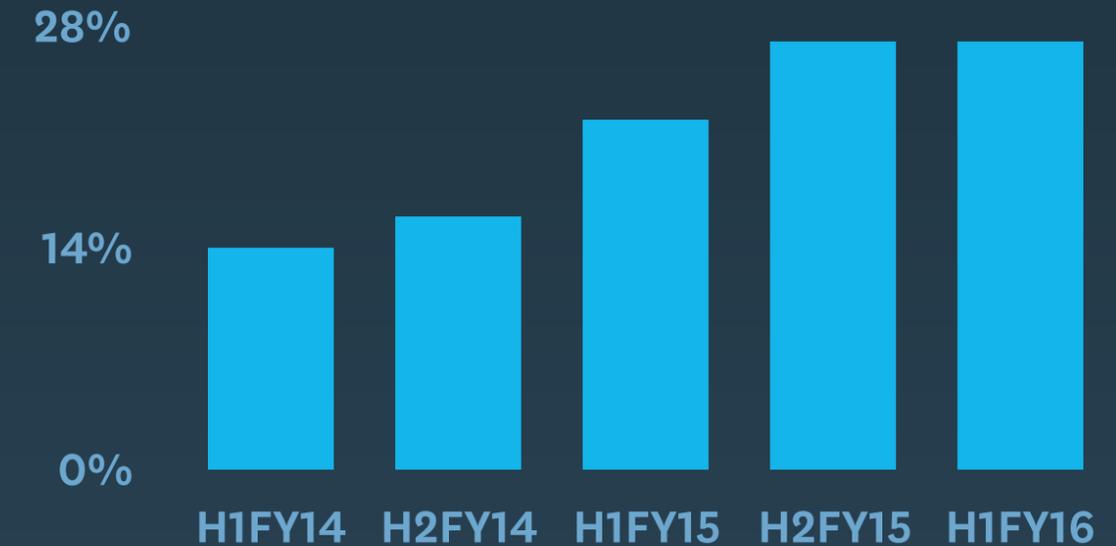
Contribution margins improving

ANZ contribution has improved over the period in dollar terms and almost doubled as a percentage of operating revenue. Investment has continued to drive operating revenue growth of 59%

