

# Investor briefing

FULL YEAR RESULTS TO 31 MARCH 2017



11 MAY 2017

A LITTLE FARM ON THE HILL, SINGAPORE

# Important notice

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(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, purchase, or recommendation of 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 2017, 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 31 March 2017, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

See Page 39 for a glossary of the key terms used in this presentation.



CEO update



Financial results



Outlook



Strategic update



Q&A

# CEO update



Rod Drury



LIVINGSEAS, TIOMAN, SINGAPORE

1,035,000  
subscribers



\$360m

Annualised committed monthly revenue



# Balanced investment

Growth with operating efficiencies

ANNUALISED COMMITTED  
MONTHLY REVENUE

\$360m

+45% YoY<sup>1</sup>

OPERATING  
REVENUE

+51%  
YoY<sup>2</sup>

\$295m

NET LOSS  
AFTER TAX

(\$69m)

Improved 16% YoY

EBITDA MARGIN  
EXCL. SBP<sup>3</sup>

(6%)

+16pp YoY  
Positive in H2

TOTAL GROUP SUBSCRIBER  
LIFETIME VALUE

\$2.2b

+49% YoY<sup>1</sup>

<sup>1</sup> Constant currency based on 31 March 2016 FX rates

<sup>2</sup> Constant currency based on respective 12 month prior FX rates

<sup>3</sup> SBP are a non-cash cost to Xero

# Disciplined execution on unique global SaaS model



## DELIVERING RESULTS

- Subscriber growth
- Revenue growth
- Operating efficiencies
- Reduced cash usage
- Delivered on guidance



## INVESTING IN LONG-TERM GROWTH

- AWS migration completed
- Next generation tools for advisors
- Accelerating machine learning and automation
- Expanding partner channel



## DRIVING OPERATING EXCELLENCE

- Improving gross margin
- CAC efficiencies
- EBITDA performance
- Optimising operating cash flows
- LTV growth
- Churn improvements



## EXPANDING THE ADDRESSABLE MARKET

- New geographies – South East Asia
- Machine learning to open up new segments
- Financial web and data services

# Creating significant lifetime value

Improved key underlying drivers of lifetime value

	March 2017	Progress from March 2016
Subscribers net adds	318,000	↑
ARPU	\$29	—
CMR churn %	1.15%	↓
Gross margin	77%	↑
LTV per subscriber	\$2,121	+4% <sup>2</sup>

## Total group subscriber lifetime value (LTV)



<sup>1</sup> Added in the year to 31 March 2017

<sup>2</sup> Constant currency based on 31 March 2016 FX rates

# Financial results



Sankar Narayan



NEXBA, SYDNEY, AUSTRALIA

# Financial performance

Constant currency operating revenue growth of 51% YoY

H2 FY17 gross margin was 78%. Gross profit affected by AWS migration completed in Q3 FY17

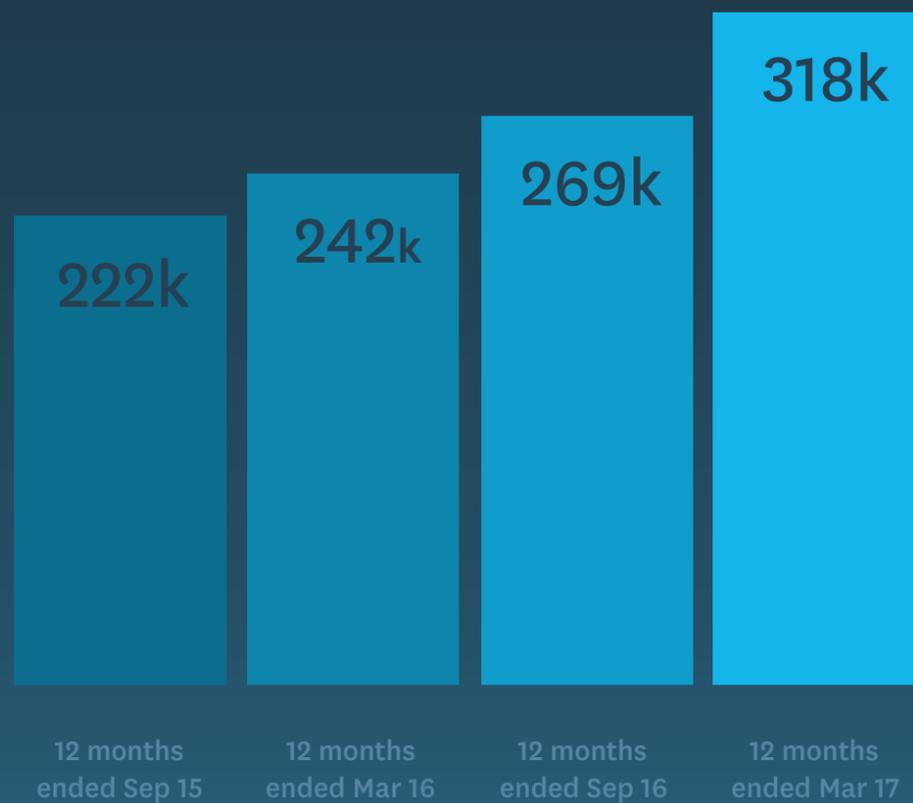
EBITDA loss of \$(2.7m) in H2 FY17 from \$(26.1m) in H2 FY16 – through improved gross margin and CAC efficiencies

