



Investor briefing

FULL YEAR RESULTS TO 31 MARCH 2016

Important notice

This presentation is given on behalf of Xero Limited.

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

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, purchase, or recommendation of securities in Xero Limited
- should be read in conjunction with, and is subject to, Xero's latest and prior annual reports, prior interim reports, annual report for the period ended 31 March 2016, 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

 Outlook

 Q&A



CEO update



Rod Drury
Chief Executive, Founder

Delivering on potential



\$258m

ANNUALISED COMMITTED
MONTHLY REVENUE

SUBSCRIBERS

New Zealand	186 k
Australia	312 k
United Kingdom	133 k
North America	62 k
New markets	24 k



717,000
SUBSCRIBERS GLOBALLY*

Delivered on guidance

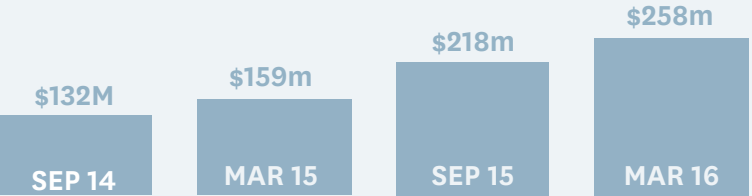
✓ Revenue

Xero expects FY16 subscription revenue to “exceed \$200m based on average June 2015 foreign exchange rates”

\$258m ACMR as at 31 March 2016

Guidance met on subscription revenue

ACMR



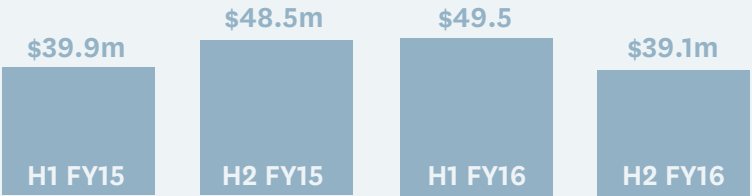
✓ Cash

“Xero is focused on containing its full financial year cash outflow to similar levels to Xero’s prior financial year”

Cash usage from operating and investing activities (including FX) \$86.1m for FY16, lower than cash usage of \$88.2m for FY15

Operating and investing cash outflow in FY16 \$88.6

CASH OUTFLOW*



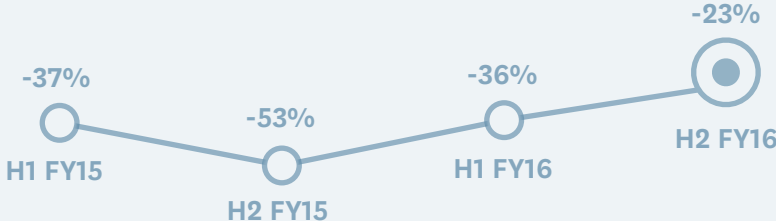
✓ Operating efficiencies

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

+6pts FY16 Gross margin 9% improvement

+17pts FY16 EBITDA margin 37% improvement

EBITDA MARGIN



*Total operating and investing cash flows

Focused on what is important

SAAS SCORE CARD

COMMON SAAS BUSINESS EVALUATION CRITERIA

1 Grow subscribers worldwide

ACMR passed \$250m, added \$99m ACMR and 242k subscribers in FY16.

2 Win worldwide with the ecosystem

Over 500 quality integrations with strong subscriber adoption and attach rate. Continued growth of bookkeeping and accounting partners.

3 Build an open platform network

Trusted platform with 20+ million commercial contacts. Leading the industry in security practices.

4 Product innovation and velocity

Shipped over 100 major innovations. AWS transition at deployment phase. Increasing market coverage with broad global platform.

WE BELIEVE THESE MATTER TOO

5 Acquire subscribers economically at scale

Increased the LTV/CAC ratio to 4.8. CMR churn* improved. Value added subscriber growth.

6 Price for value

Price increases in AU, NZ and UK enabled by product value.

7 Generate long-term value and margins

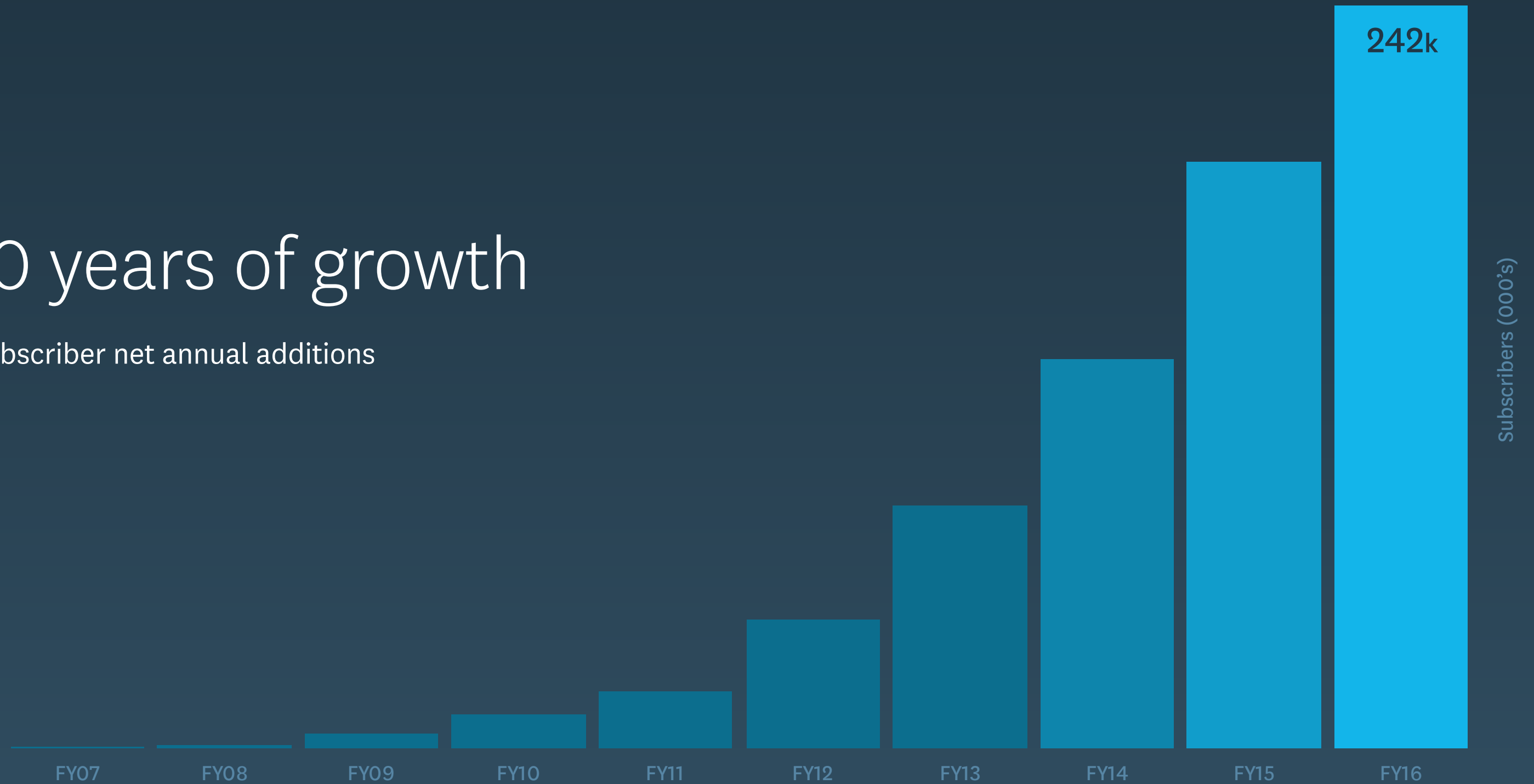
Gross margin improved 6 pts in 12 months. EBITDA margin improved 17 pts in 12 months.