International performance has improved as a percentage of operating revenue

Substantial investment in North America reflects the opportunity

ANZ contribution



International investment



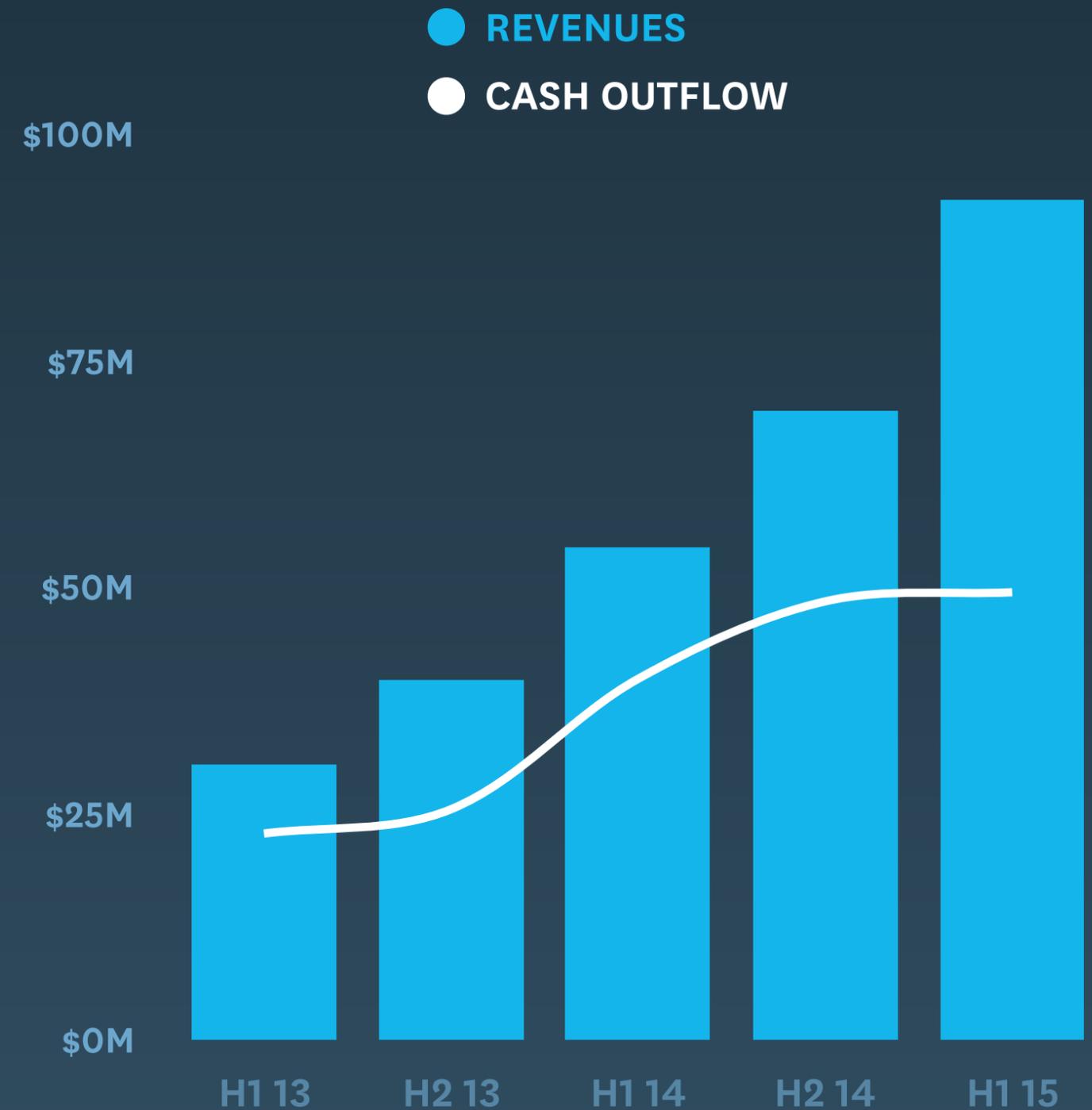
Increasingly funding growth with strong revenues

