

Investor briefing

Half year results to
30 September 2017

The Xero logo, consisting of the word "xero" in a white, lowercase, sans-serif font, centered within a solid blue circle.

9 NOV 2017  Proffer, Wellington

Important notice

This presentation is given on behalf of Xero Limited (NZX/ASX:XRO) (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 interim report for the period ended 30 September 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
- may contain information from third parties believed to be reliable; however, no representations or warranties are made as to the accuracy or completeness of such information, and
- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero's financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed.

All information in this presentation is current at 30 September 2017, unless otherwise stated.

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

See page 31 for a glossary of the key terms used in this presentation.

Agenda

**Business
update**

**Operating
results**

Outlook

Q&A



Business update



Rod Drury

Chief Executive Officer and Founder



Positive EBITDA with continued strong growth



¹ Constant currency based on FX rates for the 6 months ended 30 September 2016. Increased 37% YOY in nominal terms

Next chapter: self-sustained growth

Prior years

- ✓ Using investor capital to grow
- ✓ Proving sustainable business model
- ✓ Market leading beautiful accounting software
- ✓ ANZ focussed tech investment
- ✓ Early stage risk profile

Next chapter

- Growth in future to be funded by free cash flows
- Continuing gross margin and EBITDA improvements
- Global small business platform in an underserved TAM
- One of few listed global platforms
- Appeal to diverse group of growth investors

Stand-by bank facility established

\$100 million two-year stand-by debt facility established with BNZ and ANZ as part of ongoing risk management

Improves overall liquidity position

There are no current plans to draw down on the facility

The BNZ logo is displayed in white on a dark blue rectangular background. It features the lowercase letters 'bnz' in a bold, sans-serif font, followed by three white stars of varying sizes arranged in an arc to the right.The ANZ logo is displayed in white on a dark blue rectangular background. It features the uppercase letters 'ANZ' in a bold, sans-serif font, followed by a stylized white icon consisting of three curved shapes that resemble a person or a plant.

Consolidating listing on ASX

Xero is in the process of consolidating its listing on the ASX, expected Monday, 5 February 2018

Xero will remain a New Zealand domiciled company – headquartered in Wellington – but will delist from the NZX, with the last NZX trading day expected Wednesday, 31 January 2018

Broader platform for long term growth:

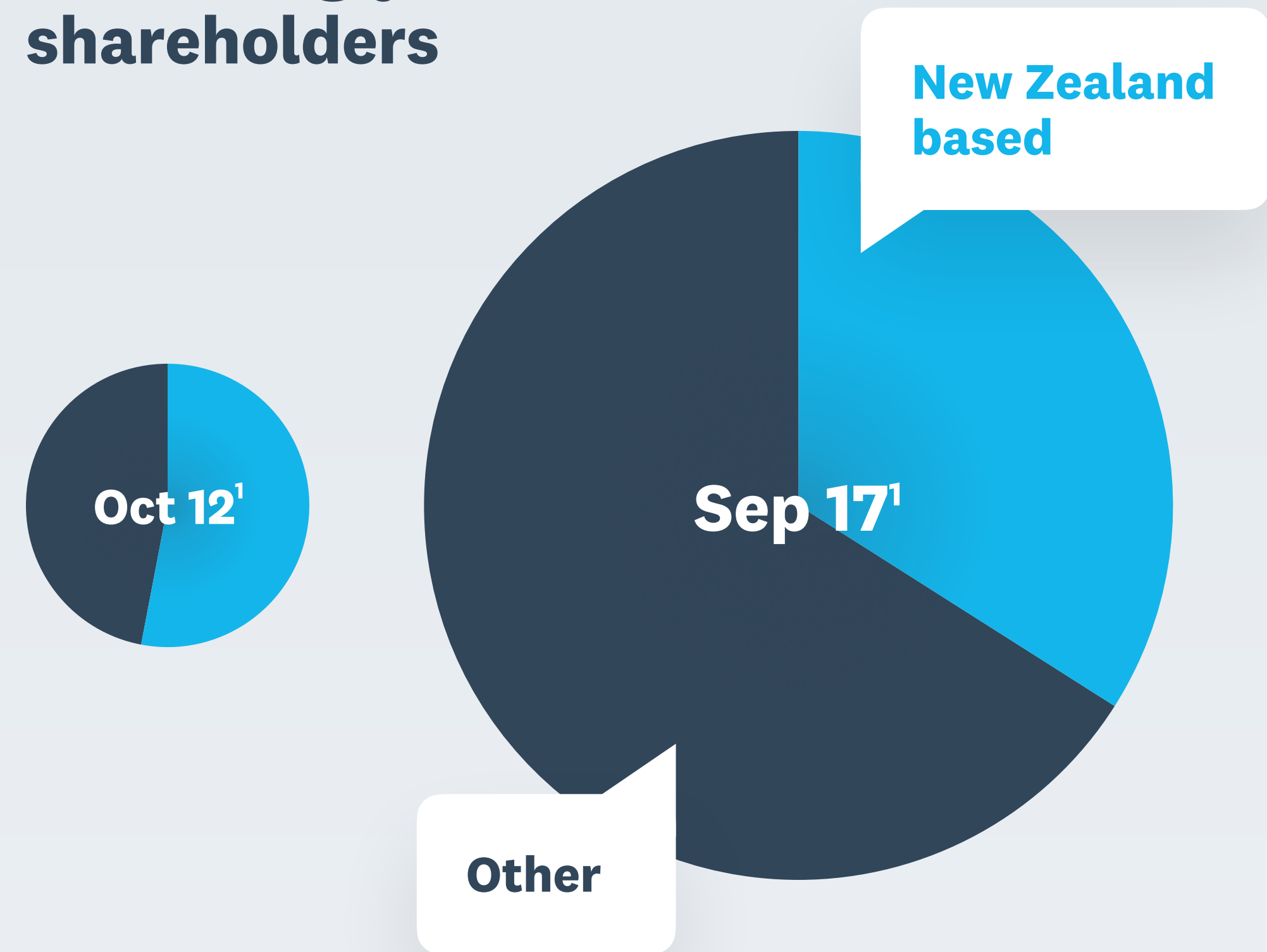
- Consolidates stock liquidity into one exchange
- Increases relevance to a more diverse range of large investors
- Broader analyst and broker coverage

Xero believes that this transition is in the best interests of the company and its shareholders

Expecting a seamless transfer for all shareholders

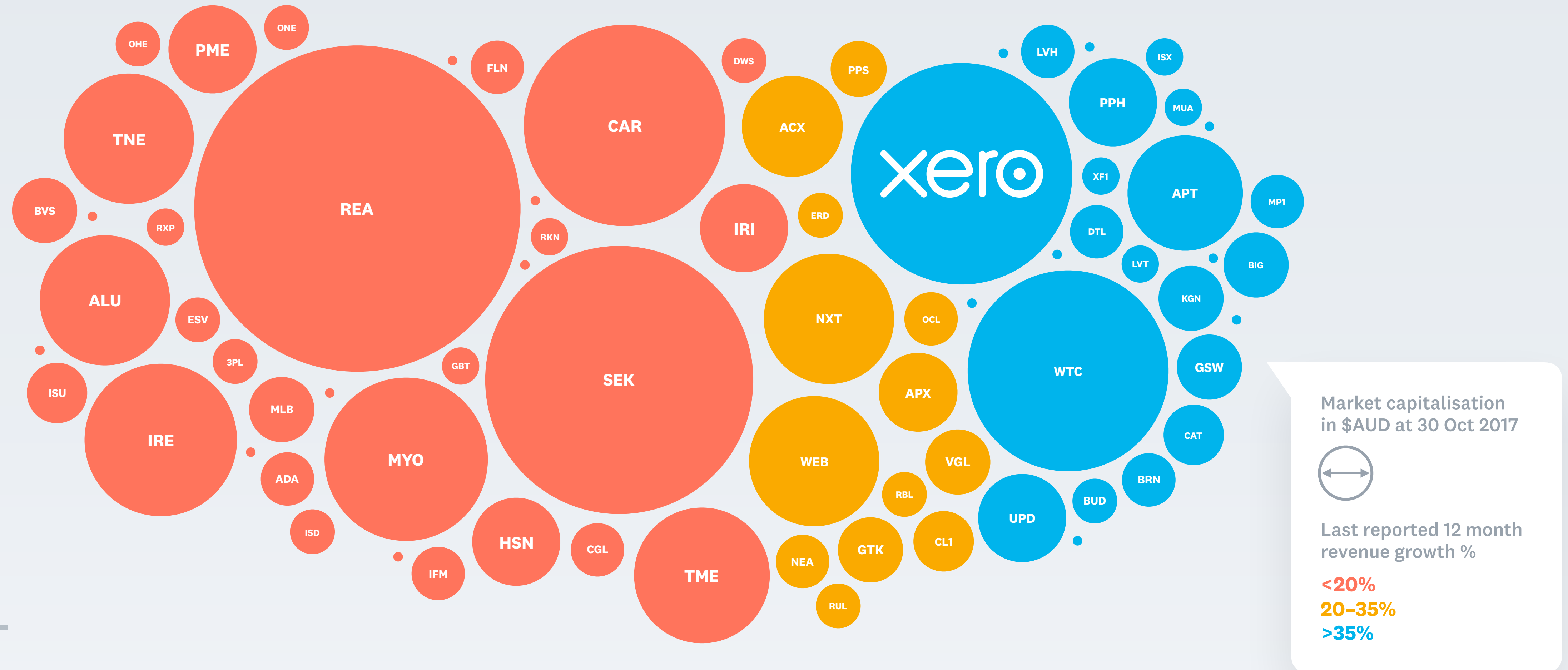
See www.xero.com/investors/listing for details