8 Build globally loved brand

Continued positive brand momentum globally.

10 years of growth

Subscriber net annual additions

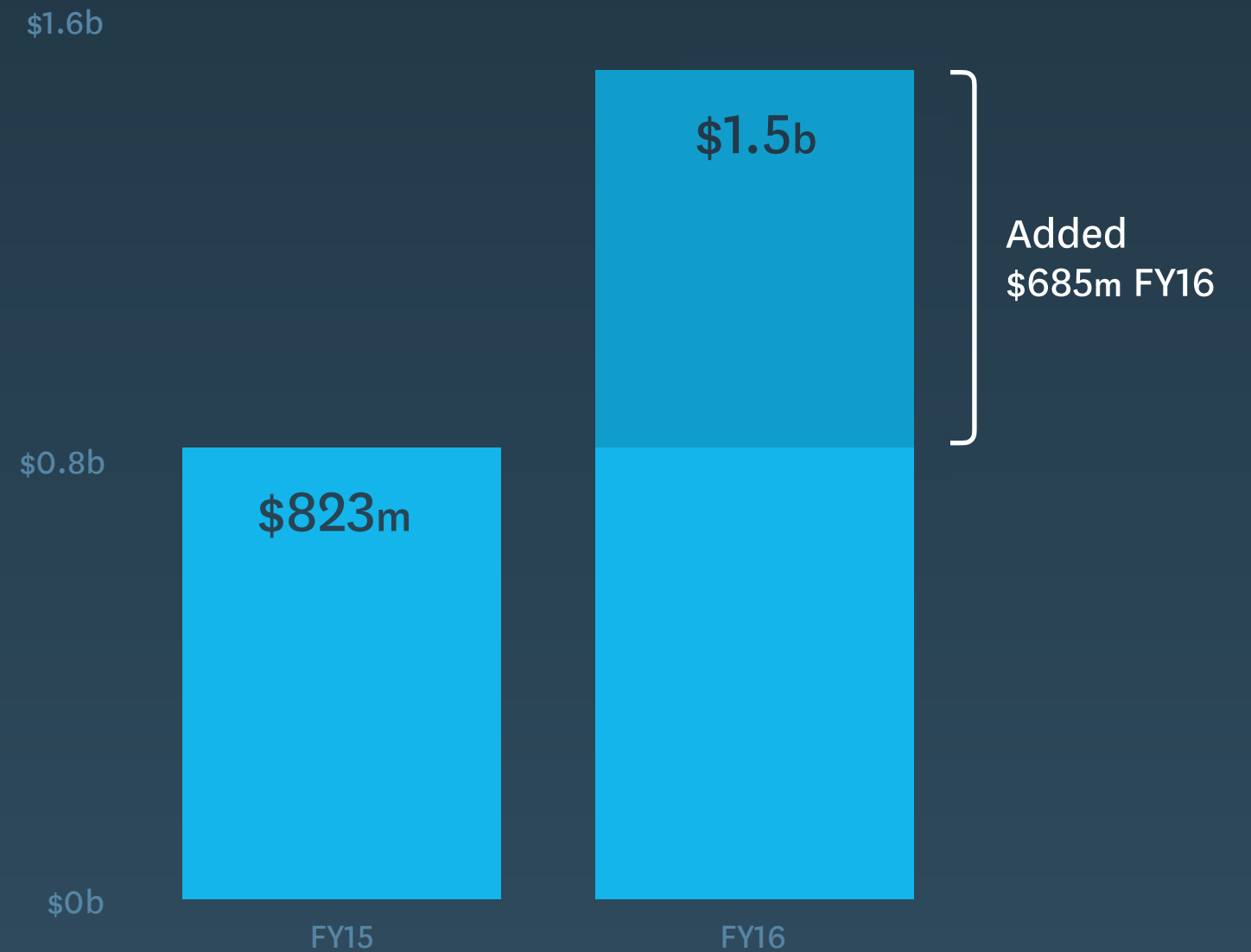


Execution across the company

Improved all components of LTV growth:

	March 2015	March 2016	
Subscribers	475,000	717,000	✓
ARPU	\$28	\$30	✓
CMR churn %	1.23%	1.19%	✓
Gross margin	70%	76%	✓
LTV per sub	\$1,733	\$2,103	✓

Total lifetime value





Financial update



Sankar Narayan
Chief Financial Officer

Financial performance

FY16 operating revenue growth of 67% exceeds subscriber growth of 51%.

P&L reflects economics of subscription business – acquisition costs incurred in current year delivering revenues and margins in future years.

Net loss of \$(82m) for FY16, an increase of \$13m over FY15. Net loss in H2 moderating over previous half and previous year.

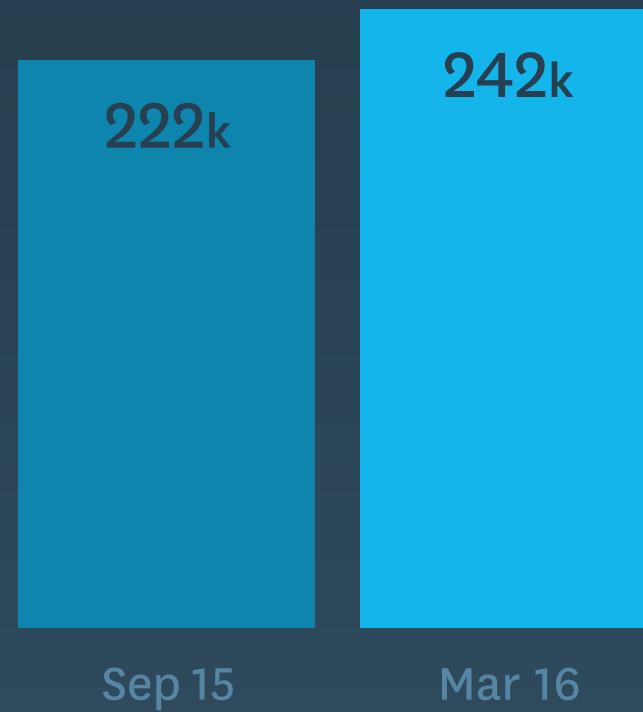
Targeting value added growth with improved financial performance.

	H1 FY15 (\$000s)	H2 FY15 (\$000s)	H1 FY16 (\$000s)	H2 FY16 (\$000s)
Total revenue	54,295	69,725	92,864	114,196
Gross profit	36,279	51,033	68,367	88,812
Gross margin	67%	73%	74%	78%
EBITDA	-20,207	-36,947	-33,804	-26,127
EBITDA margin	-37%	-53%	-36%	-23%
Net loss after tax	-24,471	-45,063	-44,327	-38,137
EBITDA excl share-based payments	-16,568	-30,068	-27,426	-17,358
EBITDA margin excl share-based payments	-31%	-43%	-30%	-15%