Funding greater proportion of growth through revenue receipts

Operating and investing cash flows stabilising, with Q2 cash usage a reduction from the prior four quarters

Total cash movement for the six months to 30 September 2015 of $-\$44.4\text{m}$

Closing cash balance of $\$224.5\text{m}$



Australia and New Zealand

59% operating revenue growth while sustaining premium cloud offering and ARPU

Subscriber growth of 53%

New Zealand continued growth with expansion into farming and executed successful price rise

Banking and ecosystem partnerships

- Delivering financial services direct to small businesses
- Lowering our cost to serve

Practice conversions from MYOB BankLink to Xero

Outperforming competition in heated competitive environment

\$149M ACMR

\$65M operating revenue

425,000+ subscribers

Subscribers by channel



International

UK leader

- First small business cloud accounting solution to surpass 100,000 paying subscribers
- Bank partnerships including four of five major banks directly connected
- Joint accounting and payroll proving attractive

Rest of World

- Increased focus as global and local accounting firms pull Xero into their market
- Opening up a massive global TAM

North America fastest growing region

\$70M ACMR

\$28M operating revenue (+110%)

168,000 subscribers (+79%)

Subscribers by channel



North America

North America market entry ahead of all other markets

47,000 paying subscribers, growth of 114%

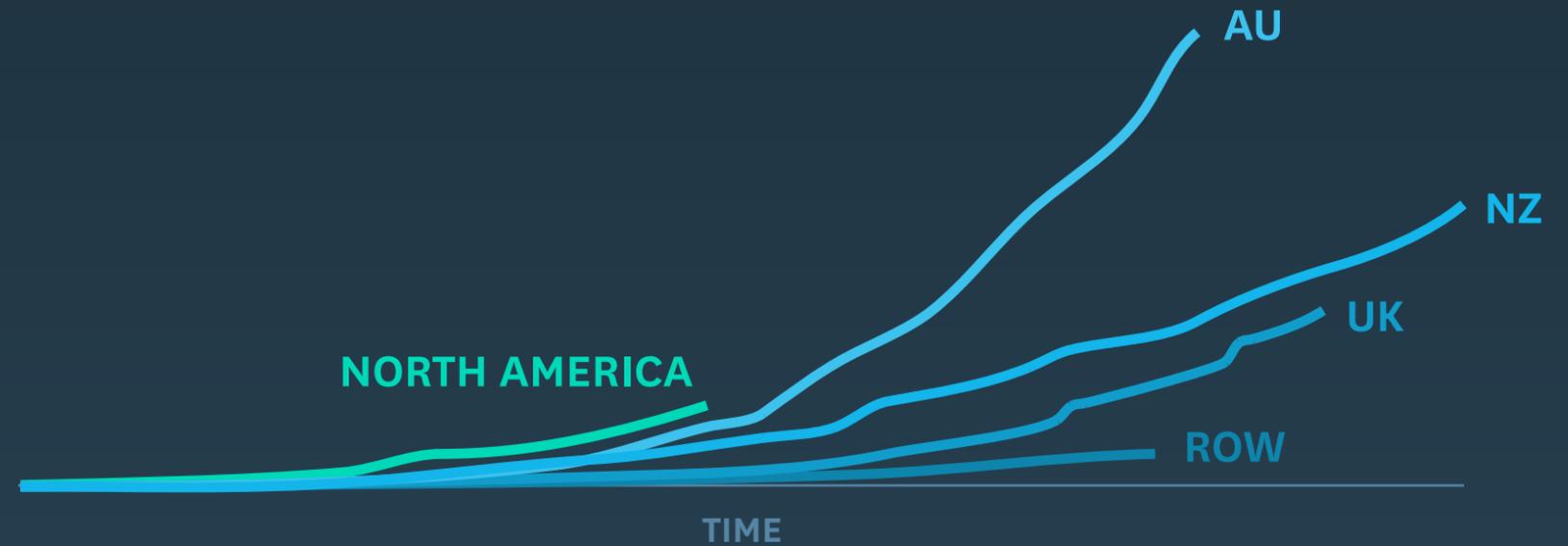
As our profile grows, accounting partners coming on stream as in other markets

Performing well compared to other B2B SaaS companies



“A new review favours Xero over QuickBooks Online in the cloud accounting space”
 – Gene Marks, Washington Post 29/09/15

Xero country subscriber velocity



SaaS B2B subscriber comparison



"Last Quarter" subscriber metrics from most recent company quarterly reports as of June 30, 2015 or July 31, 2015. "1 Year Prior" reflects the subscriber count 12 months prior to "Last Quarter". Years of operation determined by taking the difference between 2015 and the company's founding year, assuming the founding year was a full year of operations.