Net loss improvement of 16% YoY. D&A increased with investment profile

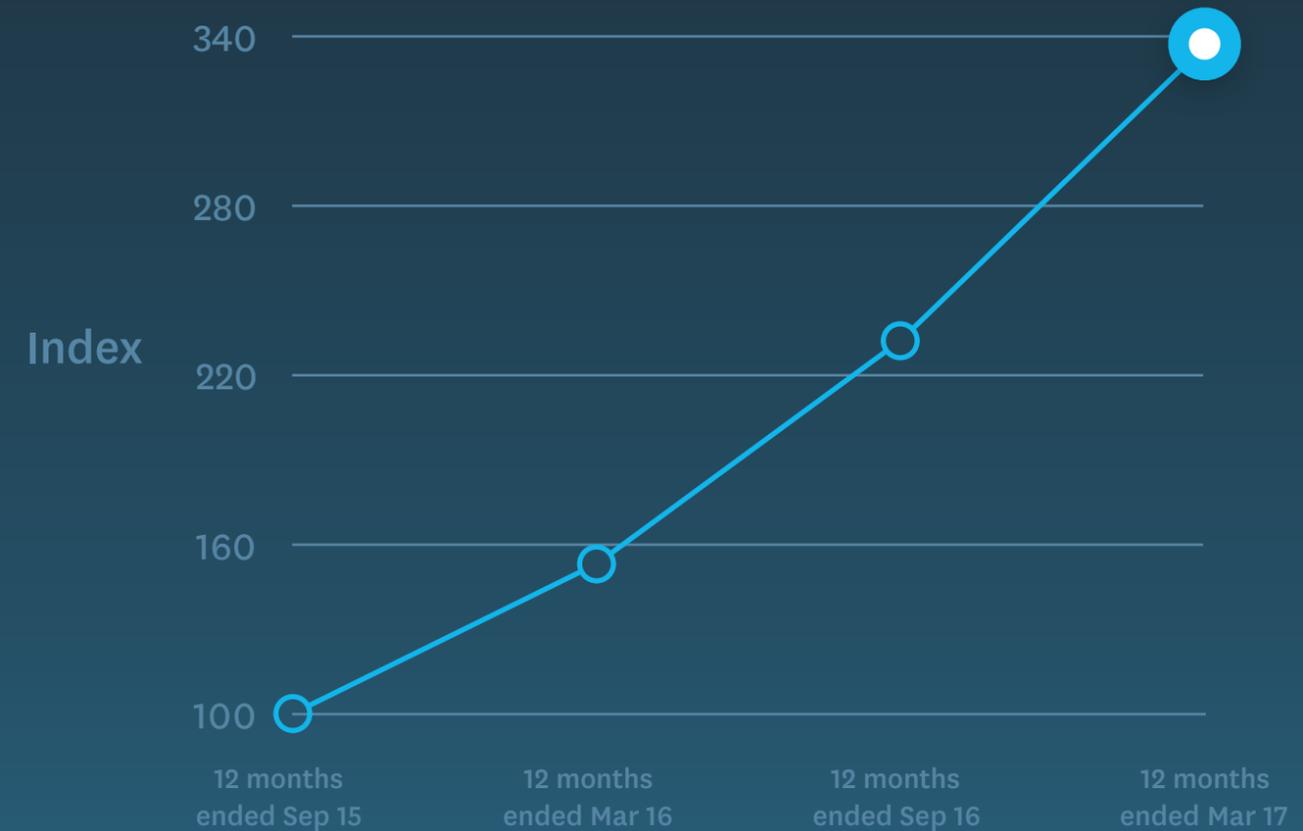
	FY16 (\$000s)	FY17 (\$000s)	YoY % change
Total revenue	207,060	295,389	43%
Gross profit	157,179	226,004	44%
<b>Gross margin</b>	<b>76%</b>	<b>77%</b>	<b>+1pp</b>
EBITDA	(59,931)	(28,614)	(52%)
<b>EBITDA margin</b>	<b>(29%)</b>	<b>(10%)</b>	<b>+19pp</b>
Net loss after tax	(82,464)	(69,057)	(16%)
EBITDA excl. SBP	(44,784)	(16,891)	(62%)
<b>EBITDA margin excl. SBP</b>	<b>(22%)</b>	<b>(6%)</b>	<b>+16pp</b>

# Growing ACMR with subscribers

## 12 month subscriber additions<sup>1</sup>



## Indexed 12 month ACMR growth<sup>2</sup>



<sup>1</sup> Subscriber net additions

<sup>2</sup> Change in constant currency ACMR indexed to a base of 30 September 2014 FX rates