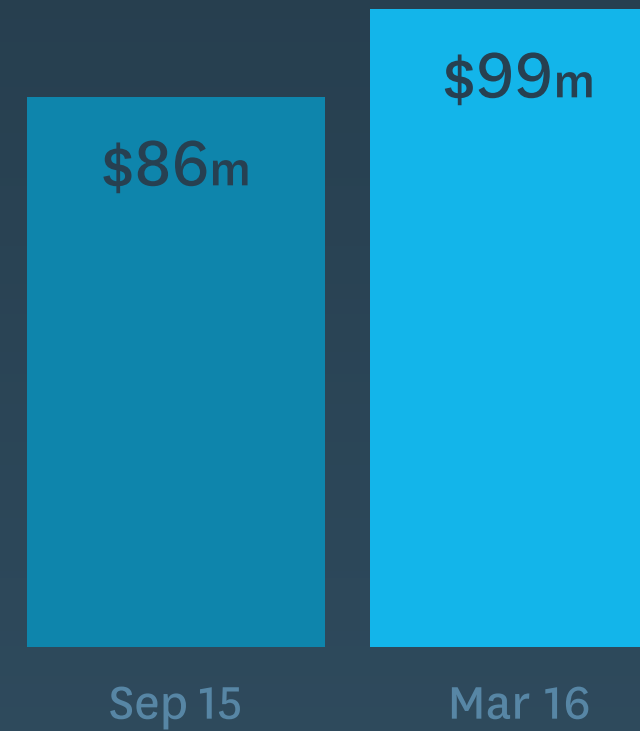
Continuing quality growth

Adding revenue at similar rate to subscribers

12 month subscriber growth



12 month ACMR addition



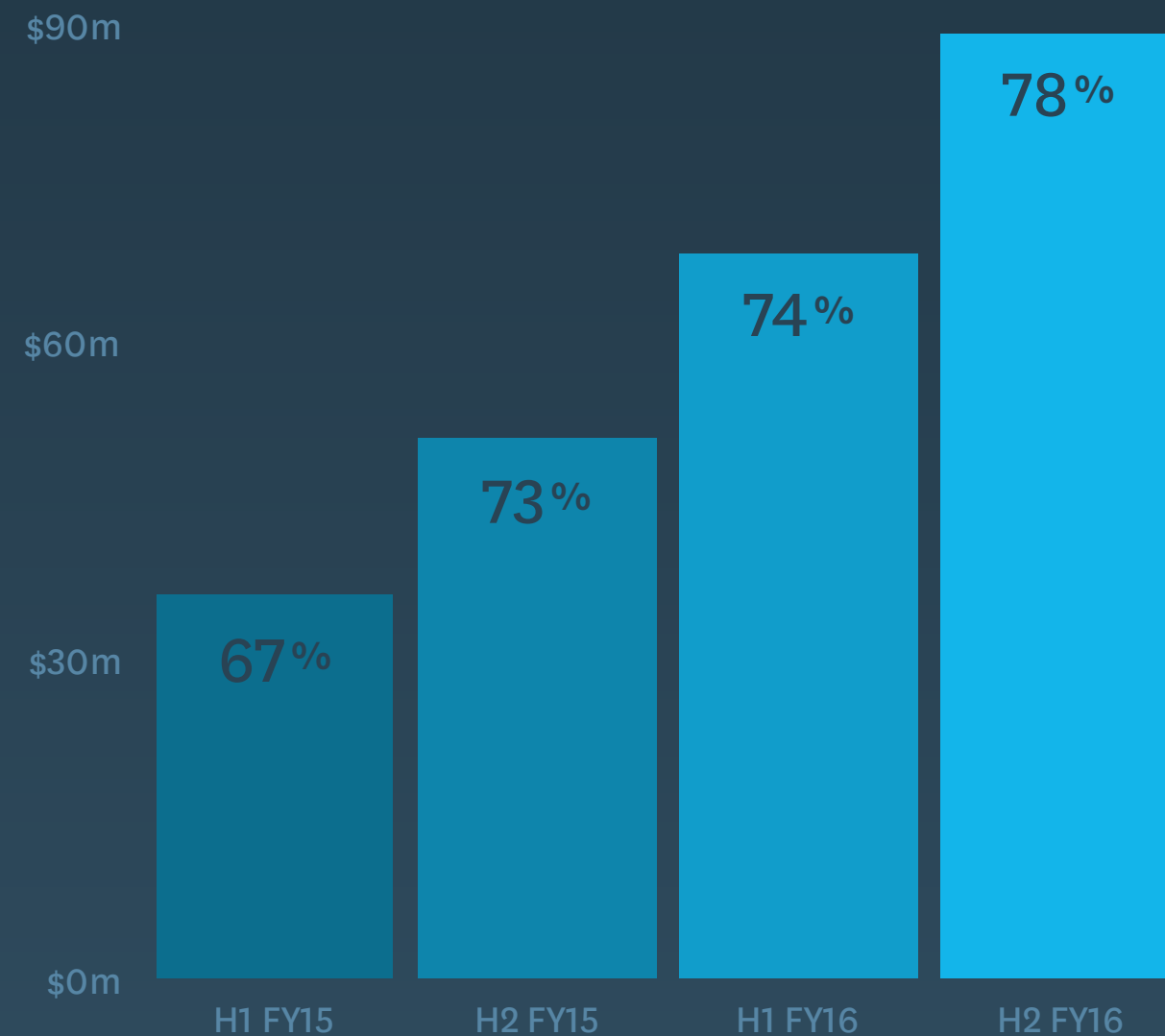
Improving gross margin

Increase in gross margin driven by ARPU growth and operating efficiencies

Opportunities to further increase gross margin:

- AWS full migration planned H1 FY17 – reduces hosting costs
- Economies of scale – optimising existing tools and workflow capacity and improved procurement
- Opportunity for future new services at low marginal cost

Gross margin and % of revenue



Customer Acquisition Costs

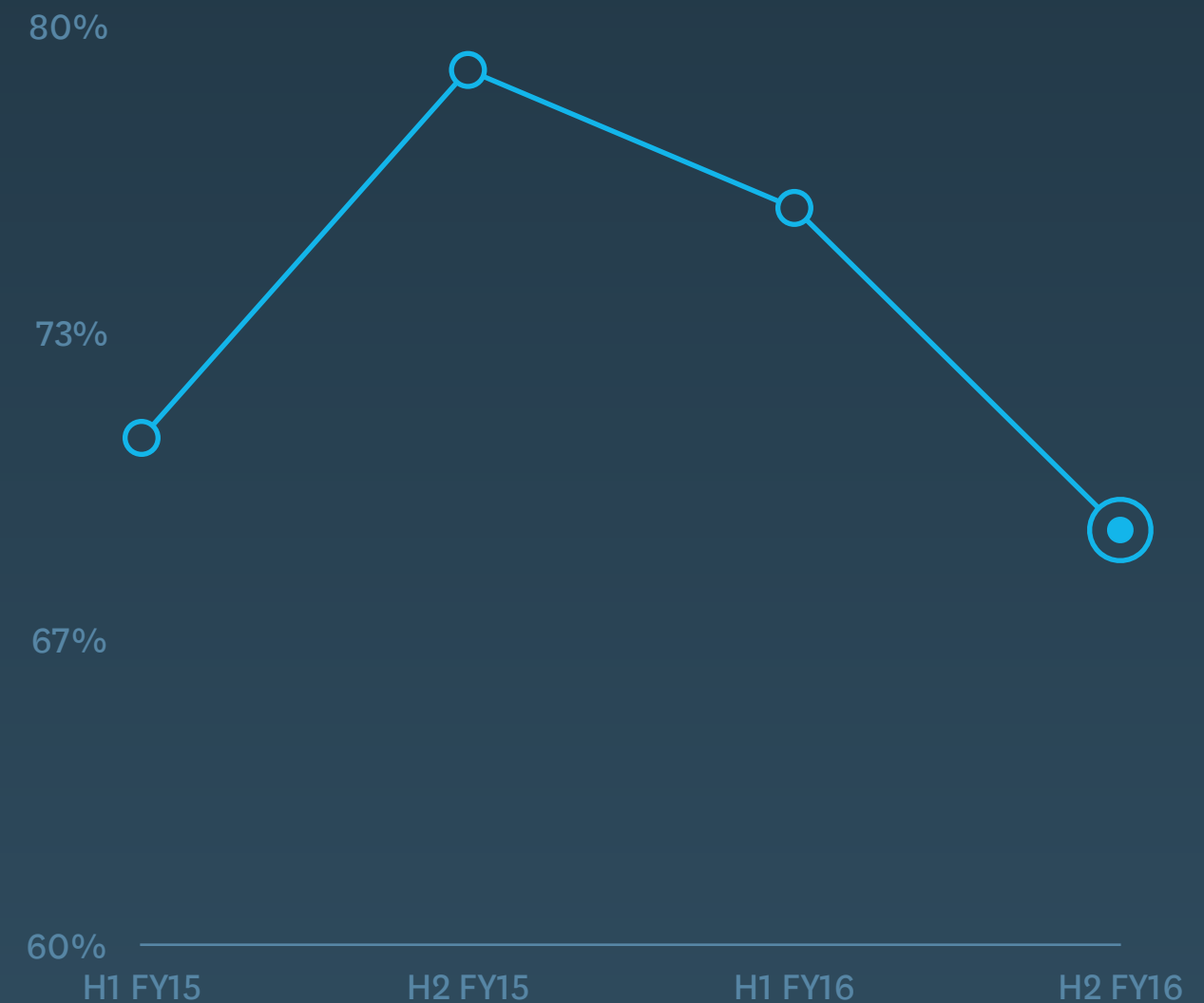
Improved trend in sales and marketing costs