Increasingly diverse shareholders



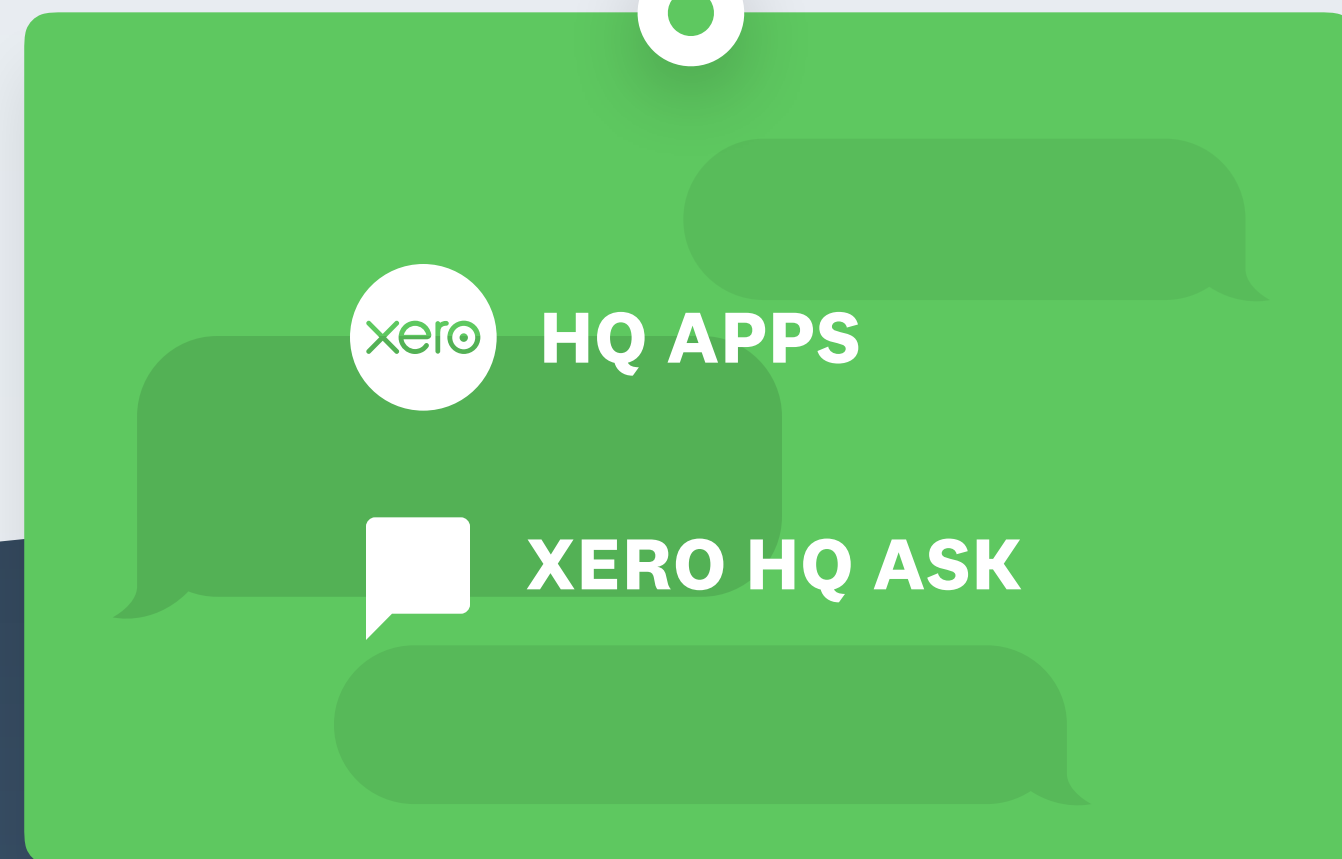
¹ Chart based on Xero internal top 50 register analysis of shareholdings and scaled to market capitalisation at respective time periods