Scorecard



Rod Drury

Chief Executive, Founder

SaaS scorecard

Common evaluation criteria for building
the world's leading SaaS business

1 Grow customers worldwide

2 Win worldwide with the ecosystem

3 Build an open platform network

4 Product innovation and velocity

We believe these matter too

5 Acquire customers economically at scale

6 Price for value

7 Generate long-term value and margins

8 Build globally loved brand

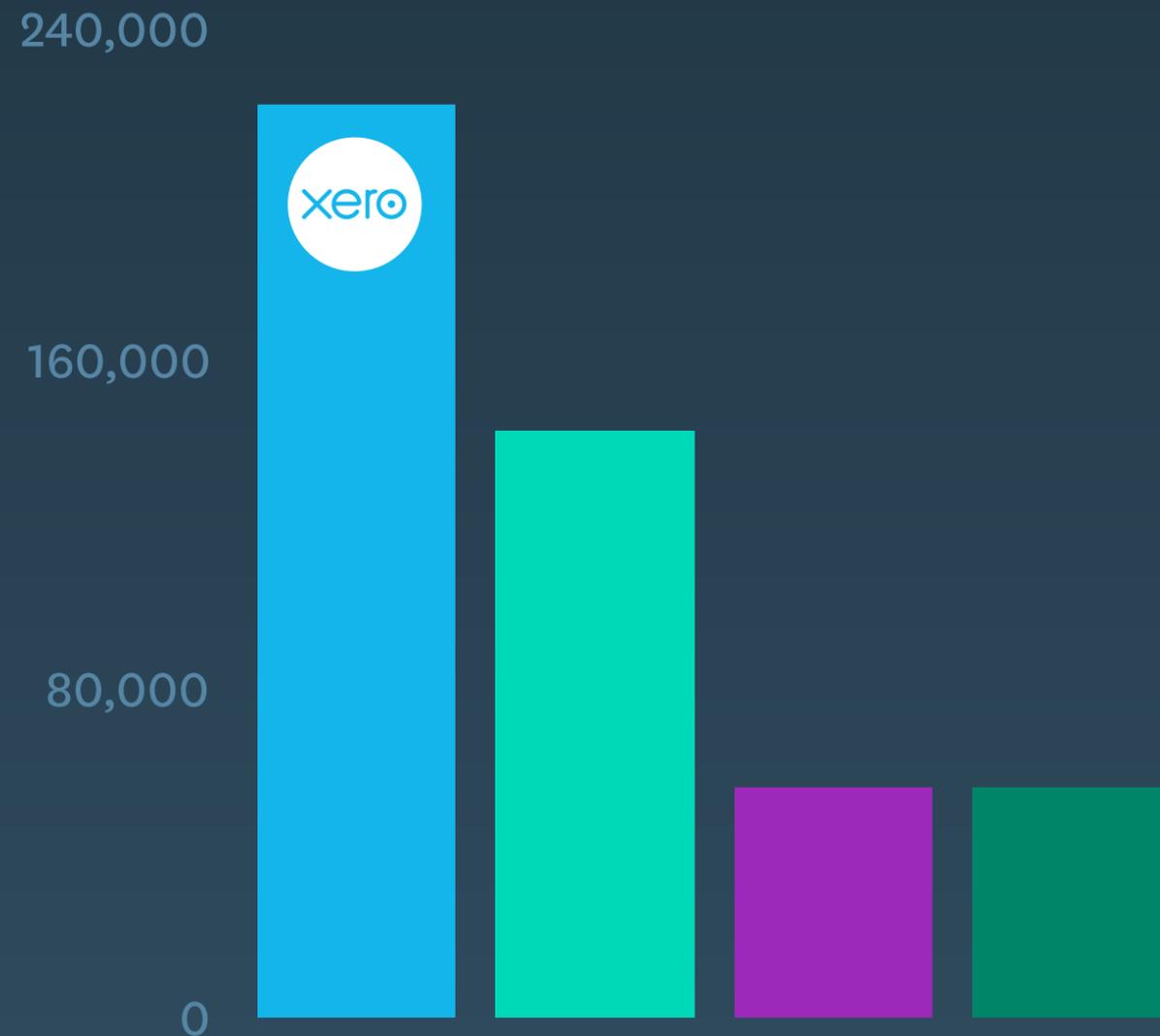
1 Grow customers worldwide

Globally added 222,000 subscribers over twelve months across 180+ countries

Achieving growth at low acquisition cost

Defending our position and premium in very competitive markets

New adds to franchise last reported 12 months*



2 Win worldwide with the ecosystem



Deliver customer benefit

Beautiful software, advice and connections on a single platform

Over 500,000 employees paid last month and \$6.5 billion payroll processed last 90 days

Enterprises connecting to small business through the platform

Financial services via two-way bank connect and API



Customer base growth

Over 593,000 paying subscribers

180+ countries

Added 222,000 subscribers over twelve months



LTV to CAC improvement

LTV increased to \$1,805

Retention improved to 84%

High growth with LTV:CAC at 4.3

Relationships deepened / announced in last 6 months

Channel	Business	Financial Web	Xero integrations	Practice
 Google  Microsoft	 iZettle®  shopify	      Santander	   Square	   Bill.com™

3 Build an open platform network



One codebase

100% cloud native code base since day one

Users in over 180 countries

Distributed teams efficiently working in parallel opening up global talent



Built to scale

99.99% availability

\$300 billion + transactions processed over twelve months

Transitioning to second generation cloud platform



Open for all developers

Open APIs designed from day one loved by thousands developers

“Just made our first @XeroAPI connection & created an invoice in <24 hours. Least painful API integration I've ever done, well done @Xero.” @dragonBill_pay

4 Product innovation and velocity



Innovation for all ecosystem participants

Setting industry agenda for next generation accounting features

Helping partners to reach our channel

Innovation open to partners

Very strong near, mid and long term product pipeline



Increasing development velocity

Delivered hundreds of updates and more than 40 major new features

Significant investment to increase development teams across geographies

Daily software releases

Continuous improvement of development methodologies to leverage and define best practices

Product investment

Enormous scope for future additional services and value creation

The second generation SaaS platforms must take advantage of commodity innovation in PaaS