- CAC costs predominantly drive subscriber acquisition delivering future high-margin revenues
- Investment in sales and marketing infrastructure to support continued growth

Focus on automation and in-system growth to drive further efficiencies

Acquisition efforts targeting high value subscriber growth

CAC as % of revenues



Product investment

In deployment stage of two-year platform migration to PaaS – offers step change in costs and innovation capability in the future

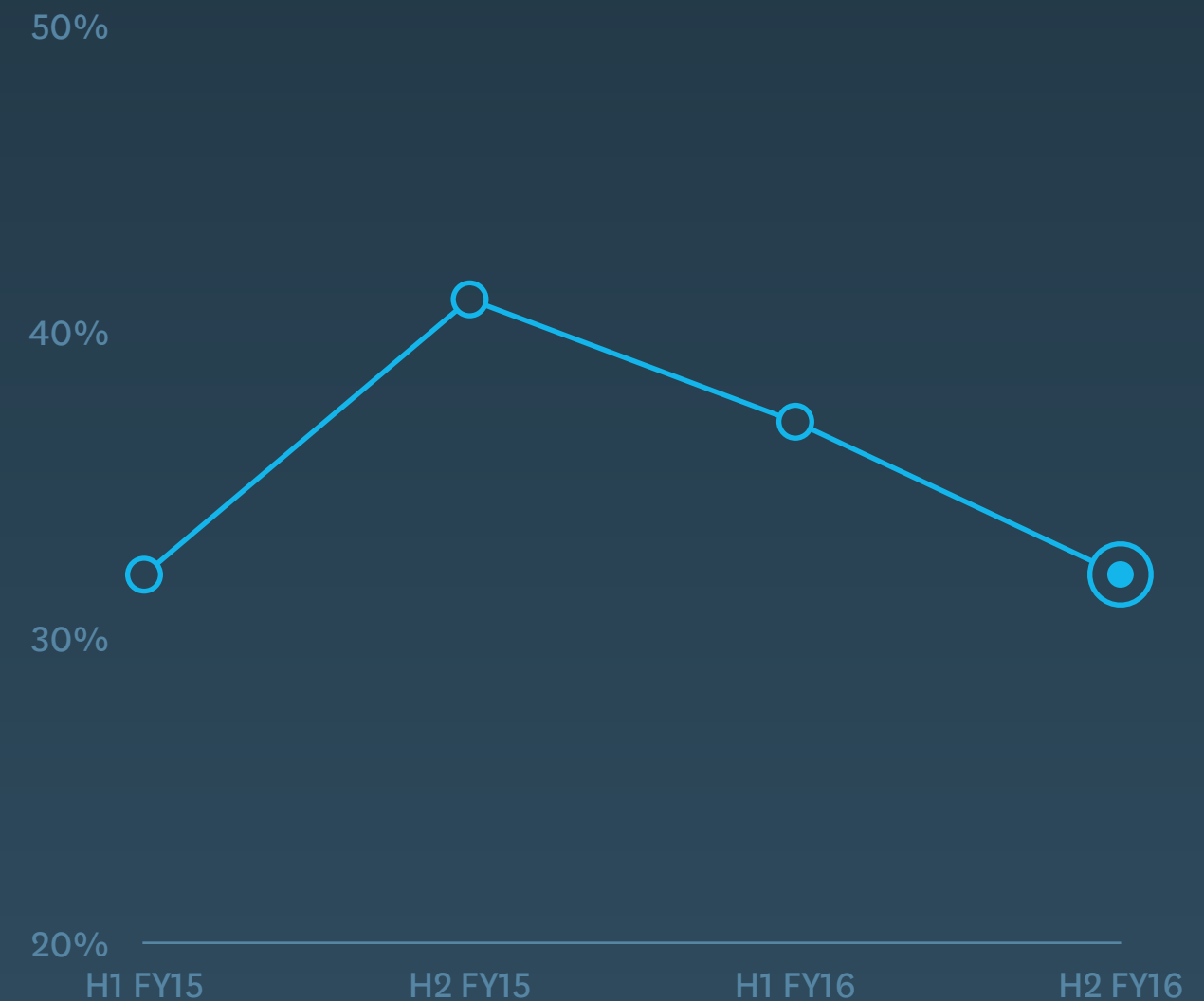
Investment in security and audit processes to support the financial web

Product delivery focused on:

- Expanding geographic coverage (TAM)
- Breadth of product suite (ARPU)
- Increasing fit for segments (Network)

Innovation efforts focused on next generation cloud software to provide future competitive advantage