Listed ASX & NZX tech companies by revenue growth and market capitalisation



Delivered accelerated product cadence

Win accountants
& bookkeepers



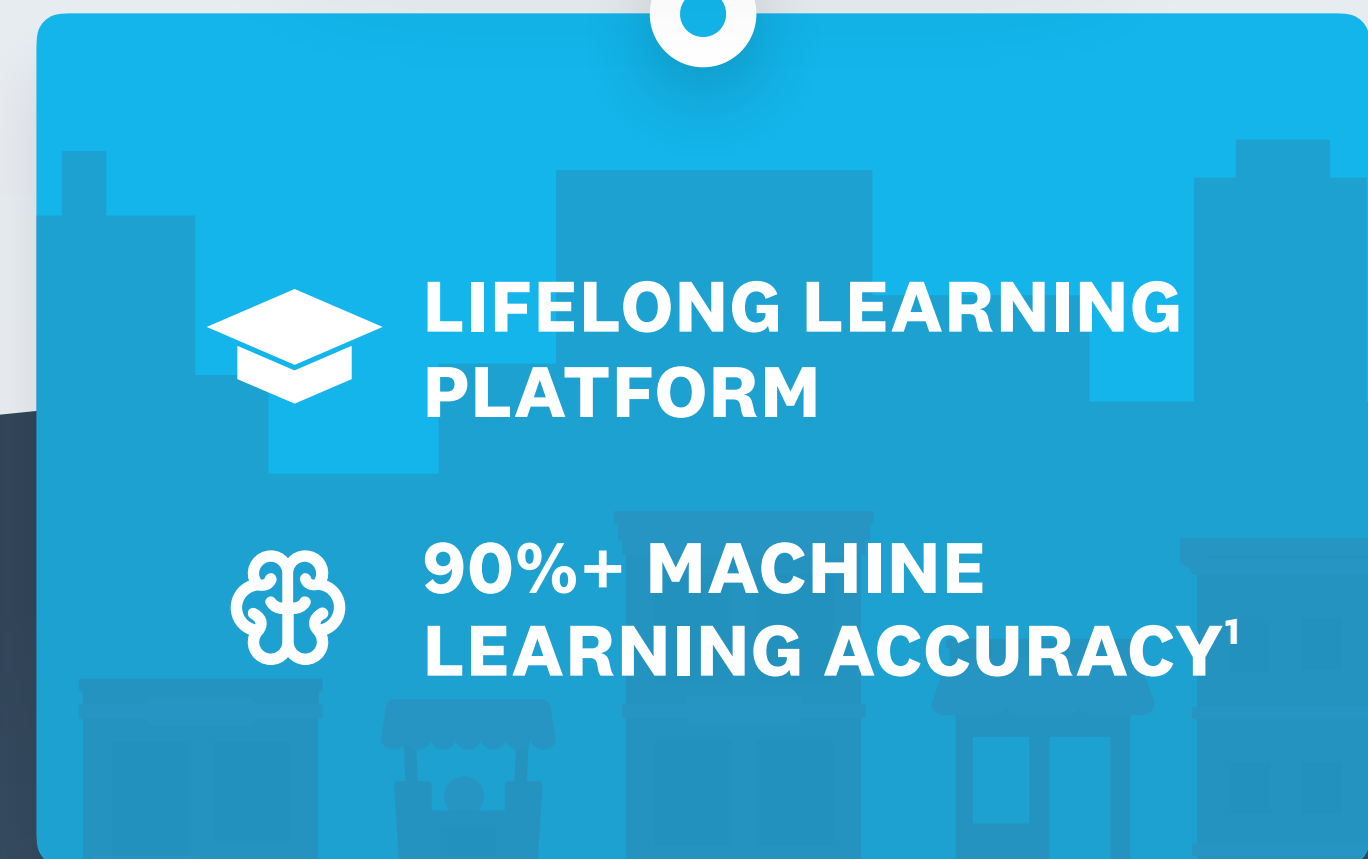
xero HQ APPS
XERO HQ ASK

Front office
applications



XERO EXPENSES
XERO PROJECTS

Leverage Amazon
platform



**LIFELONG LEARNING
PLATFORM**
**90%+ MACHINE
LEARNING ACCURACY¹**

¹ Invoice account code suggestion accuracy in October 2017

Xerocon events: momentum of global community

40,000 developers
in the ecosystem

3,000

Melbourne attendees (Sep 17)

2,000

London attendees (Oct 17)

Sold out

Austin, Texas (Dec 17)

**“Stop looking at Xero as a product.
Look around it to the 600+ apps.**

**You can’t compare it to product
X-Y-Z because Xero is not a
product, Xero is a platform!”**



Sam Wood, ACA
Blusky Chartered Accountants, U.K.

Operating results



Sankar Narayan

Chief Operating and Financial Officer



1,199,000
subscribers

337,000
added in 12 months

\$417m

Annualised committed
monthly revenue



\$114m
added in 12 months

Sep 10

Sep 17

Financial performance

Operating revenue growth of 37% YOY and 38%¹ in constant currency

ARPU is stable in H1 without major price increases and reflects stronger revenue management disciplines

Positive EBITDA through economies of scale and cost efficiencies

Net loss more than halved YOY

	1H FY17 (\$000s)	1H FY18 (\$000s)	YOY change
Total operating revenue	137,247	187,797	37%
Gross profit	103,405	150,360	45%
Gross margin	75%	80%	+5pp
EBITDA	(25,897)	5,387	n/m ²
EBITDA margin	(19%)	3%	+22pp
Net loss	(43,920)	(21,083)	52%
EBITDA excl. SBP	(18,507)	14,029	n/m ²
EBITDA excl. SBP margin	(13%)	7%	+20pp

¹ Constant currency based on rates for the 6 months ended 30 September 2016

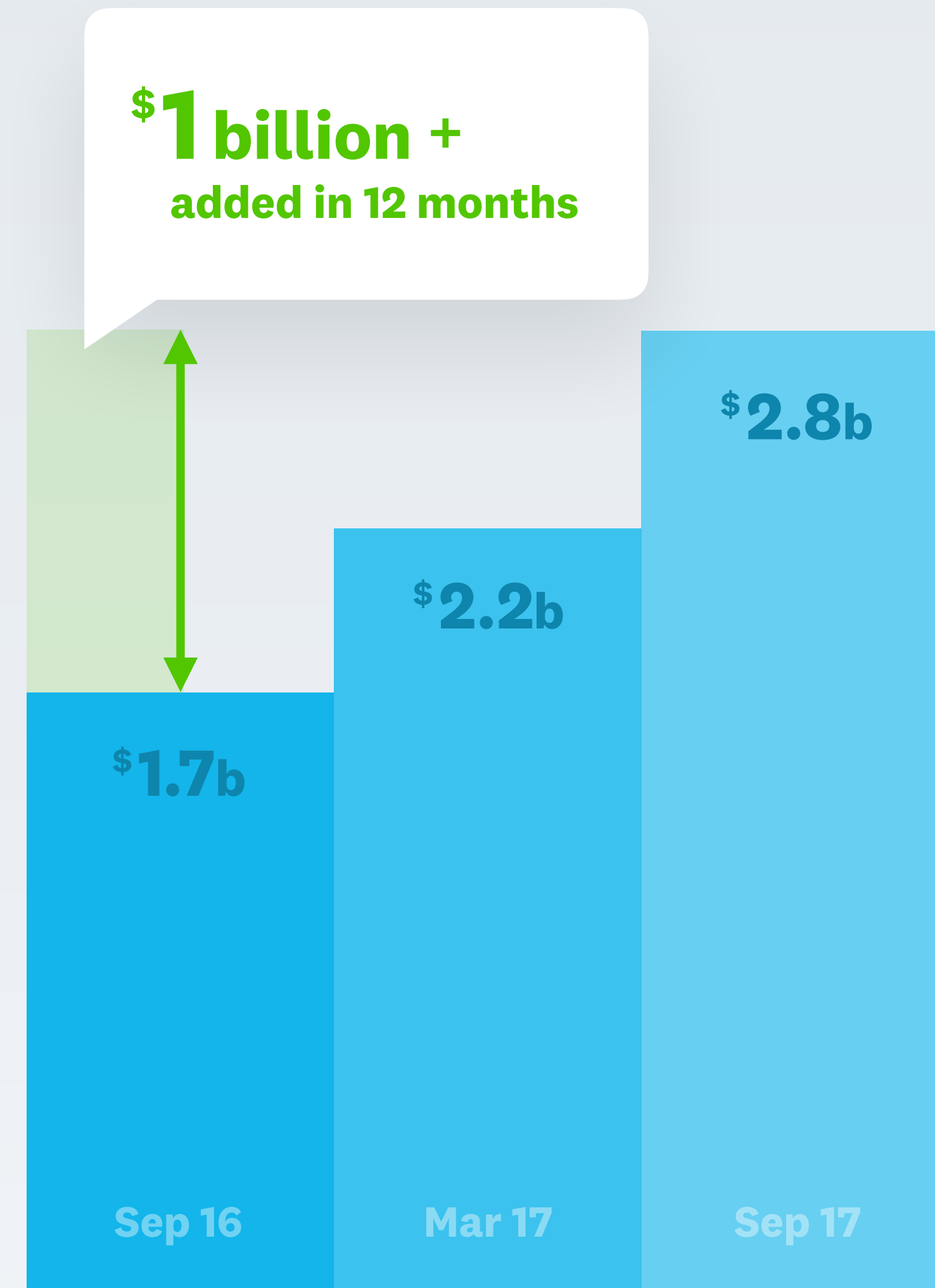
² Not meaningful

Creating significant lifetime value

	September 2017	Progress from March 2017
ARPU	\$29.00	—
CMR churn %	1.11%	↓
Gross margin	80%	↑
LTV per subscriber ¹	\$2,306	+9%

¹ 9% increase both in nominal terms and in constant currency based on 31 March 2017 FX rates

Total group subscriber lifetime value (LTV)



Increased gross margin

Gross margin of 80% for H1 FY18, +5pp over prior year

Gross margin improvements seen since completing AWS migration in H2 FY17

Expect continued improvement of gross margin through economies of scale and automation

Gross profit as percentage of revenue



¹ Duplicated costs due to transition to AWS

Improved acquisition efficiency

CAC months for the group declined to 12.6 in H1 FY18 from 14.6 in H1 FY17

Driving more efficient customer acquisition by continued focus on the partner channel and improving digital marketing effectiveness

Operating expenses include targeted investments to establish new markets in Asia

Reduced cost per gross add and CAC months across both segments - ANZ and International

Value added acquisition – group LTV to CAC improved from 4.7 in H1 FY17 to 6.3 in H1 FY18

LTV to CAC



Continuing scale in product investment

Launched a wave of significant new products at Xerocon this year

Investment targeted towards:

- Strengthening platform and leveraging machine learning and artificial intelligence
- Development of the financial web
- New ARPU generating products
- New partner tools