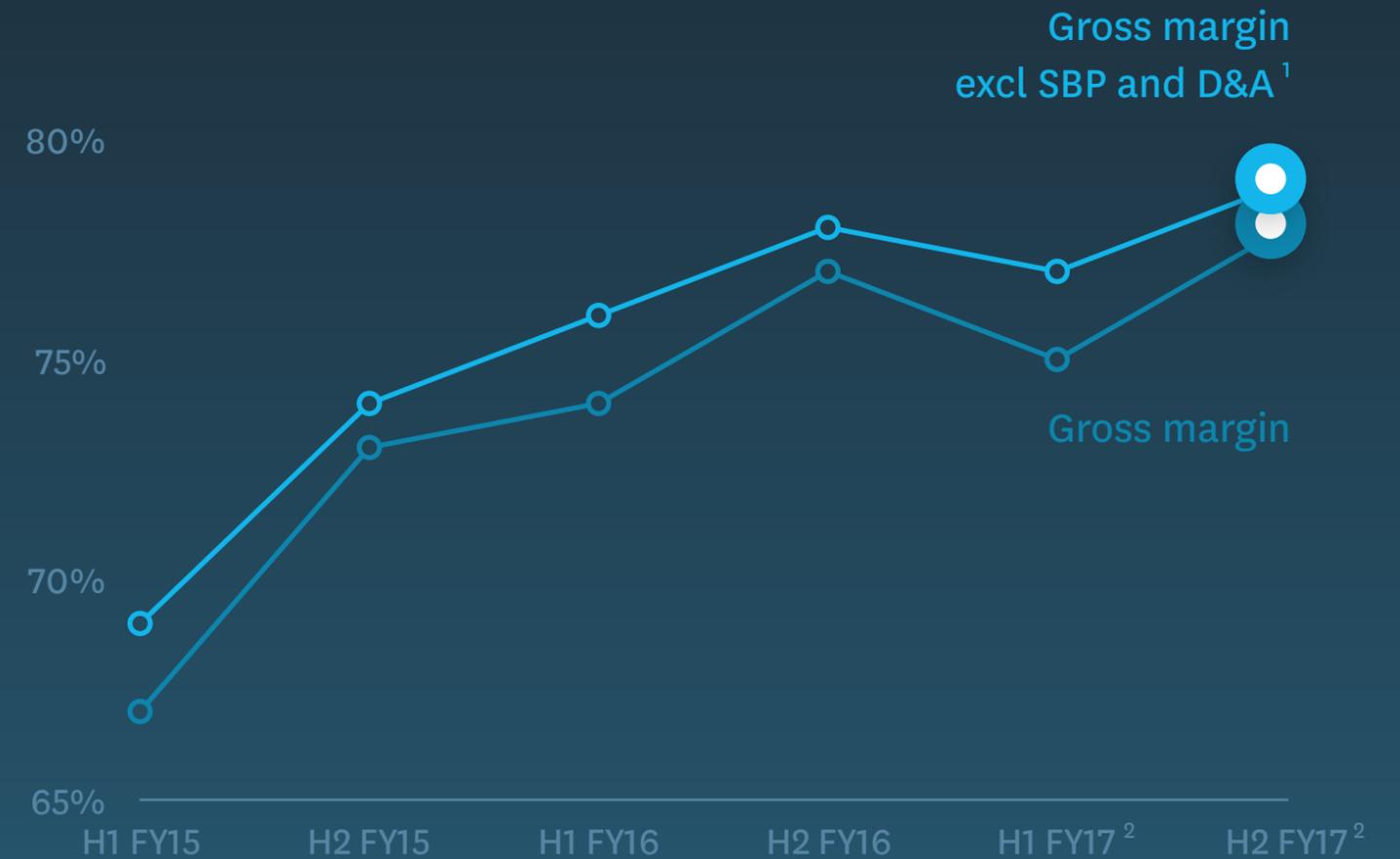
# Strong gross margin

Delivered further improvements in gross margin following transition to AWS in Q3 FY17

Gross margin of 77% for FY17, +1pp over prior year. Gross margin of 78% for H2 FY17

Expect continued improvement of gross margin

## Gross profit as % of revenue



<sup>1</sup> Employee SBP and D&A are non-cash costs to Xero

<sup>2</sup> Duplicated costs due to transition to AWS

# Customer acquisition efficiencies

Acquisition mix weighted towards partner channel with more than 100,000 business advisors<sup>1</sup>

Continued efficiencies in sales and marketing

89% of Xero subscribers connected to a business advisor<sup>1</sup>

CAC months declined to 12.8 in FY17 from 14.5 in FY16 for the group

CAC as % of revenues



<sup>1</sup> Accountants, bookkeepers, or advisors who have worked with their clients' data on Xero in March 2017

# Leveraging product investment

Next phase of investment in realising benefits from AWS migration

Single global platform is driving investment efficiency and capability

Focus on:

- Expanding TAM (sole trader and medium-sized businesses)
- Artificial intelligence/machine learning
- Enhanced partner tools
- Add-ons to existing core product

