



Beautiful accounting software

MARKET RELEASE

Xero Limited (ASX/NZX: XRO) Full Year Financial Results:

Xero Passes Quarter Billion Annualised Revenue

Managing to cash flow break-even with cash on hand

Trillion dollars of transactions recorded on Xero platform in last 12 months

Performance highlights

All figures in NZD

Strong global revenue and subscriber growth

- Paid subscribers hit 717,000 globally, with 242,000 subscribers added in the 12 months to 31 March 2016
- Annualised committed monthly revenue of \$257.9 million, a year-on-year increase of 62%
- Operating revenues of \$207.1 million, an increase of 67% on FY15
- Global year-on-year revenue growth of 95% in international markets, and 57% in Australia and New Zealand

Improvement in operating metrics

- Gross margin increased by 6 points year-on-year to 76%
- Net loss of \$82.5 million for the year, an increase of \$12.9 million over the previous year, as Xero continues to invest in scaling its global business
- Net loss of \$38.1 million for H2 FY16 moderated from the net loss in H2 FY15 by \$6.9m
- EBITDA margin in H2 FY16 improved to -23% from -36% in H1 FY16 and -53% in H2 FY15
- EBITDA margin (excluding share-based compensation) in H2 FY16 improved to -15% from -30% in H1 FY16 and -43% in H2 FY15

Reducing cash usage¹

- Operating and investing cash usage for the second half of the year of \$39.1 million, an improvement of \$9.4 million from \$48.5 million for the same period in the previous year
- Cash usage from operating and investing activities (including FX) was \$86.1 million for FY16, lower than the cash usage of \$88.2 million in the previous year
- Closing cash and cash equivalents and short-term deposits position of \$184.0 million

Guidance

- Operating metrics to continue improvement in FY17 as the Company continues to drive efficiencies through automation and economies of scale
- Cash usage in FY17 (based on FX rates at 1 April 2016) is forecast to reduce from FY16. Xero is managing the business to cash flow break-even within its current cash balance

¹ Net movement in cash and short-term deposits excluding financing activities

SYDNEY, 12 May 2016 – Xero Limited (NZX: XRO, ASX: XRO) today reported full-year earnings to 31 March 2016, posting operating revenues of \$207.1 million, a 67% year-on-year increase. Global subscriber numbers reached 717,000 paying subscribers, a 242,000 increase on 31 March 2015.

Following strong subscriber growth over the past 12 months, Xero is the market-leading small business cloud accounting software in Australia, New Zealand and the United Kingdom, based on number of subscriptions. We have also made good progress in the competitive United States market where the accounting industry is early in its migration to cloud technologies. Our global experience and platform investment positions us well as the transition to cloud-based business software continues its momentum.

“Xero has well and truly become the heart of thousands of small businesses around the world,” said Rod Drury, Xero CEO. “We have extended our position globally, and lead the small business cloud accounting software market in Australia, New Zealand and the United Kingdom by subscriber numbers.”

During the year to 31 March 2016, Xero continued its investment in growth, while improving margins and moderating cash usage. Annualised committed monthly revenue reached \$257.9 million, up from \$159.3 million at the same time the previous year, representing growth of 62%. EBITDA margins improved in the current half compared to previous periods.

“Our revenue growth and improved operating metrics are a testament to the quality of our product and execution of our global growth strategy,” said Drury.

Global market highlights include:

- Australia and New Zealand reached \$177.9 million in annualised committed monthly revenue with half a million subscribers in April 2016
- Strong international growth with the UK growing to 133,000 subscribers and North America to 62,000 subscribers
- Xero opening its first Asia region office in Singapore to meet demand particularly in Hong Kong, Malaysia and Singapore

For many customers, the Xero platform is not just an isolated accounting ledger – it has become integrated into their business alongside the dozens of other tools they use daily to get the job done. Xero has worked to expand the financial web, allowing small business owners to control and connect their accounting ledger to their bank and other services so they can access services that were once primarily only offered to large enterprises.

“Innovation is accelerating. We’re not burdened by having to protect a legacy desktop position, so we are fully focused on unleashing the next wave of innovation – based on deep analytics – to drive better business outcomes. Underpinning this innovation and move to scale is our migration of Xero’s cloud platform to Amazon Web Services,” said Drury.

Product innovation highlights include:

- Migration of Xero’s cloud platform to Amazon Web Services which is now at the deployment stage – a move that will unlock a new platform for innovation
- Implementation of more than 1,200 customer-facing product improvements and features over the past 12 months
- Release of TaxTouch, a cloud-based tax solution for freelancers and the self employed in the United States
- The release of Xero Tax, a cloud-based tax solution for the Australian market that has been used for more than 1.4 million tax lodgements

- Release of two-step authentication for Xero customers to provide an additional layer of security for all Xero user accounts
- Expansion of the ecosystem which connects Xero with more than 500+ solution partners to extend functionality for small businesses
- Significant strategic partnerships and integrations with top technology companies who are shaping the future of cloud

Over the past 12 months, Xero has connected to more banks and financial institutions globally. In the future, intelligent data matching in Xero will automatically code banking transactions, making accounting even easier for small businesses.

Adding to the 80 relationships with financial institutions around the world, Xero is making progress with major bank integrations in the United States. The focus will be on capturing the benefits from these important relationships to drive growth.

“In the past 12 months, the Xero platform has been used to record more than \$1 trillion of activity across more than 450 million incoming and outgoing transactions. Our vision is to use software to rewire the global small business economy by connecting small businesses to their trading partners,” said Drury.

“In a market of tens of millions of potential customers, we’re only just getting started. Our subscriber base continues to grow and we have remained focused on financial progress, and taking further steps towards value-added growth. As our operating revenues and annualised committed monthly revenues grow, we will continue to strengthen our position with the goal of becoming a \$1 billion+ revenue generating business,” said Drury.

About Xero

Xero is beautiful, easy-to-use online accounting software for small businesses and their advisors. The company has over 700,000 subscribers in more than 180 countries. Xero boasts more than 500 third-party integrations, and was ranked No. 1 by Forbes as the World's Most Innovative Growth Company in 2014 and 2015.

Contact:

Alex Mercer
Head of Global Communications, Xero
Email alex.mercer@xero.com
Phone +64 21 502 112