



MARKET RELEASE

Xero Limited (NZX/ASX: XRO) Financial Results for Full Year Ended 31 March 2017

Xero Hits Positive Operating Cash Flow in H2, \$360 Million Annualised Committed Monthly Revenue, 1.035 Million Subscribers

Operating revenue up 43% year-on-year (51% in constant currency)

Positive EBITDA excluding share-based payments, in H2

Performance Highlights

All figures in NZD

Strong global growth with Annualised Committed Monthly Revenue (ACMR) growing to \$359.7 million

- Operating revenue of \$295.4 million, an increase of 43% over FY16 (constant currency growth of 51%)
- Subscription revenue of \$290.0 million, an increase of 44% over FY16 (constant currency growth of 52%)
- Net subscriber additions increased to 318,000 to finish on 1,035,000 subscribers at 31 March 2017
- ACMR of \$359.7 million was particularly impacted by the strong NZD and had a constant currency growth rate of 45% over 31 March 2016
- A balance of \$113.7 million cash and short-term deposits at 31 March 2017

Focus on operating performance delivers positive operating cash flow in the second half

- Net loss after tax improved to \$69.1 million from \$82.5 million in FY16
- Operating cash flow in H2 FY17 turned positive for the first time to \$9.0 million. Full year operating cash outflow reduced to \$4.4 million from \$34.8 million in FY16
- Operating and investing cash outflows declined to \$70.8 million from \$88.6 million in FY16. In H2, operating and investing cash outflows declined to \$25.0 from \$39.1 million in the same period in the prior year
- EBITDA loss improved to \$28.6 million from \$59.9 million in FY16. EBITDA excluding share-based payments (SBP) improved to a loss of \$16.9 million, from a loss of \$44.8 million in FY16. EBITDA excluding SBP turned positive in H2 FY17 at \$1.6 million compared to a loss of \$17.4 million in H2 FY16
- Gross margin percentage improved to 77% for FY17 from 76% in FY16, even with the impact of migration costs to AWS during the year. The migration was completed in Q3 FY17

- Lifetime Value per subscriber (LTV) increased to \$2,121 despite the strengthened NZD adversely impacting ARPU. LTV in constant currency¹ improved 4% during the year, while the ratio of LTV/Cost of Acquisition (CAC) at 5.7 improved by 19% over FY16

Xero is the largest cloud accounting software provider outside the United States

- Australia and New Zealand expanded cloud accounting market leadership with 692,000 subscribers across the region, adding 194,000 subscribers in FY17. Australia added 134,000 subscribers, while New Zealand added 60,000 subscribers. In New Zealand, one third of small businesses are now on the Xero platform
- In the United Kingdom, Xero extends its lead in the cloud accounting market, growing to 212,000 subscribers in FY17, adding 79,000 subscribers over the year
- North America grew to 92,000 subscribers at 31 March 2017 in FY17, adding 30,000 in FY17. Executing on its financial web strategy, today Xero announced a partnership with Capital One, adding to partnerships with Wells Fargo and Silicon Valley Bank
- Rest of World has posted another strong year growing to 39,000 subscribers, adding 15,000 subscribers in FY17. Xero partnered with leading banks across Asia, including CIMB in Malaysia, HSBC in Hong Kong and UOB in Singapore

SYDNEY, 11 May 2017 – Xero Limited (NZX: XRO, ASX: XRO) today reported full-year earnings to 31 March 2017, posting 43% year-on-year growth in operating revenue to \$295.4 million, an increase of \$88.3 million over the previous year.

With 1,035,000 subscribers at 31 March 2017, Xero added 318,000 subscribers in the last year. Subscription revenue increased to \$290.0 million, up \$88.0 million over FY16 - growth in constant currency was 52%.

Xero continues to balance strong growth with improved operating metrics, delivering increased gross margin, lower sales and marketing costs as a percentage of revenue, and other operational efficiencies. This resulted in EBITDA excluding share-based payments, turning positive to \$1.6 million in the second half of the financial year. Operating cash flows for the second half of the financial year were also positive for the first time.

“It has been a milestone year for Xero, achieving operating cash flow break-even in the second half of the financial year, and doubling subscriber numbers in less than two years to pass the one million subscriber mark, while completing our major re-platform to Amazon Web Services,” Xero CEO, Rod Drury said. “We continue to recruit exceptional talent, and I’m proud our team has executed on all fronts to again achieve strong results for this financial year and build new foundations for additional waves of growth in the future.”

¹ LTV in constant currency is calculated by translating LTV at 31 March 2017 at the 31 March 2016 exchange rates

Strong execution across the business has expanded Total Lifetime Value from \$823 million to \$2.2 billion over the past two years. Annualised committed monthly revenue (ACMR) reached \$359.7 million, representing a constant currency increase of 45% year-on-year.

Economies of scale and financial discipline have seen gross margin improve by 10 percentage points in three years, even with duplicated platform costs for the majority of the year. The advantages of a single cloud platform and world class retention sees operating metrics expanding with scale as Xero prepares to pass into positive EBITDA.

Xero improved cash flow performance through the year to 31 March 2017. Xero is managing the business to cash flow break-even within its current cash balance. Operating metrics are expected to improve in FY18 as Xero drives efficiencies through automation and economies of scale.

A global platform delivers scale

Xero is the small business cloud accounting leader in Australia, New Zealand and the U.K., and continues to grow its presence in the North America, South East Asia and South Africa. As business platforms globalise, Xero is uniquely positioned with a single code base to benefit from the opportunity of operating in a global market where we can service millions of businesses worldwide.

The Xero platform is the core system of record for small business. Xero's progress in developing the open accounting engine is providing opportunities to create new front office applications to further support our small business customers.

“Recording more than \$1.4 trillion worth of incoming and outgoing transactions in the last year, Xero manages a unique global graph of business transactions, enabling the development of machine learning to create new experiences for small businesses. We believe the application of machine learning and AI to accounting will unlock significant productivity for our accountants, bookkeepers and small business customers,” Drury said.

“We are making progress in rewiring how businesses work together with more bank feeds, large enterprises connecting to their customers with Xero, and more than 20 million unique connections doing business on our platform.”

The growing importance of small business in the economy

The expanding global small business economy is increasingly more important for the overall prosperity and health of the world.

“We anticipate a shift in employment from large enterprises to small business and an increase in part-time employment. Growing the small business economy is where we can create jobs, address youth unemployment, and develop regional opportunities,” Drury said.

“Economic trade between small business builds common ground between people around the world. As an industry leader, we have a responsibility to actively support and encourage small business growth.

“Working with accountants and bookkeepers, we are helping small businesses connect to banks, government and other organisations enabling them to grow and attract investment to create jobs in their region.”

About Xero

[Xero](#) is beautiful, easy-to-use online accounting software for small businesses and their advisors. The company has over one million subscribers in more than 180 countries. Xero seamlessly integrates with more than 500 apps. It was ranked No. 1 by Forbes as the [World's Most Innovative Growth Company](#) in both 2014 and 2015, while Canstar Blue rated Xero Australia's best accounting software in 2015 and 2016 based on research from 800 small businesses.

About Subscribers

In line with its previous definition, Xero measures subscribers as 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.

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