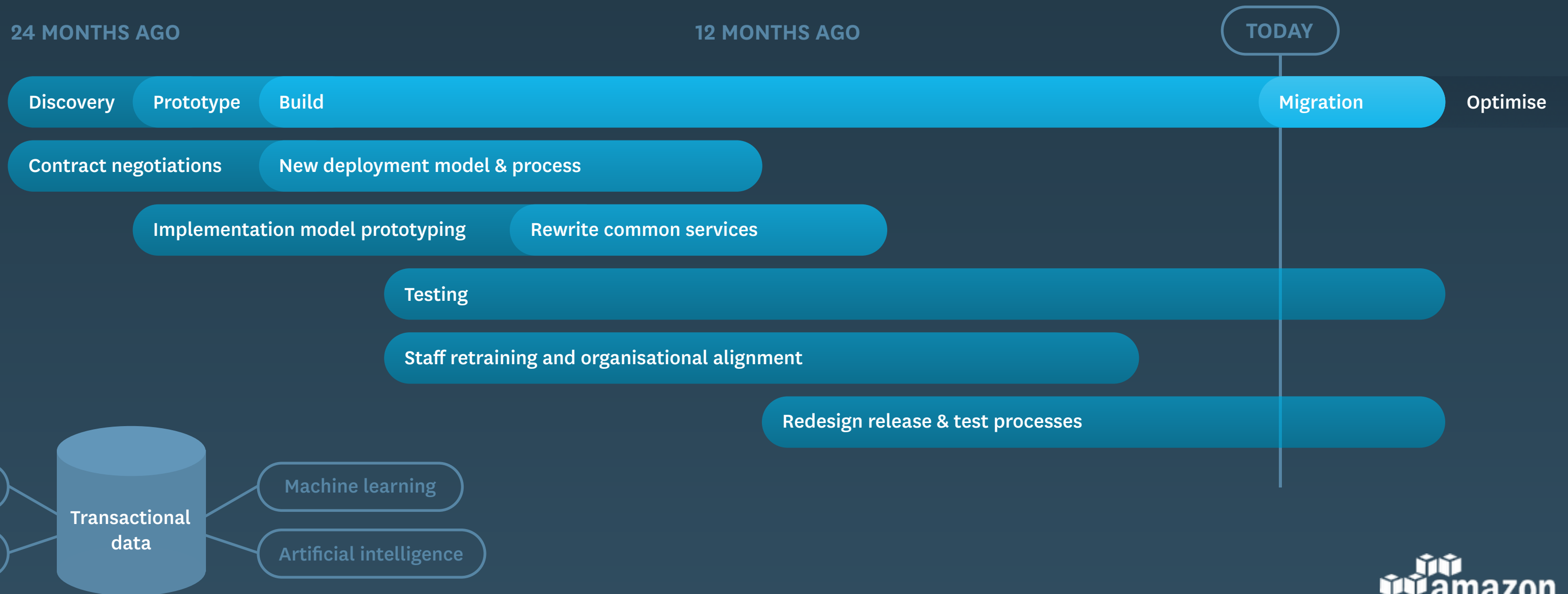
Product costs* as % of revenue



* Product P&L expense

Comprehensive migration to AWS

Unlock the commoditised innovation from PaaS to deliver future competitive advantage

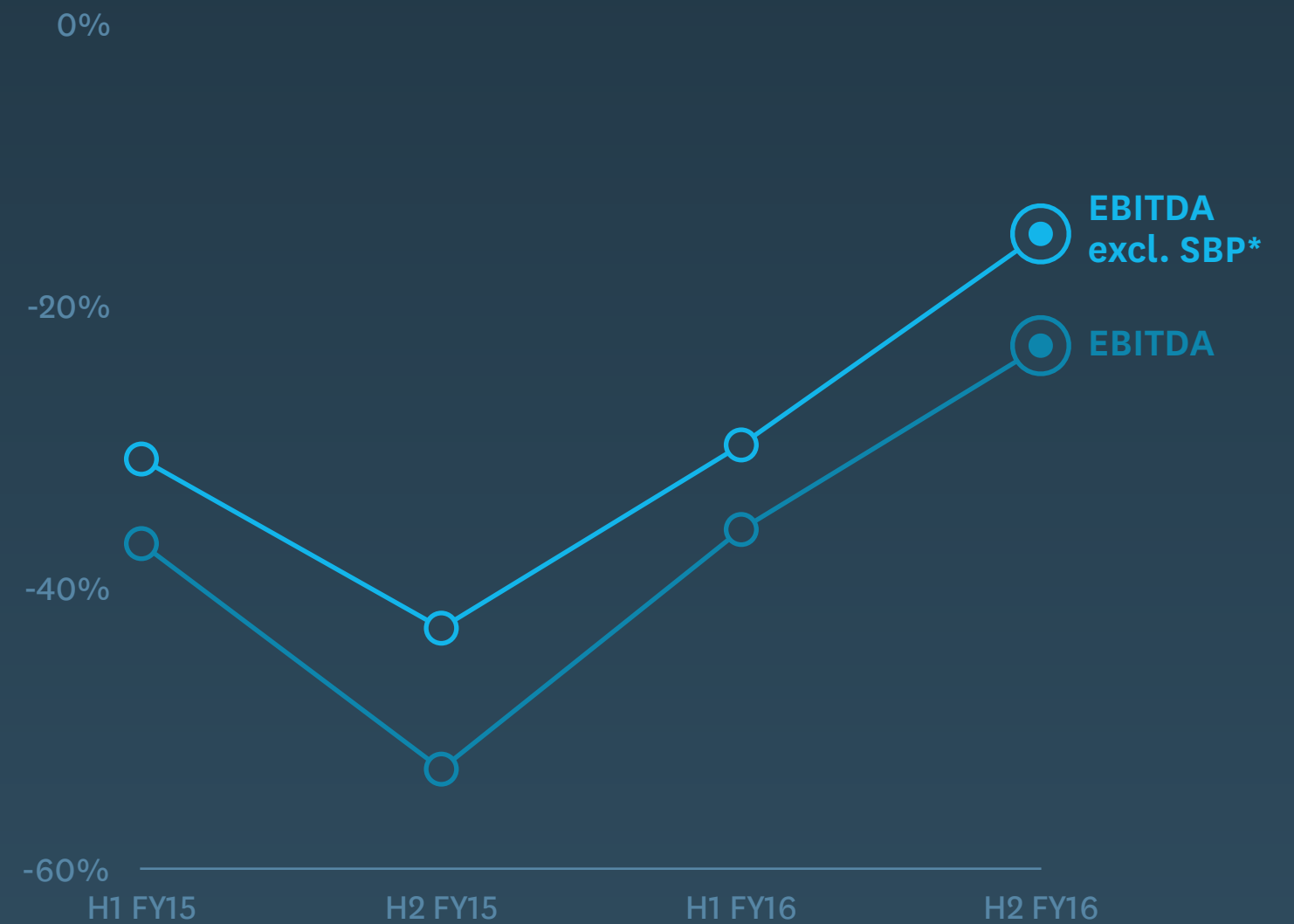


Improving EBITDA margin

EBITDA margin improvement driven by:

- Gross margin increases
- CAC efficiencies
- Scale benefits in product
- Improved G&A efficiencies

EBITDA margins



*Employee share-based payments (SBP) are a non-cash cost to Xero

Revenue growth funding investment

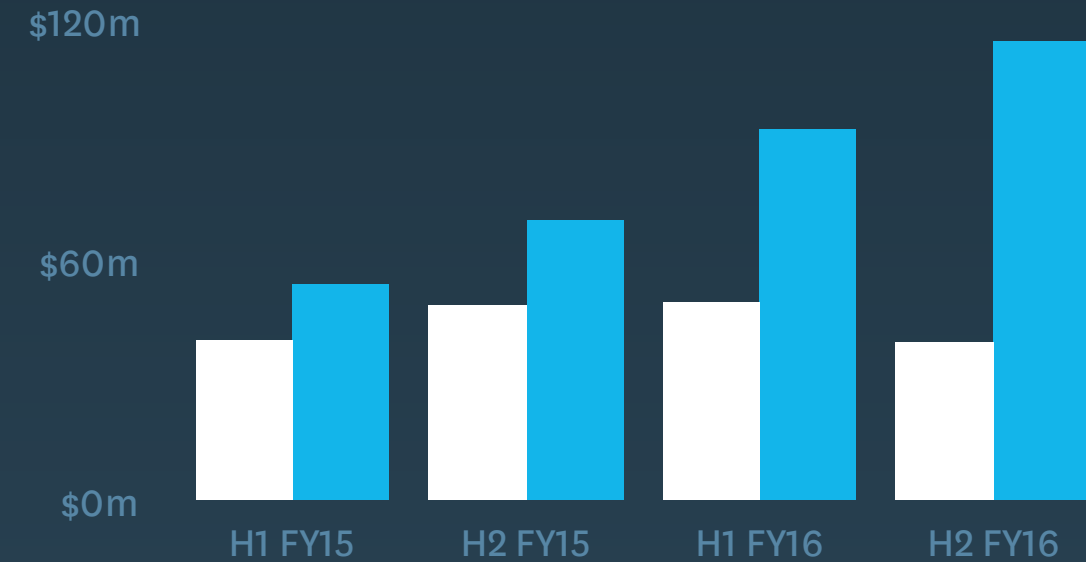
Prudence in balancing cash usage and the growth opportunity