Product costs including opex and capex as % of revenue¹



¹ Net of government grants

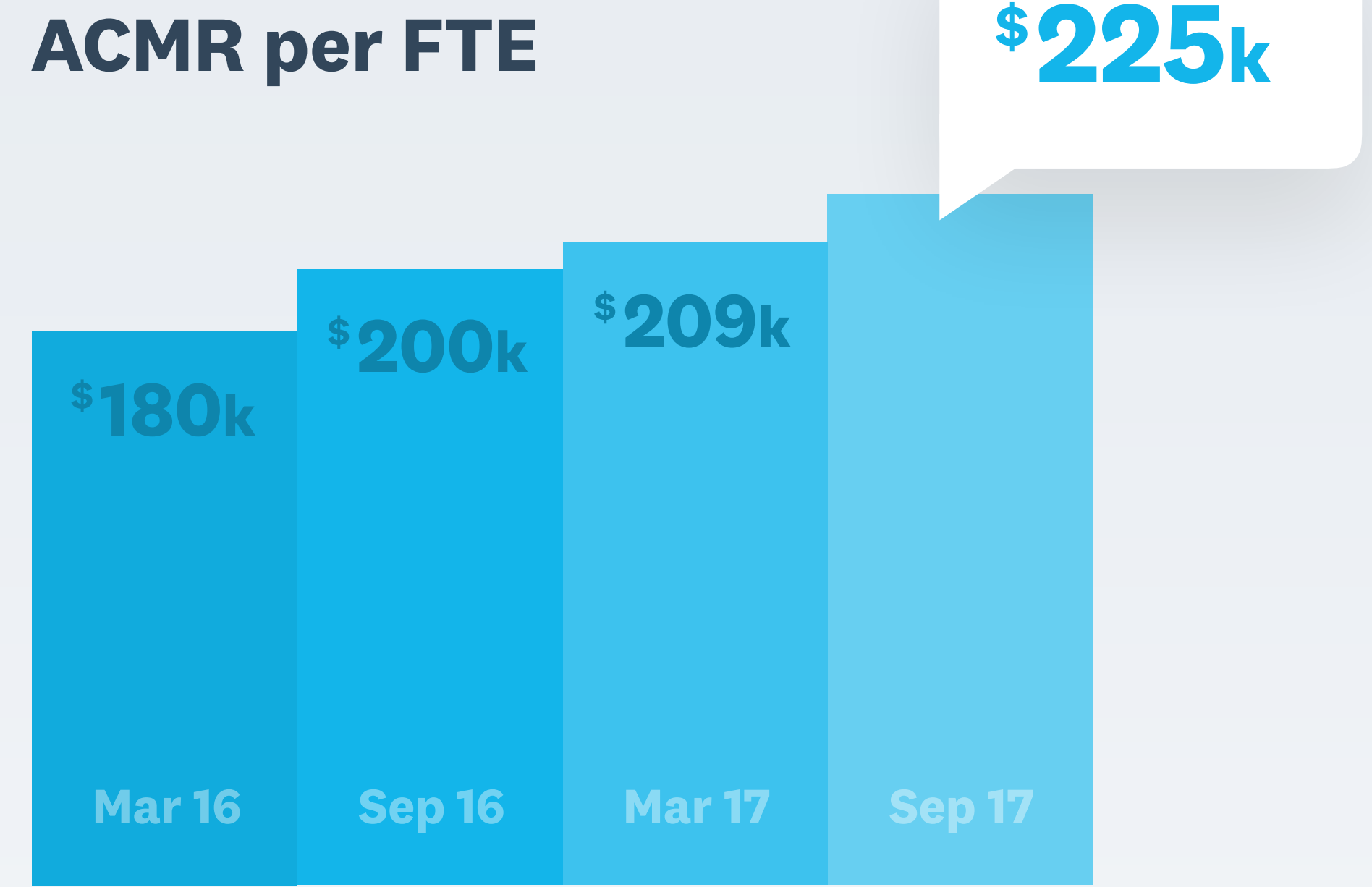
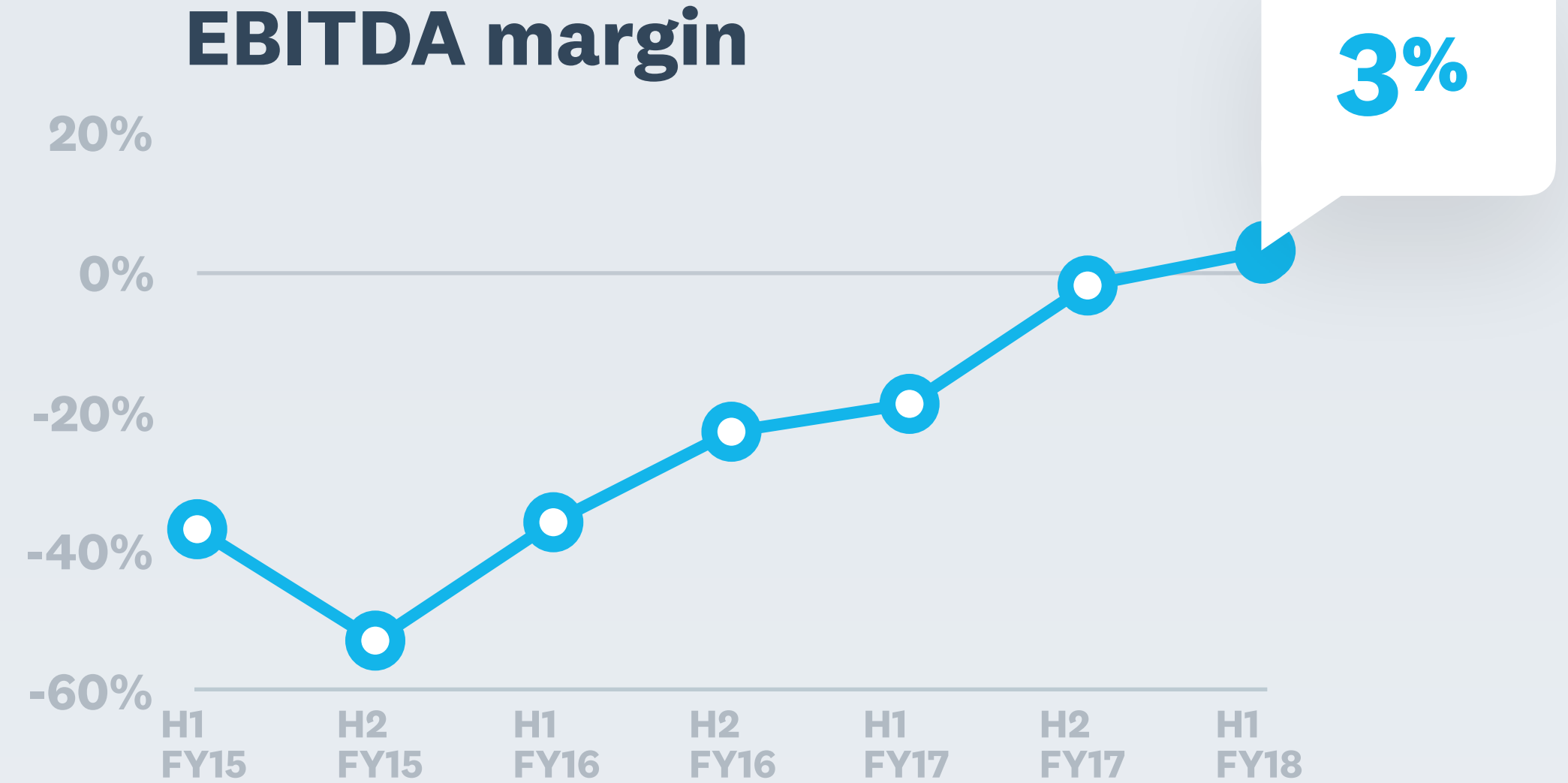
Positive EBITDA

EBITDA milestone: positive for the first time in H1 FY18 at \$5.4m compared to \$(25.9m) loss in H1 FY17

EBITDA excl. SBP¹ was \$14.0m in H1 FY18, an improvement of \$32.5m YOY

EBITDA improvements driven by growing ACMR per FTE and efficiencies across all parts of the business