Product costs including opex and capex as % of revenue<sup>1</sup>



<sup>1</sup> Excluding SBP, D&A and net of government grants

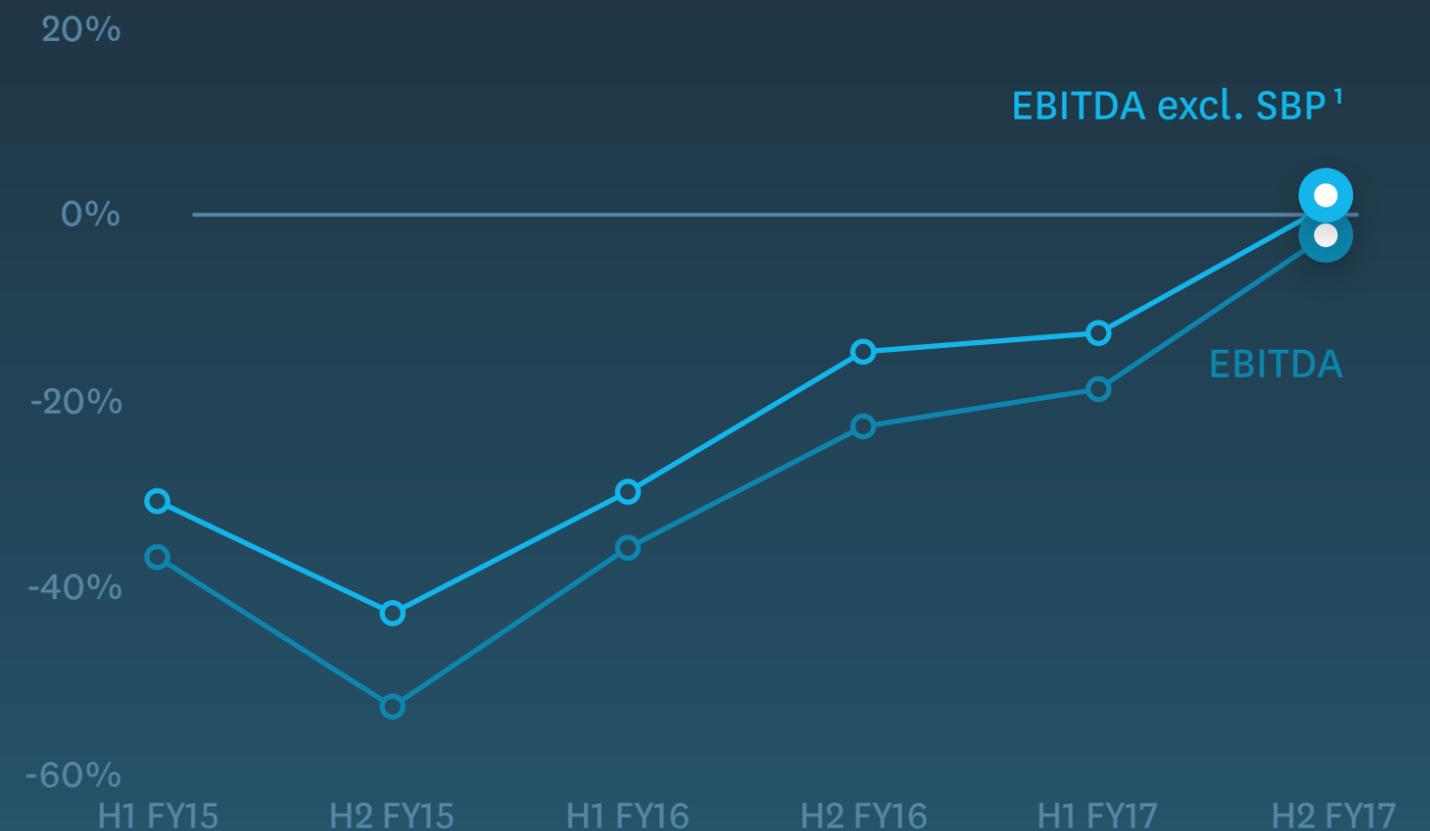
# Improved EBITDA

EBITDA excl. SBP<sup>1</sup> was positive in H2 FY17 at \$1.6m compared to a \$(17.4m) loss in H2 FY16

Significant improvement in EBITDA performance driven by:

- High gross margin
- Improved CAC efficiencies
- Product specific economies of scale
- Improved efficiencies in general and administration costs

## EBITDA margins



# Reducing cash usage

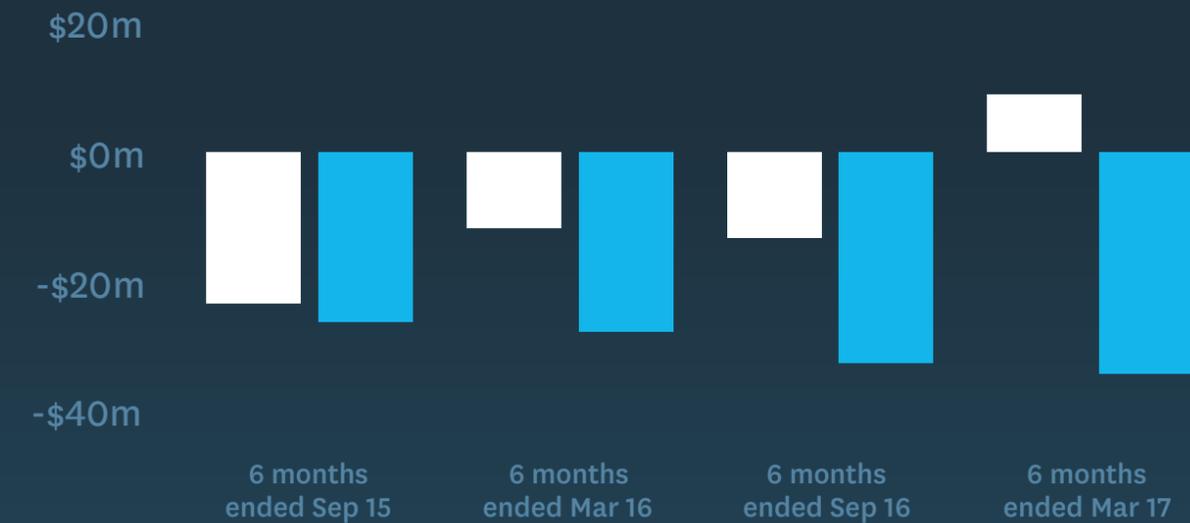
Operating cash outflow in FY17 reduced to \$4.4 million from \$34.8 million in FY16

Operating cash flow positive for the first time in H2 FY17. Cash outflow of \$11.4 million for H2 FY16

Operating and investing cash outflows declined from \$88.6 million in FY16 to \$70.8 million in FY17

Cash and short term deposits balance at 31 March 2017 was \$113.7 million

## Operating cash flows and investing cash flows



## Cash outflow<sup>1</sup> as % of revenue



# Contribution margin improving

Group contribution improved \$50.7m YoY in FY17

Australia and New Zealand contribution for FY17 improved 91% over FY16

International contribution loss declined – driven by revenue growth and efficiencies in international investment

## Australia and New Zealand contribution



## International contribution



# Australia and New Zealand

Market leader in small business accounting and continue to win share from incumbents

One third of New Zealand small businesses on the platform and clear market leader in Australia

Strong advisor channel with over 90% of subscribers connected to a business advisor<sup>1</sup>

Broadest account feed coverage from major banks



RAEAWARDS

Business to Business  
Platinum Award 2016



Most satisfied  
customers 2015-2016



NZ International Business  
Excellence for Leadership 2016



<sup>1</sup> Accountants, bookkeepers, or advisors who have worked with their clients' data on Xero in March 2017

# United Kingdom

Extending market leadership in subscribers and ACMR

Highest number of banking integrations in the U.K.