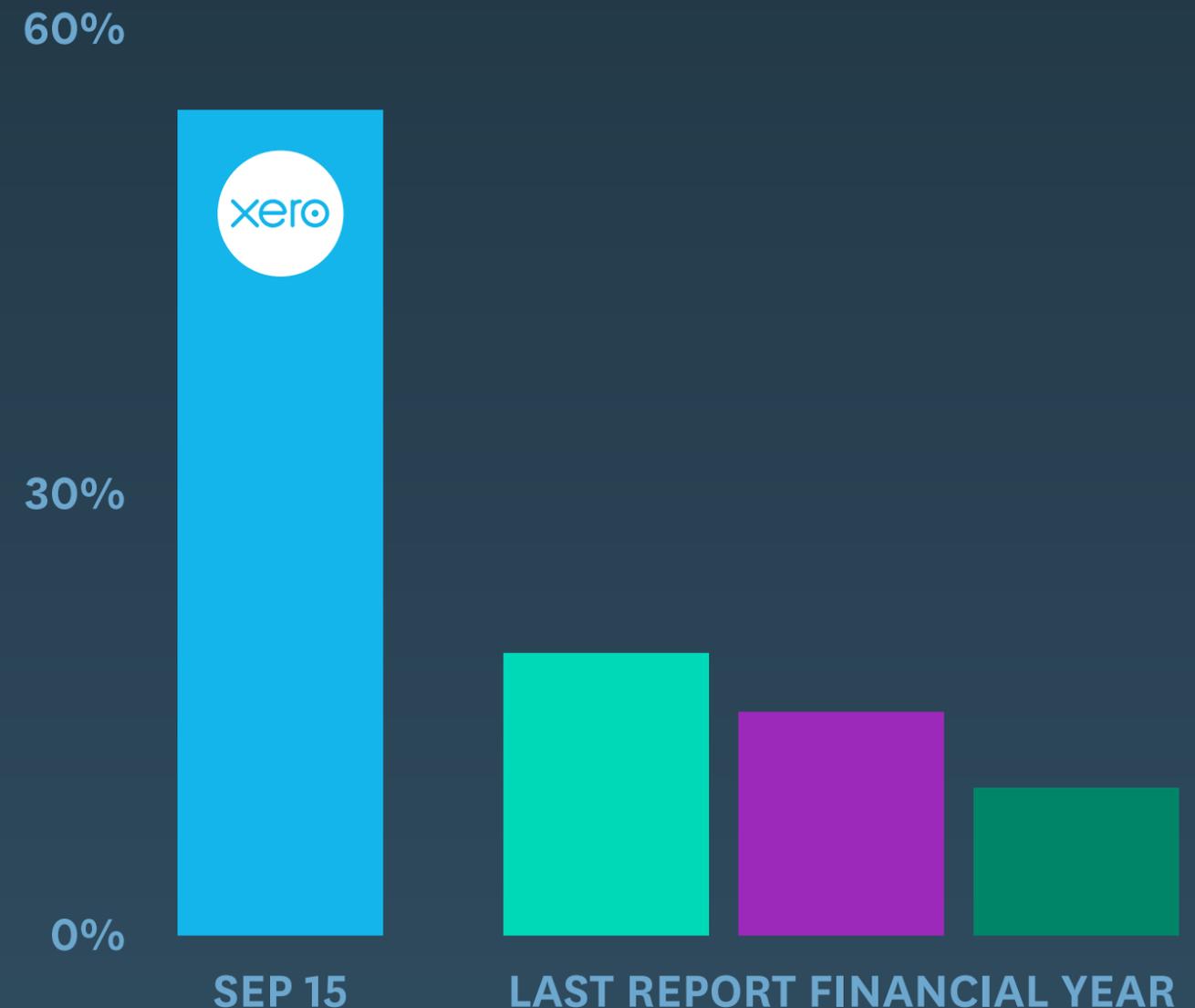
Efficiency in acquisition is allowing us to invest more in product

Founder led product culture and true belief that the best product wins

“At this moment, the only online accounting software that I’ve reviewed that has a fully functional multicurrency implementation is Xero. With Xero, everything just seems to work and I haven’t found myself needing to compromise”