Global greenfield opportunities support long term growth

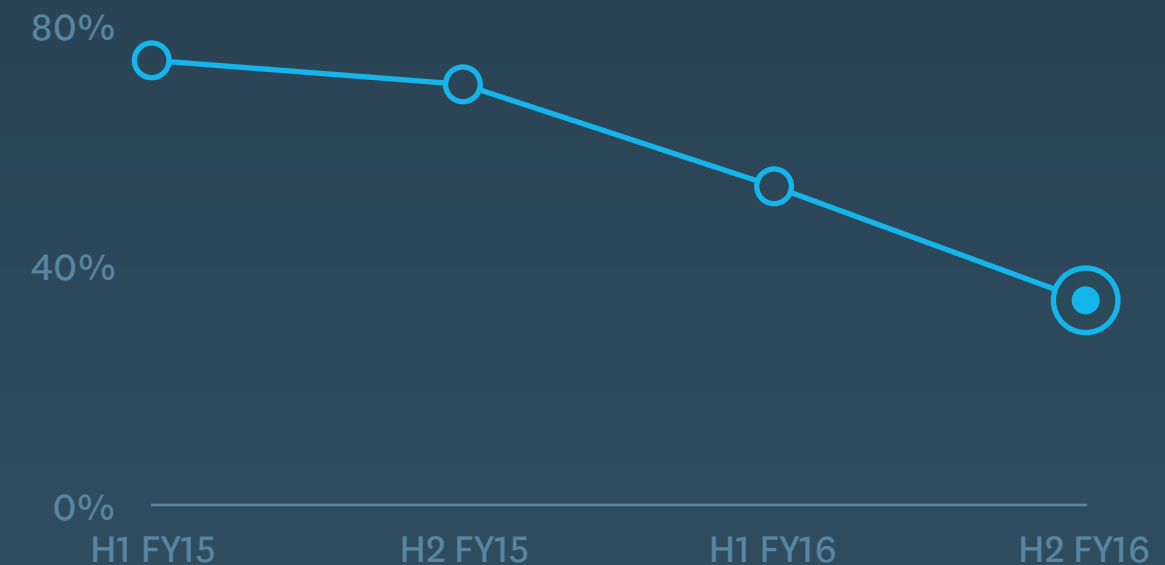
Cash impact from currency movement was an adverse \$6.8m in FY16 compared to FY15

Cash on hand \$184m

Cash outflows* and revenue



Cash outflow* as % of revenue



*Operating and investing cash outflows

Key segment achievements

Subscribers

Growth across segments

ARPU

Increase in ARPU highlighting product value and quality of subscriber base

Operating revenue

International revenue increased to 31% of group from 26% in FY15

LTV*

LTV increase across all segments driven by ARPU, CMR churn and margin

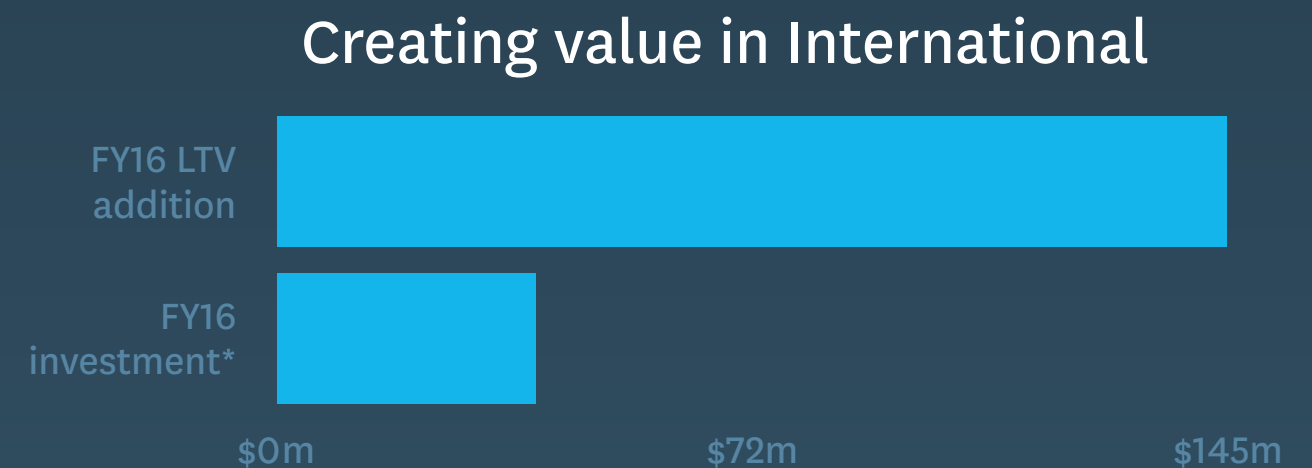
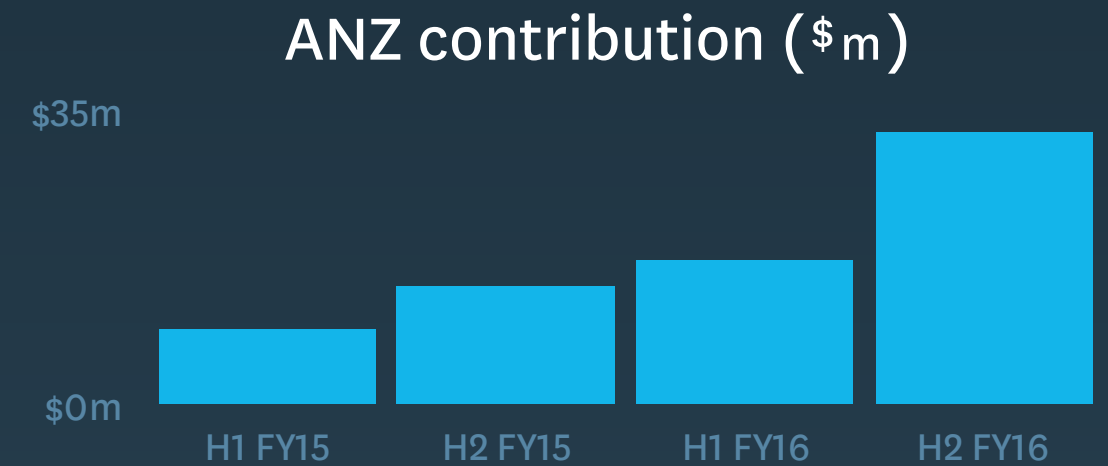
	FY15	FY16	Net change
Group	475 k	717 k	51 %
ANZ	341 k	498 k	46 %
Int	134 k	219 k	63 %
Group	\$28.00	\$30.00	7 %
ANZ	\$27.80	\$29.76	7 %
Int	\$28.35	\$30.46	8 %
Group	\$124 m	\$207 m	67 %
ANZ	\$91.3 m	\$143.4 m	57 %
Int	\$32.6 m	\$63.7 m	95 %
Group	\$823 m	\$1,508 m	83 %
ANZ	\$682 m	\$1,222 m	79 %
Int	\$141 m	\$286 m	103 %

Contribution margin improving

Growth in ANZ contribution with a 127% increase in H2 over the prior year

Group contribution margin improved \$15 m YoY

International investment* drove \$145 m in long term value



*Investment is the current contribution (Loss) for the international segment

Australia & New Zealand

Market leader in small business accounting now exceeding 500,000 cloud subscribers