Strongly positioned to capitalise on regulatory changes: HMRC Making Tax Digital and Payment Services Directive (PSD2)

Survey of accounting firms: 70%+ expect new HMRC digital tax laws will accelerate adoption of cloud software in U.K.<sup>1</sup>

New technology collaborations with the U.K.'s three largest accounting practice software vendors, IRIS, Wolters Kluwer & Thomson Reuters

212,000 subscribers



2016 Client Software Product of the Year



Financial Product of the Year 2016



Software Vendor of the Year 2016



Technology Provider of the Year at 2016



Best bookkeeping software Best payroll software 2016



Accountancy Software of the Year 2016

# North America

Made key product improvements including launch of reporting centre and templates. Strengthened mobile offering across Android and iOS apps

Building scale and recognition in accounting channels with leading advisors such as H&R Block and Carr, Riggs & Ingram (CRI)

Successfully migrated leadership to Denver and building strong execution team

New and strengthening relationships with key banking partners, Capital One, Wells Fargo and Silicon Valley Bank



Best overall Fintech Software 2017



2017 Top Rated Accounting & Budgeting Software



2017 Best SaaS Company

92,000 subscribers



Cloud transition still in early phase<sup>1</sup>



<sup>1</sup> Estimated English speaking addressable cloud accounting market and based on publicly available data

# Expanding global footprint

## **SOUTH EAST ASIA**

Building momentum in fast growing markets with approximately two million subscribers TAM

Broadening strategic bank collaborations:

- DBS launching soon
- CIMB Malaysia launched in April 2017
- HSBC Hong Kong and Singapore launched in March 2017
- UOB Singapore launched in July 2016

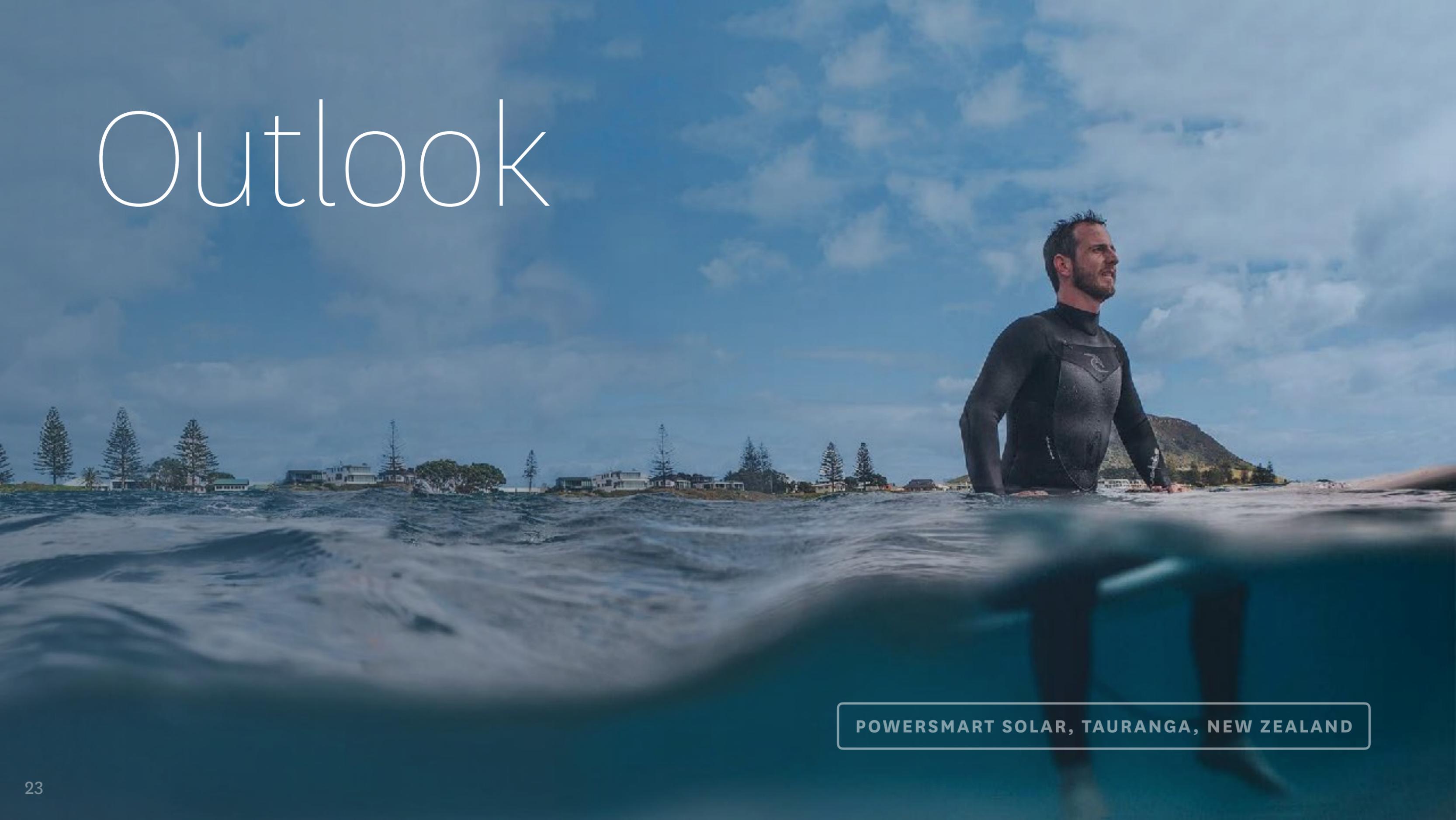
## **SOUTH AFRICA**

Almost 1,000 South African accountants attended two roadshow events in February 2017