– Greg Lam, Sleeter

Total R&D spend as percentage of revenue vs competitors*



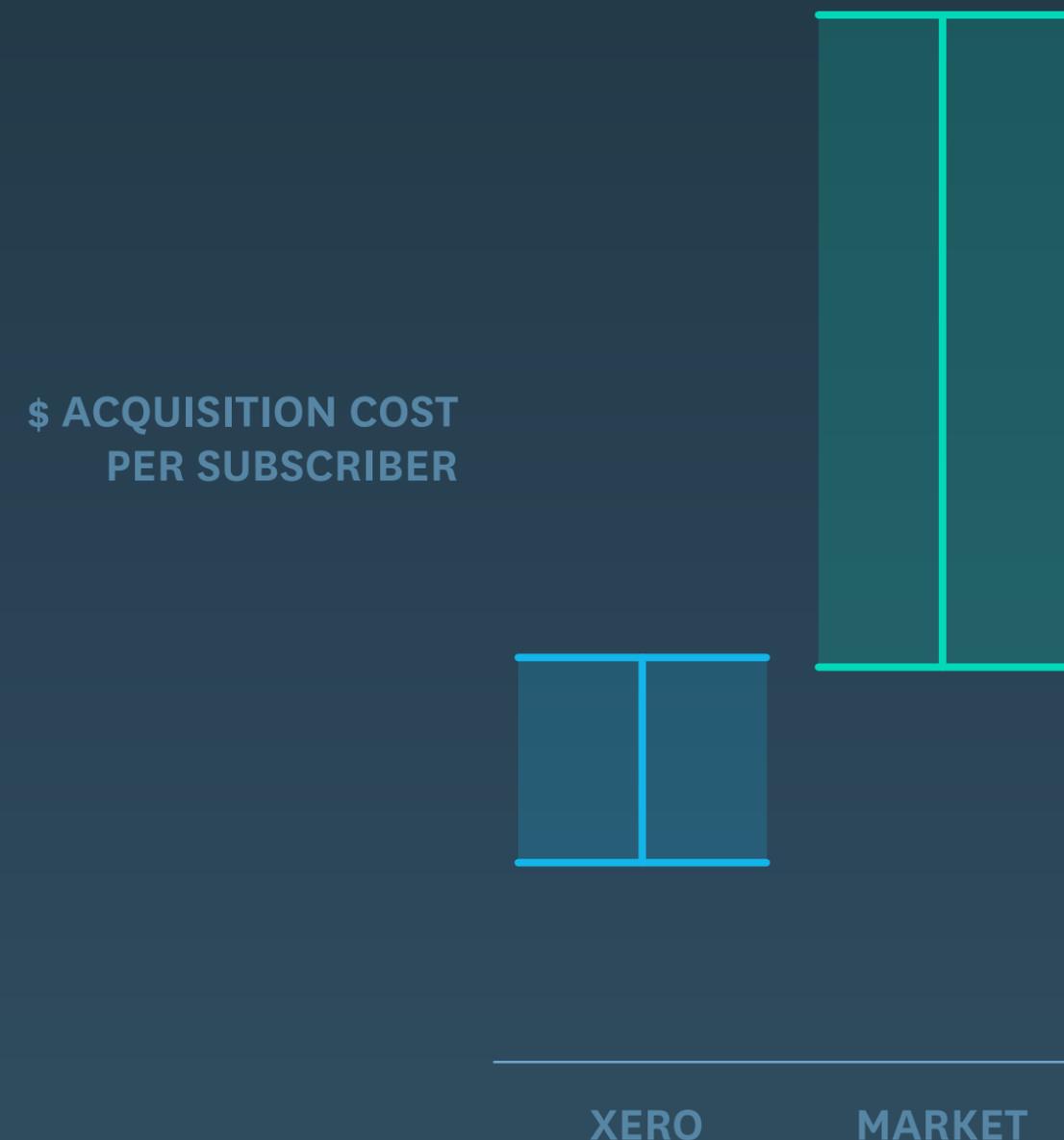
*based on publicly available information

5 Acquire customers economically at scale

Power to acquire subscribers at scale from:

- Online channel automation
- Flywheel between accounting partner and small business
- Word of mouth from delighted customers
- Strategic partner channels
- Broadest, deepest and best executed ecosystem for front office solutions

Being a great product & network effects platform company



6 Price for value

Maintaining high growth and premium value for accounting

Successfully executed price increases

Quality products experience minimal pricing elasticity – have defended against lower cost products