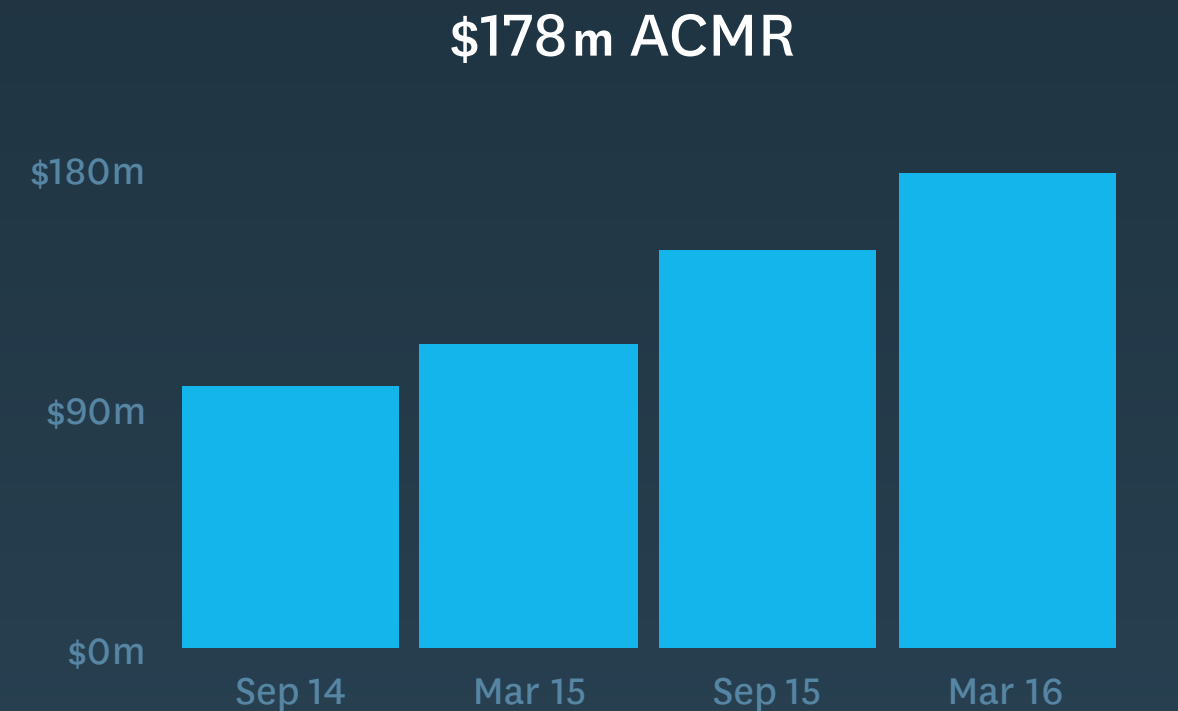
\$64m year on year increase in H2 ACMR compared to \$51m year on year increase in H1

Price increases across ANZ with minimal churn highlighting product value to subscribers and increased ARPU across the subscriber base

Continuing to win share from incumbents

Leveraged ecosystem for deep linkages into industry segments e.g. Agriculture, providing global opportunities

Rewiring small business economy with connectivity to major banks, government and tax authorities



INTERNATIONAL

United Kingdom

The United Kingdom's leading small business accounting solution*

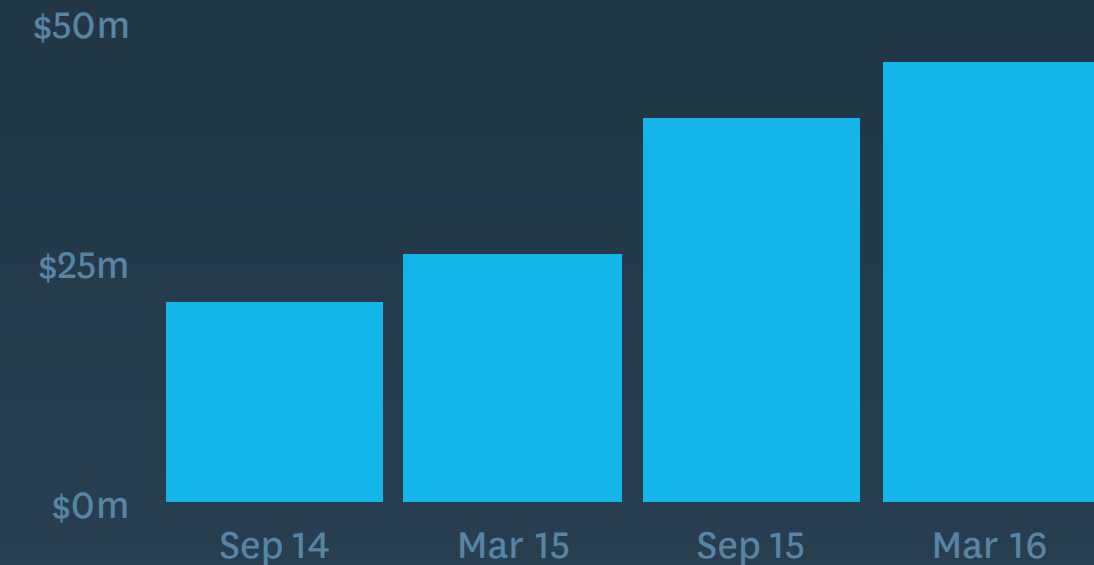
Bank integration with most major banks

Successful introduction of payroll for UK subscribers enabling ARPU growth

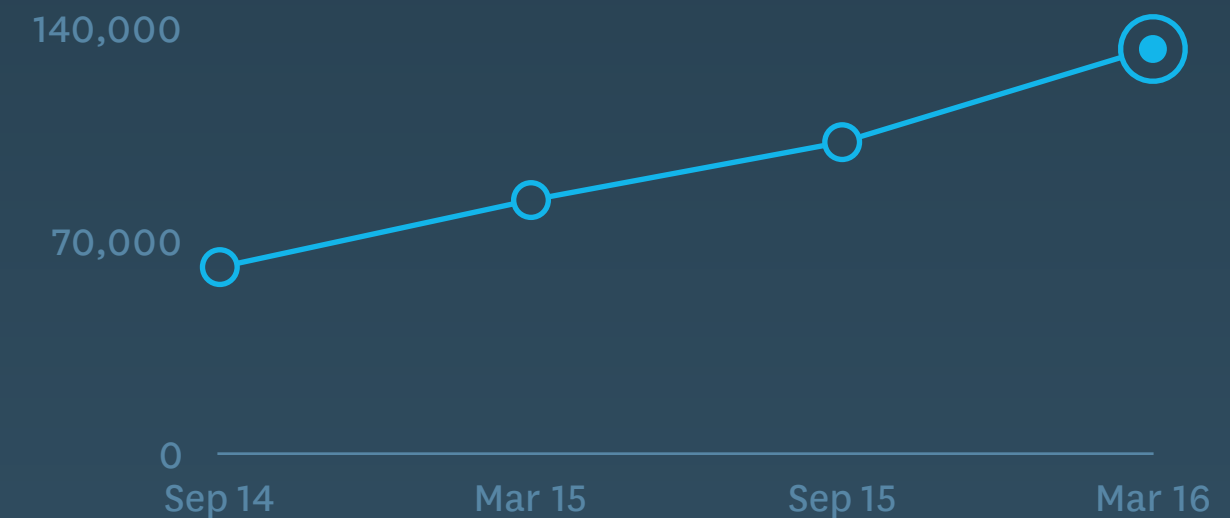
Industry accolades with 'British Accountancy Award' and 'UK Cloud Award' for best financial software

Winning greenfield subscribers with expanded distribution, partnerships and product reflected in ARPU advantage