First bank feed partnerships now underway



# Outlook

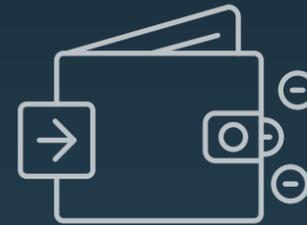


POWERSMART SOLAR, TAURANGA, NEW ZEALAND



## **OPERATING EFFICIENCIES**

Operating metrics are expected to improve in FY18 as the Company drives efficiencies through automation and economies of scale.



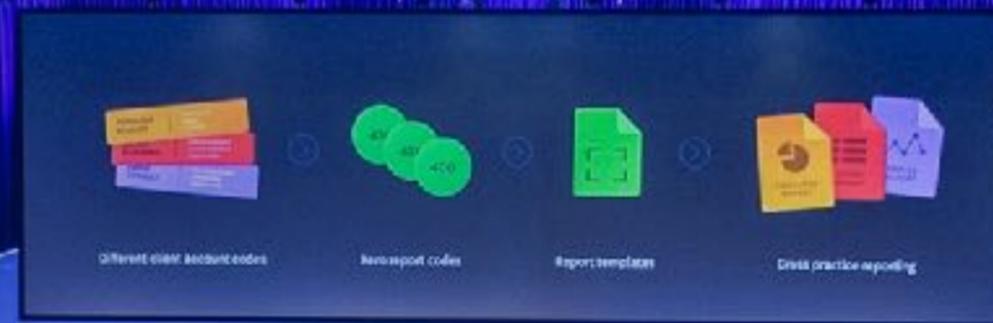
## **CASH USAGE**

Cash usage in FY18 (based on FX rates at 1 April 2017) is forecast to reduce from FY17. Xero is managing the business to cash flow break-even within its current cash balance.