Continuing investments to drive and support growth



¹ SBP is a non-cash cost to Xero

Positive operating cash flows

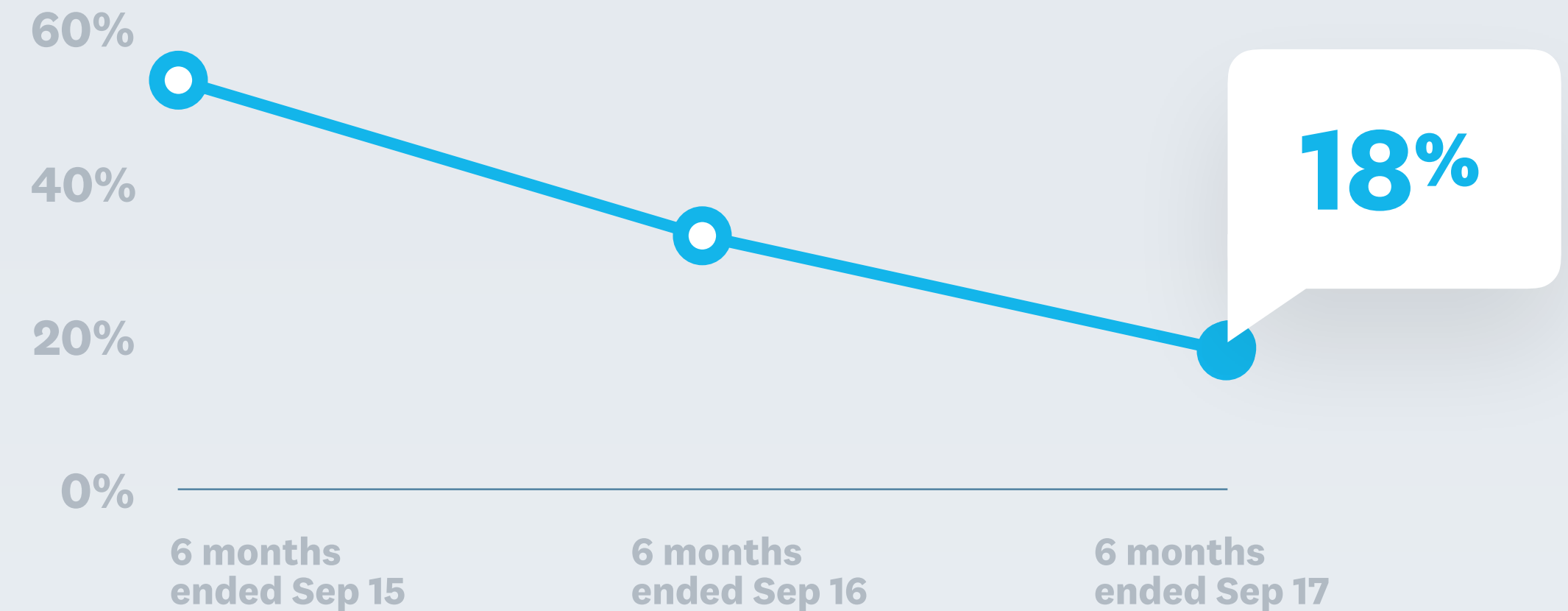
Positive operating cash flow of \$6.1m in H1 FY18, an improvement of \$19.4m YOY

H1 cash flows are seasonally lower

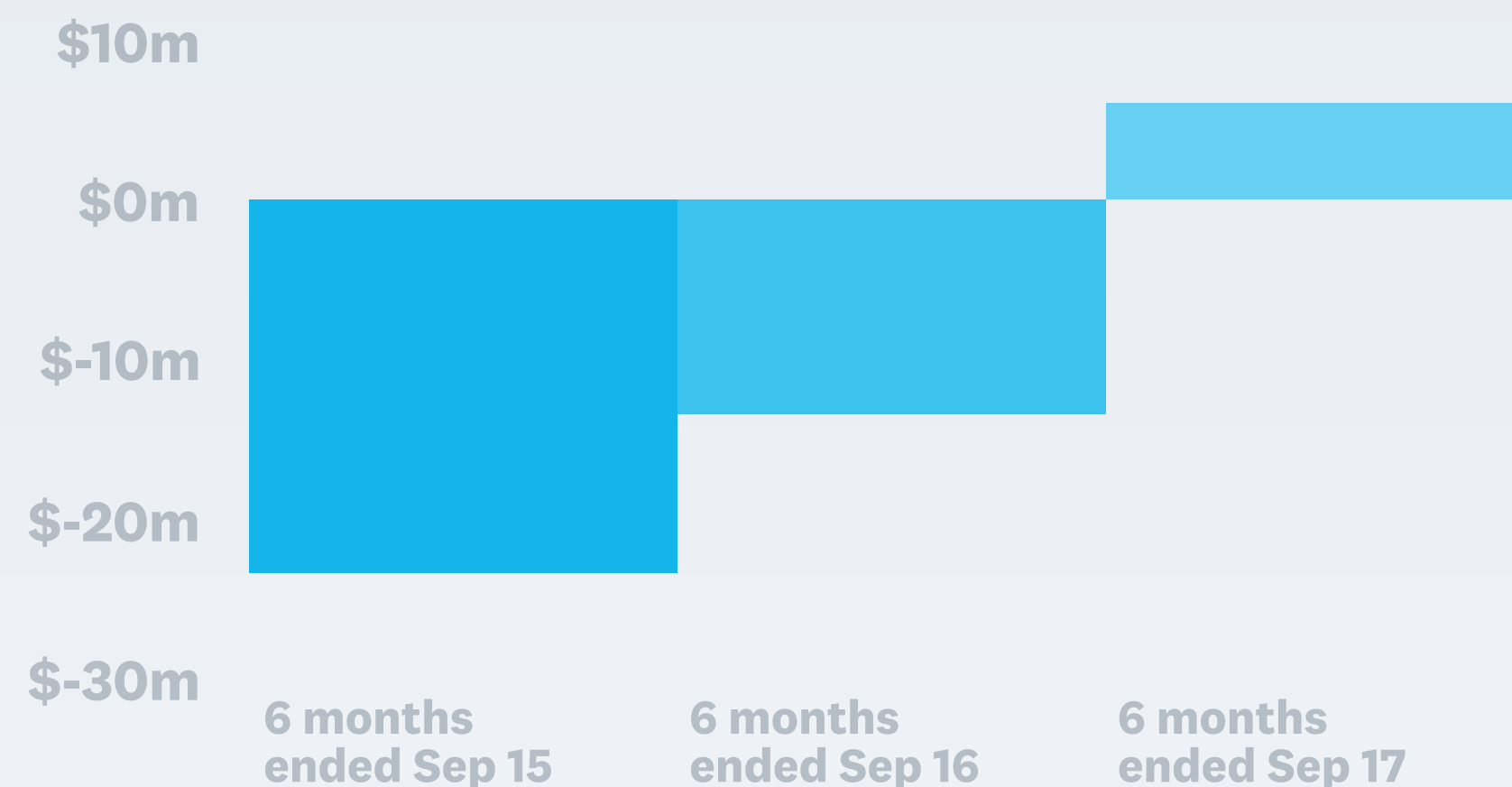
Investing cash flows increased \$8.3m to \$40.7m for the interim period and impacted by new 700+ person headquarters in Wellington

Total cash usage declined YOY. Total operating and investing cashflows improved \$11.2m YOY