\$46m ACMR



133,000 subscribers**



INTERNATIONAL

North America

Fast growing with over 62,000 subscribers

Growth curve similar to other markets

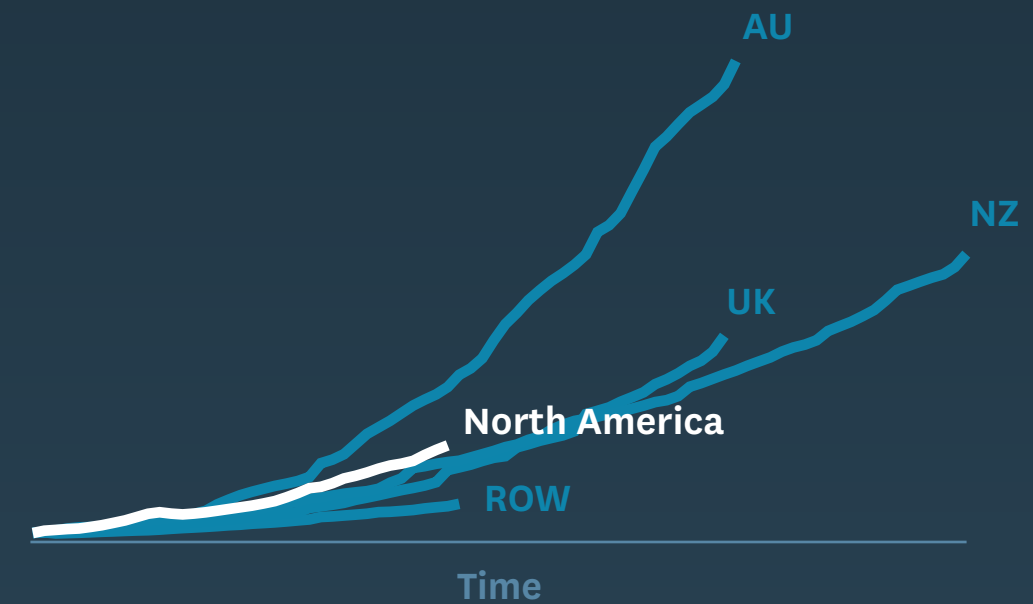
Gradual transition of the US accounting industry to cloud providing time to develop channel

Growth building on back of early accountant and bookkeeper adoption

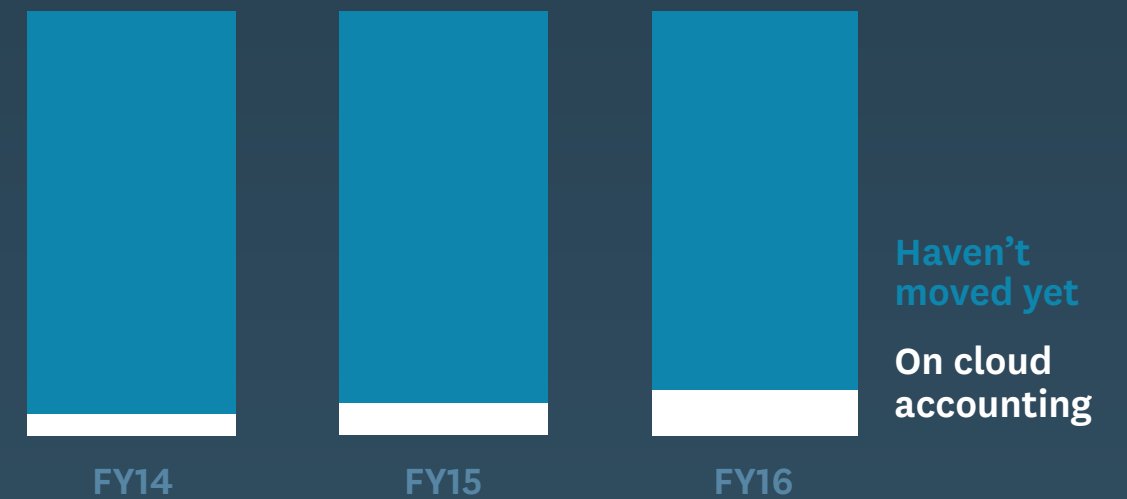
Acknowledged as the primary challenger to the incumbent

Major US banking integrations in the coming months

Xero country subscriber velocity



Slow US market migration to cloud



INTERNATIONAL North America

Product

Xero increasingly winning product reviews over incumbent solutions

Payroll in place across states that cover >70% of small businesses*

Launched Xero TaxTouch for self employed receiving an award at the Barlow Research's 2016 Monarch Innovation Awards



Distribution

Partner adoption increasing across the US

Improving metrics and velocity in online channel

Popular ecosystem attracting greenfield subscribers

Building engine for high-volume economic acquisition via partner, online and ecosystem channels

Ecosystem & partnerships

Enabling accounting practices with large technology partnerships including Microsoft and Google

Partnering with key ecosystem players

- Providing access to high cloud affinity subscribers
- Xero platform and channel attractive for US companies' global expansion



Google

Microsoft



stripe

INTERNATIONAL

South East Asia

Unfilled demand from small business and accounting partners supports a presence in Asia

Single global platform means relatively low marginal cost to enter these new markets

Market demand has been established by existing subscribers, inbound requests from partners and high attendance at regional roadshows

Appointed MD in Singapore to service South East Asia including Singapore, Hong Kong, Malaysia and Philippines

Key partnerships being established



“

We are seeing a government-backed push for fintech in Singapore. The Xero-enabled financial web is just what SMEs here need to join that swell.

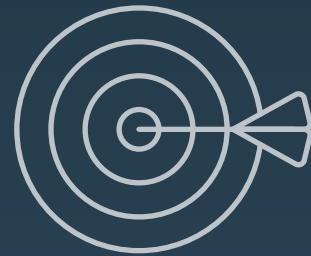


NAMITA SETHI
CEO, FUTUREBOOKS



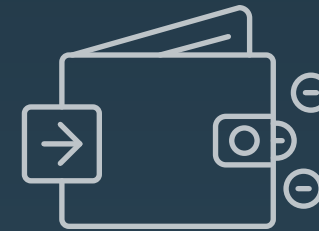
Outlook

Outlook



Operating efficiencies

Operating metrics to continue improvement in FY17 as the Company continues to drive efficiencies through automation and economies of scale



Cash usage

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



Xero Network

Connecting small businesses to each other



Financial Web

Two way connectivity with Banks to automate transactions, and next generation Financial Services



Enterprise Connect

Large businesses automating their supply chains



Government Connect

Connecting small businesses and their advisors with Government



Rewiring the small business economy

\$1 trillion
transactions processed*

Xero is a unique globally
authoritative data source

180+
countries

700,000+
subscribers

20m+
commercial
contacts

450m+
transactions*



 Signals

True insights into the
small business economy

How many small businesses are there?

When am I likely to get paid?

How many jobs do small
businesses create?

How am I doing compared
my industry peers?

Do service
companies export?

Which sectors of the economy
are growing or shrinking?

Xero is proving its ability to be the global small business platform

- ✓ Global greenfield growth potential with a large addressable market
- ✓ Delivering strong growth while improving margins
- ✓ Strong execution across multiple geographies with leadership positions
- ✓ Innovating without legacy constraints and building competitive advantage with its proven platform

Team focussed on becoming a \$1+ billion revenue business



Q&A

Appendix

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

ACMR Annualised committed monthly revenue represents monthly recurring revenue at 31 March 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 31 March divided by subscribers at that time (and divided by 12 to get a monthly view).

Subscriber retention / CMR churn CMR churn is the value of committed monthly revenue (CMR) from subscribers who leave Xero in a month as a percentage of the total CMR at the start of that month. The percentage provided is the average of the monthly churn for the year. Management has changed the calculation for calculating churn from subscriber churn reported previously to CMR churn, as management believes this better reflects the impact of churn on the subscriber base.

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 CMR churn) multiplied by ARPU multiplied by the gross margin percentage. Group LTV is calculated as the sum total of the ANZ and International LTV.



Beautiful accounting software

www.xero.com