# Strategic update



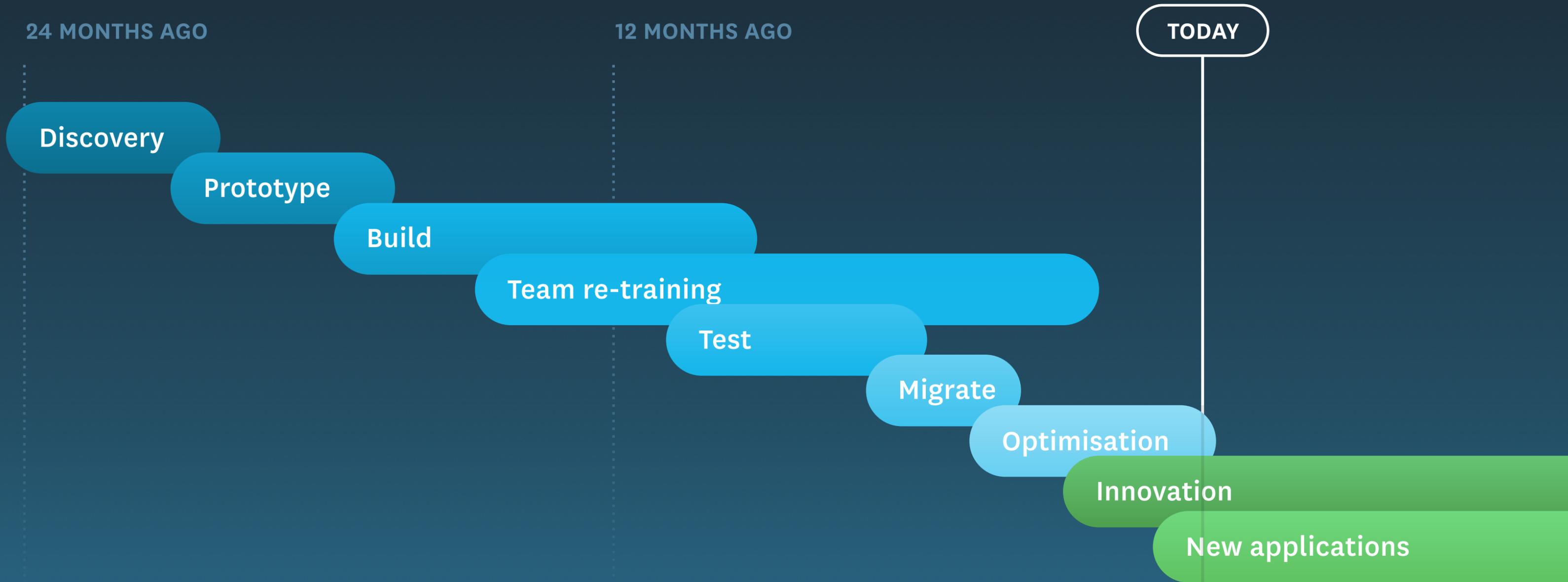
Rod Drury



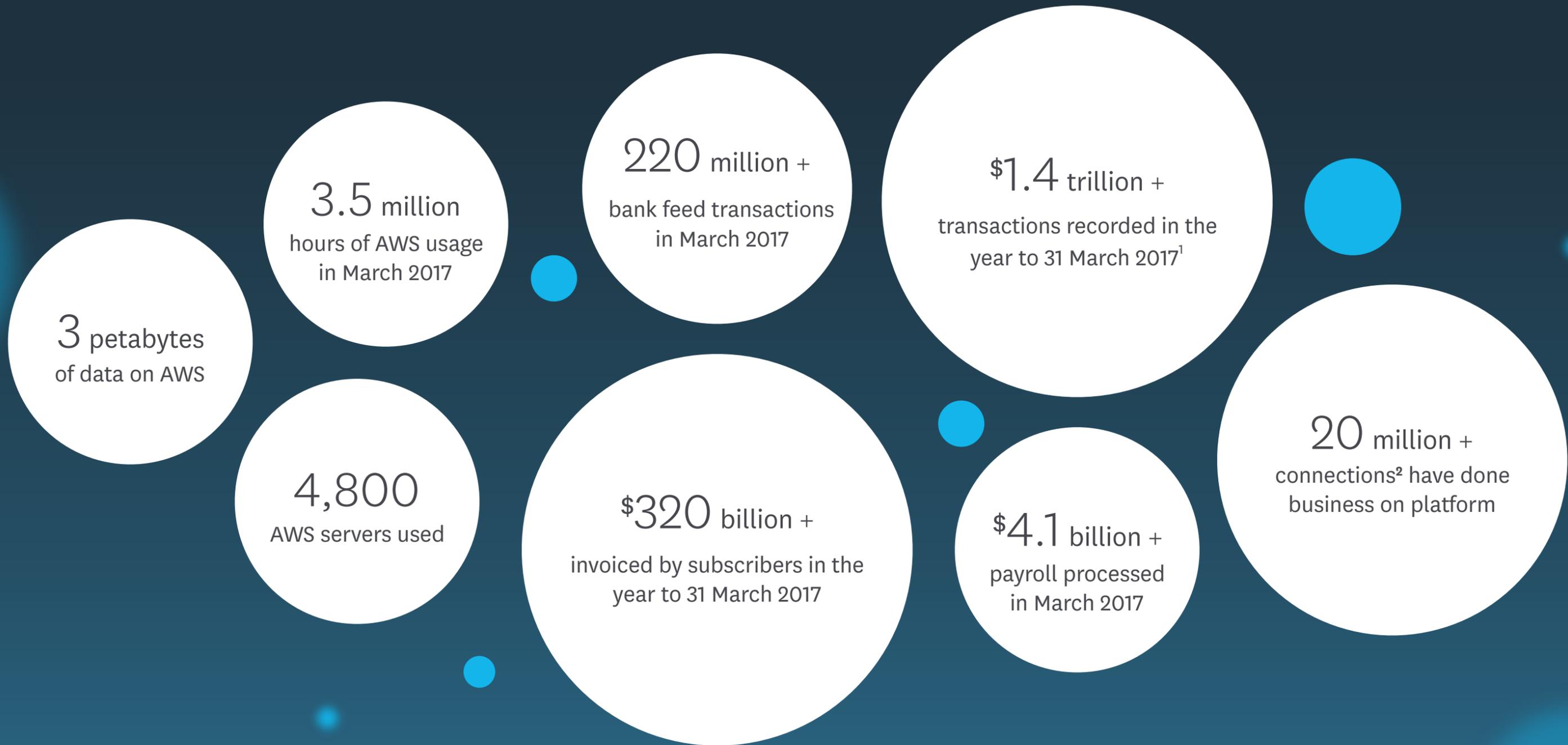
XEROCON, BRISBANE, AUSTRALIA



# AWS migration complete



# Global scale of the platform and data



<sup>1</sup> Incoming and outgoing transactions

<sup>2</sup> Unique recipients of an online invoice since launch of online invoicing

# Accounting is ideal for machine learning

-  Access to vast amounts of training data
-  High value domain
-  A clearly defined target structure
-  Many scenarios to apply machine learning

Xero has a unique data set to apply machine learning to accounting

## Xero is getting smarter!

We now suggest accounts based on what you've entered before. Any defaults you've setup will apply and you can override the suggestions.

Got it!

We can deliver code-free accounting



Small business owners no longer need to understand the technical aspect of accounting

# Code-free accounting unlocks the addressable market further

● Desktop accounting   ● Cloud accounting   ● Code-free accounting



# Rapidly evolving competence in machine learning

## LEARNING

Bots  
3rd party expertise  
Marketing noise

## EXPERIENCE

Some ML experiments  
Disparate data  
Separate applications  
Niche capability  
Core application not predictive  
First in-house champions



## IMPLEMENTING

- ✓ Platform migrated to public cloud
- ✓ Proliferation of ML and automation in product
- ✓ Multiple models in use
- ✓ Initial application features predictive
- ✓ Broad training available to teams
- ✓ Capability in core product teams
- ✓ Data driven identification of scenarios and monitoring



## ACCELERATING

- ✓ Realtime management of multiple models, with reinforcement learning and deployment
- ✓ ML integrated with single application code base
- ML seamlessly integrated into product lifecycle
- Chaining together multiple complex models
- Majority application features predictive
- New workflows optimised for ML
- Capability across all teams