Cash outflow¹ as % of revenue



Improvement in operating cash flows



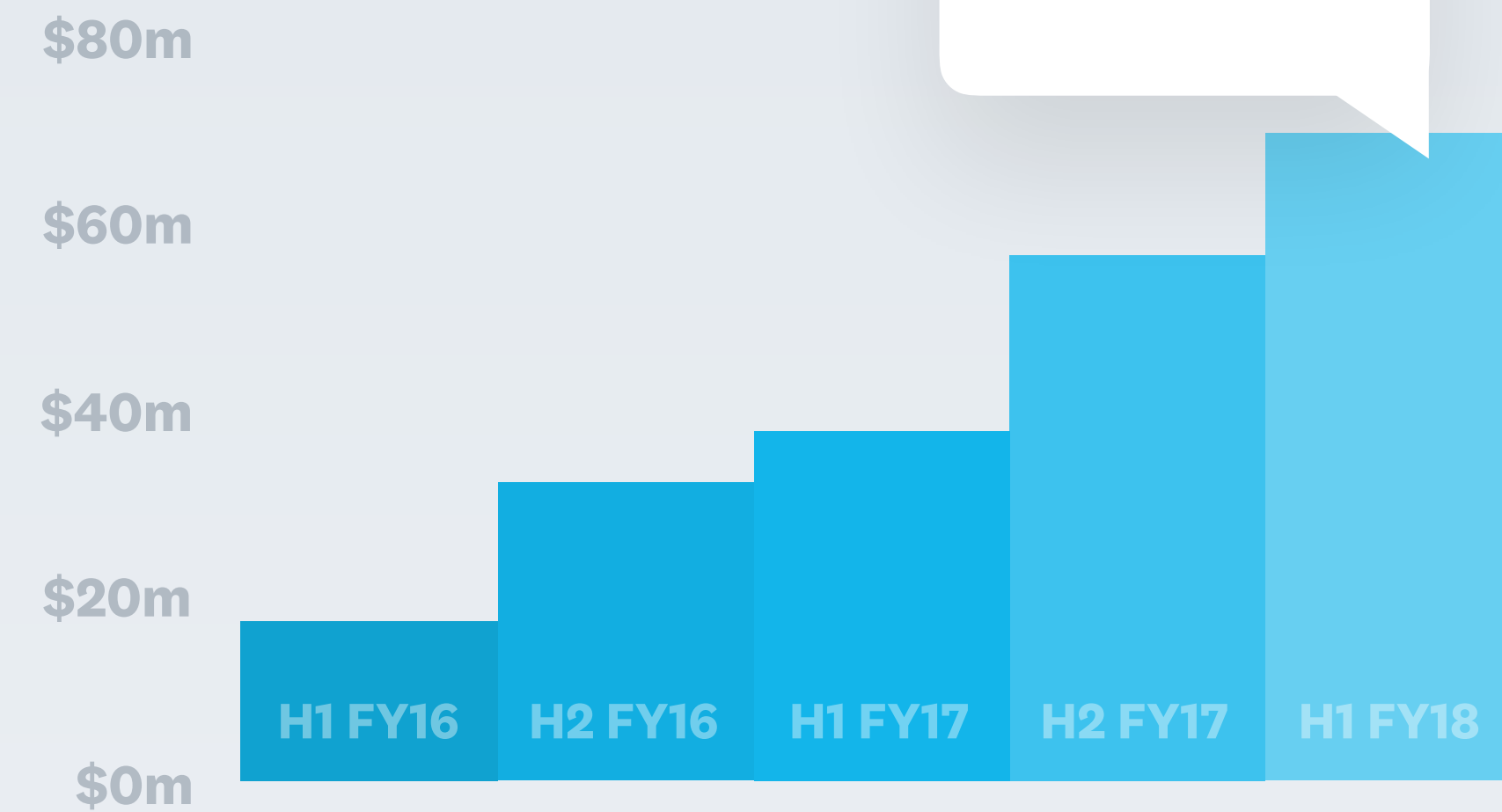
¹ Operating and investing cash flows

Contribution margins improving

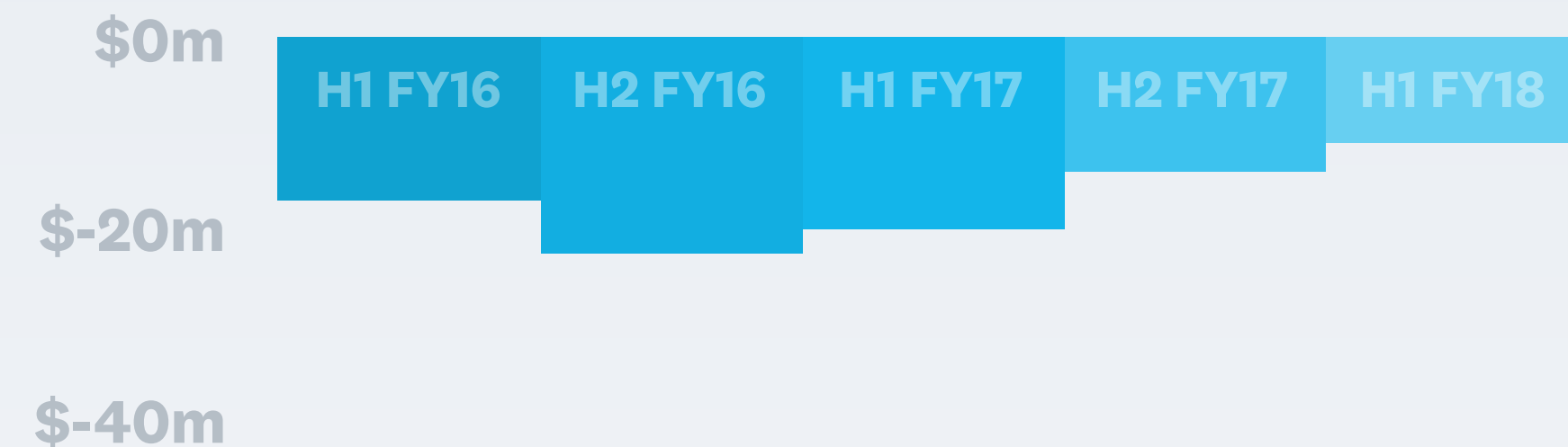
Contribution margins improved 84% YOY for H1 FY18 in ANZ, even with growth investments in the region

Moderating investment in international segment with increased scale

Australia and New Zealand contribution



International segment contribution loss



Australia and New Zealand

Market leader in small business accounting

New Zealand extending penetration through targeted segments eg. rural advisors and business-to-government initiatives

Australia investing for long-term growth

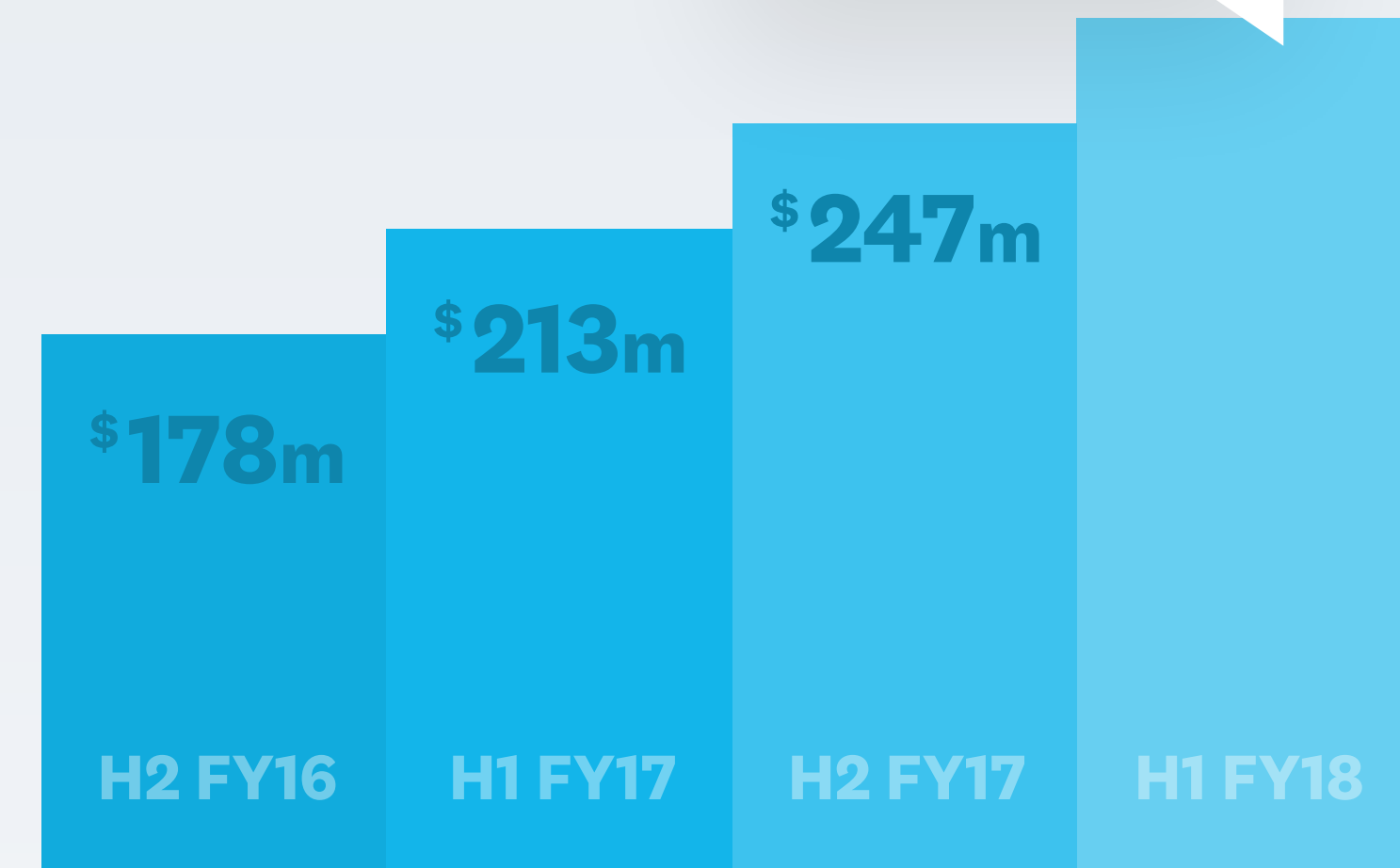
- Small Business Insights report launched with KPMG Enterprise in September 2017
- Xero Connect, an enterprise e-invoicing initiative, launched with Reece and Caltex in July 2017
- Winner of Canstar Blue's "Most Satisfied Customers Award for Small Business Accounting Software" for three years in a row