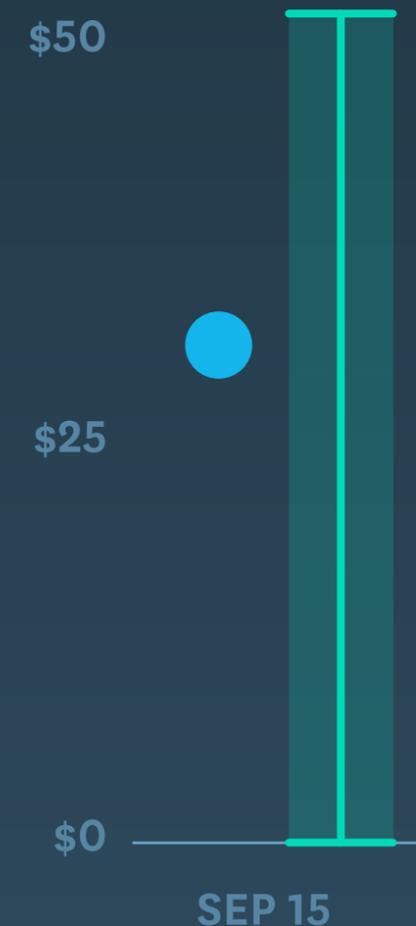
Initial platform financial services partnerships in place

Releasing high value features to encourage upgrades to premium products

Average revenue per user

Xero

Xero's strong value provides platform to expand ARPU



Market

Incumbents lowering prices to acquire subscribers

7 Generate long-term value and margins

(LTV = ARPU * average lifetime * current gross margin)

	<i>ARPU</i>	<i>Gross margin</i>	<i>Lifetime</i>	<i>Lifetime value</i>
ANZ	\$29.20	73%	97 months	\$2,069
Group	\$30.70	74%	80 months	\$1,805
	<i>Since H1 FY 2015</i>	<i>Gross margin was 70.5% in H1 FY 2015</i>	<i>Group lifetime flat from H1 FY 2015</i>	<i>Group LTV increased \$251 from H1 FY 2015</i>

8 Build globally loved brand

Great companies are defined by the profound enthusiasm of their customers



@Xero is just fantastic.
So many problems,
solved. Done. Love it.
I'm actually enjoying
getting ready for taxes.

@peeja



Just asked another client
how they are enjoying
their new @Xero file.
They said "they don't
like it, they love it"

@kmiddlemis



After setup & training
on Friday, the meeting
ended w/ the client
saying, "I looovvveee
Xero!" #xerolove

@WFUDeac



Outlook



Sankar Narayan
Chief Financial Officer

Outlook

On track for full year subscription revenue of NZD\$200 million based on June 2015 FX rates

Operating metrics are expected to improve as the Company continues to drive efficiencies through automation and economies of scale

Focused on containing full financial year cash outflow to similar levels to prior financial year



Q&A

Appendix

ACMR Annualised committed monthly revenue represents monthly recurring revenue at 30 September multiplied by 12. Accordingly, it provides a 12 month forward view of revenue, assuming that any promotions have ended and other factors such as subscribers, pricing and foreign exchange remain unchanged during the year.

ARPU ARPU is calculated as annualised committed monthly revenue at 30 September divided by subscribers at that time (and divided by 12 to get a monthly view).

CAC CAC months or months of ARPU to recover CAC (“cost of acquiring subscribers”) represent the number of months of revenue required to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the period less conference revenue (such as Xerocon) divided by new subscribers added (gross) during the same period, divided by monthly ARPU.

Subscriber retention/churn Churn is the number of subscribers who leave Xero in a month as a percentage of the total subscribers at the start of that month. The percentage provided is the average of the monthly churn for the twelve months to 30 September. Retention is the inverse of churn.

Lifetime value Lifetime value 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 subscriber churn) multiplied by ARPU multiplied by the gross margin percentage.

Lifetime value/CAC Lifetime value/CAC is the ratio between the lifetime value (described above) and the cost to acquire that subscriber, e.g. the gross margin derived from a subscriber in ANZ is currently on average 7.9 times the cost of acquiring that subscriber. This is an additional measure of sales and marketing efficiency with industry commentators suggesting a ratio of over 3 is satisfactory.



Beautiful accounting software

www.xero.com