# Continuing our accounting leadership



Double-entry  
accounting system



Multi-perspective  
general ledger



Relational  
reporting



Currency in  
the core

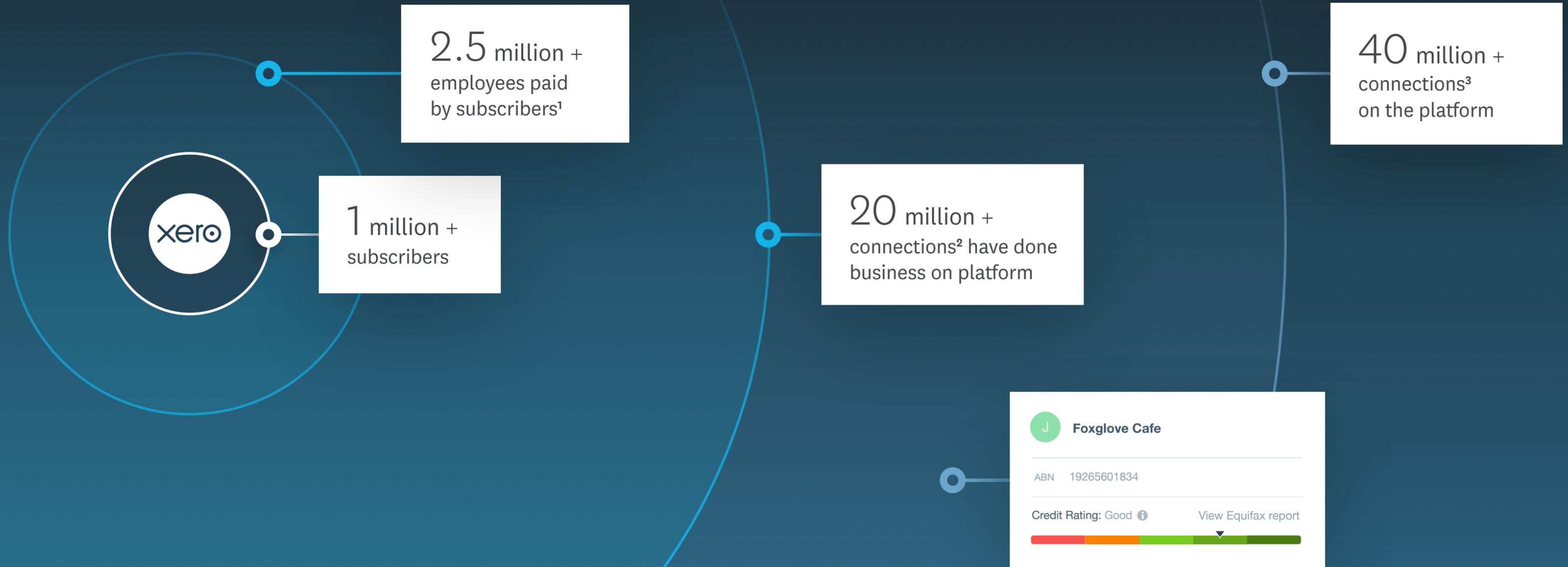


Cross practice  
reporting



**Code-free  
accounting**

# The network effect of a cloud business platform



<sup>1</sup> Since the launch of Xero Payroll product

<sup>2</sup> Unique recipients of an online invoice since launch of online invoicing

<sup>3</sup> Unique contacts on Xero since 2006

# Global platforms will win

- 🌐 Small businesses increasingly connected to global marketplaces
- 📁 Global platforms are motivated to connect for scale
- 🔄 Compelling economics of a single global platform delivers R&D investment efficiencies across multiple geographies
- 🕒 Platforms are consuming applications



Not every business trades internationally, but increasingly more accountants have clients that will

## XERO IS A UNIQUE COMPANY

- ✓ Rare example of a true global platform
- ✓ Track record of anticipating market opportunity, market transformation and innovation
- ✓ Redefining business software in the machine learning age
- ✓ Global execution skills
- ✓ Significant growth potential with lowered risk profile
- ✓ Founder-led urgency, vision and passion

# Q&A



HOT POD YOGA, HACKNEY, LONDON



# 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
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)
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
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 CMR churn) multiplied by ARPU multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by segment subscribers, divided by total Group subscribers
CAC	Customer acquisition costs
CAC Months	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 year less conference revenue (such as Xerocon) divided by new subscribers added (gross) during the same period, divided by ARPU
D&A	Depreciation and amortisation
Opex	Operating expenses
Capex	Capital expenses
SBP	Share-based payments

# Segment achievements

	FY17	Net change	Net change (constant currency <sup>2</sup> )
<b>Subscribers</b>			
Growth across segments			
Group	1.035 m	+318 k	
ANZ	692 k	+194 k	
Int	343 k	+124 k	
<b>Operating revenue</b>			
Operating revenue impacted by foreign exchange			
Group	\$295.4 m	43 %	51 %
ANZ	\$207.8 m	45 %	47 %
Int	\$87.6 m	38 %	58 %
<b>Segment contribution</b>			
Group contribution increased by \$50.7 million			
Group	\$60.4 m	n/m <sup>1</sup>	
ANZ	\$94.6 m	91 %	
Int	\$(34.2 m)	14 %	
<b>Total segment LTV</b>			
International LTV growth of \$123.1 million			
Group	\$2,196 m	46 %	49 %
ANZ	\$1,787 m	46 %	48 %
Int	\$409 m	43 %	57 %

<sup>1</sup> Not meaningful

<sup>2</sup> Constant currency based on 31 March 2016 FX rates for LTV; and respective 12 month prior FX rates for operating revenue



Beautiful accounting software

[www.xero.com](http://www.xero.com)