Subscribers



ACMR



United Kingdom

Leading cloud accounting software provider for small businesses

Strong subscriber growth with quality revenue growth of 49% – 61%¹ in constant currency YOY

Working with 45 of the 50 largest accounting firms

Highest number of banking and Fintech integrations. HSBC and Santander went live in October 2017

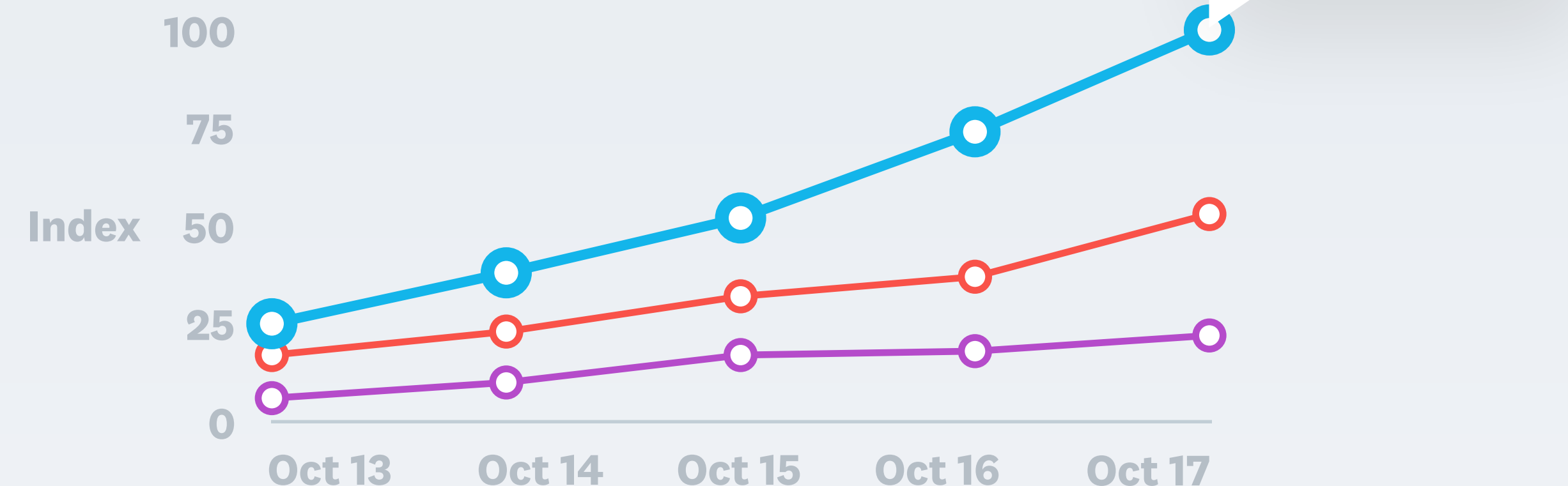
Market adoption of cloud expected to accelerate with digitisation of U.K. SME initiatives such as HMRC Making Tax Digital



Subscribers



Strong market leadership; Google search trends



Xero
Competitor A
Competitor B

¹ Constant currency based on FX rates for the 6 months ended 30 September 2016

Graph source: Google trends of competitor products

North America

Moderating investment consistent with slower market adoption of cloud accounting

Strengthening accounting partner integrations with focus on lower CAC, lower churn and higher LTV

Continued investment in deep bank partnerships – Capital One, Silicon Valley Bank and Wells Fargo

Building scale from Denver, Colorado

Subscribers



Best overall Fintech Software 2017



2017 Best Business Accounting Solution and Cloud Ease of Use



2017 Top Rated Accounting & Budgeting Software



2017 Best SaaS Company

Expanding global footprint

SOUTH EAST ASIA

Gaining traction with accounting partners

- Over 1,000 attendees at partner training sessions in Singapore and Hong Kong
- Launching automated competitor conversion tools

Broadening financial partnerships and integrations

Continued advances in localising the product for Singapore

SOUTH AFRICA

Engaged with major accounting bodies and hosted first joint event with South African Institute of Chartered Accountants



Outlook





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 (without drawing on the debt facility)

Following cash flow break-even, it is intended that surplus cash flow will be reinvested, subject to investment criteria, to drive long term value

Q&A



Appendix



Glossary

Subscribers

Subscriber means each unique subscription to a Xero offered product that is purchased by an accounting partner or an end user and is, or is available to be, deployed

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)

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 previous 12 months

Total lifetime value

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 months

CAC months or months of ARPU to recover CAC 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 12 month period less conference revenue (such as Xerocon) divided by new subscribers added (gross) during the same period, divided by ARPU

Opex

Operating expenses

SBP

Share-based payments

D&A

Depreciation and amortisation

FTE

Full-time equivalent

TAM

Total addressable market

GAAP

Generally accepted accounting principles

Capex

Capital expenditure

CAC

Customer acquisition costs

Investor enquiries



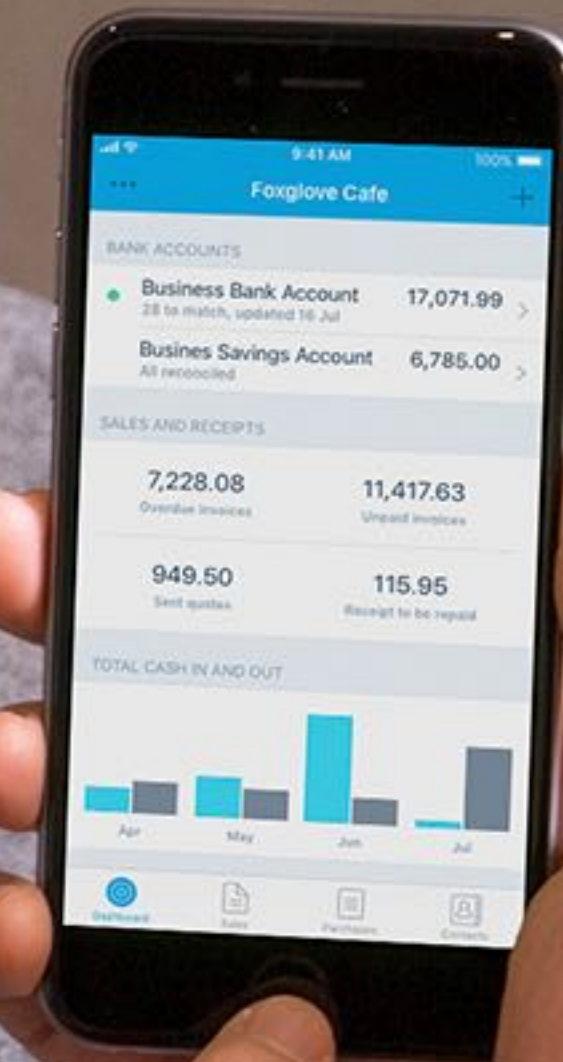
Annie Li

Investor Relations

annie.li@xero.com

<https://www.xero.com/investors>

Xero overview



Unique platform that connects small businesses and their advisors

FOR SMALL BUSINESSES

Xero

Using Xero, small businesses can manage their day-to-day finances with software that's smart and easy-to-use. Always having instant access to their data and files.

Connected apps

Over 600+ connected business apps integrate with Xero. Connecting these solutions gives small businesses a view of their entire business in real time.

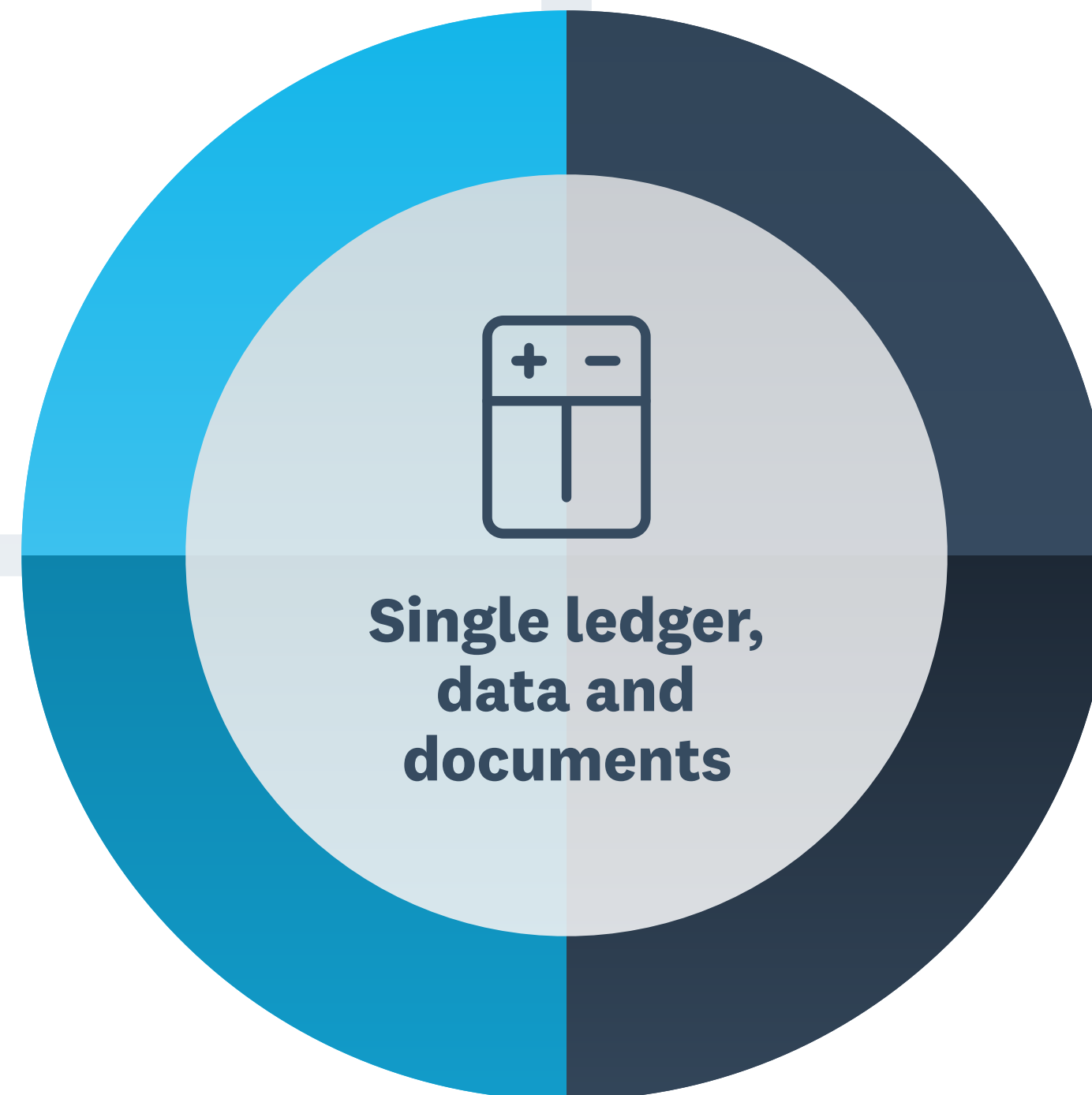
FOR ACCOUNTING PARTNERS

Xero HQ

Accounting partners can connect their clients' data with practice software like Practice Manager, Workpapers and Tax. All on one platform in the cloud.

HQ apps

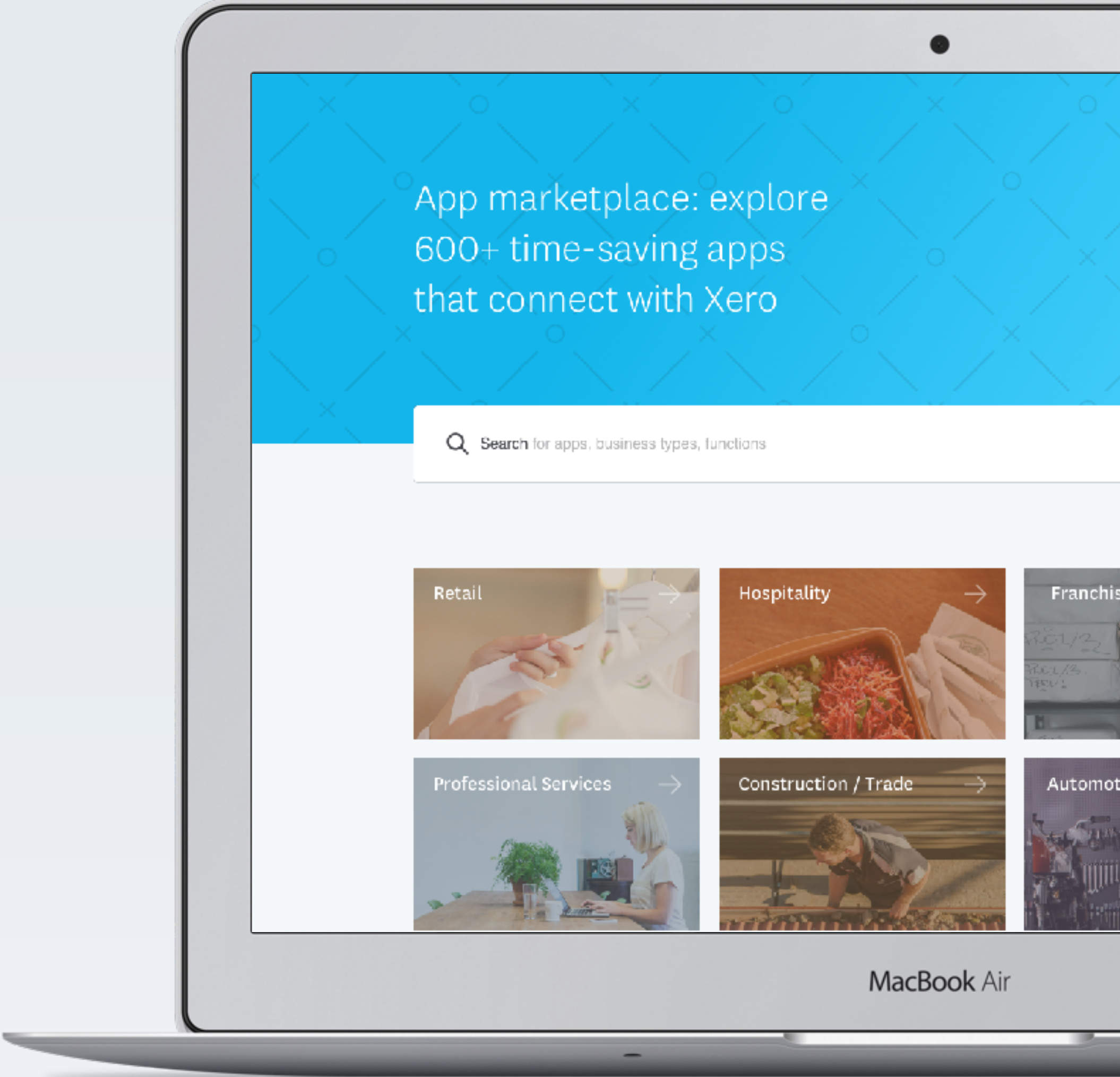
HQ apps helps accountants and bookkeepers do their work efficiently and brings various work streams of their practice, such as reporting and marketing, on one platform in the cloud.



Rewire the global economy, connecting millions of businesses to their banks, advisors and each other

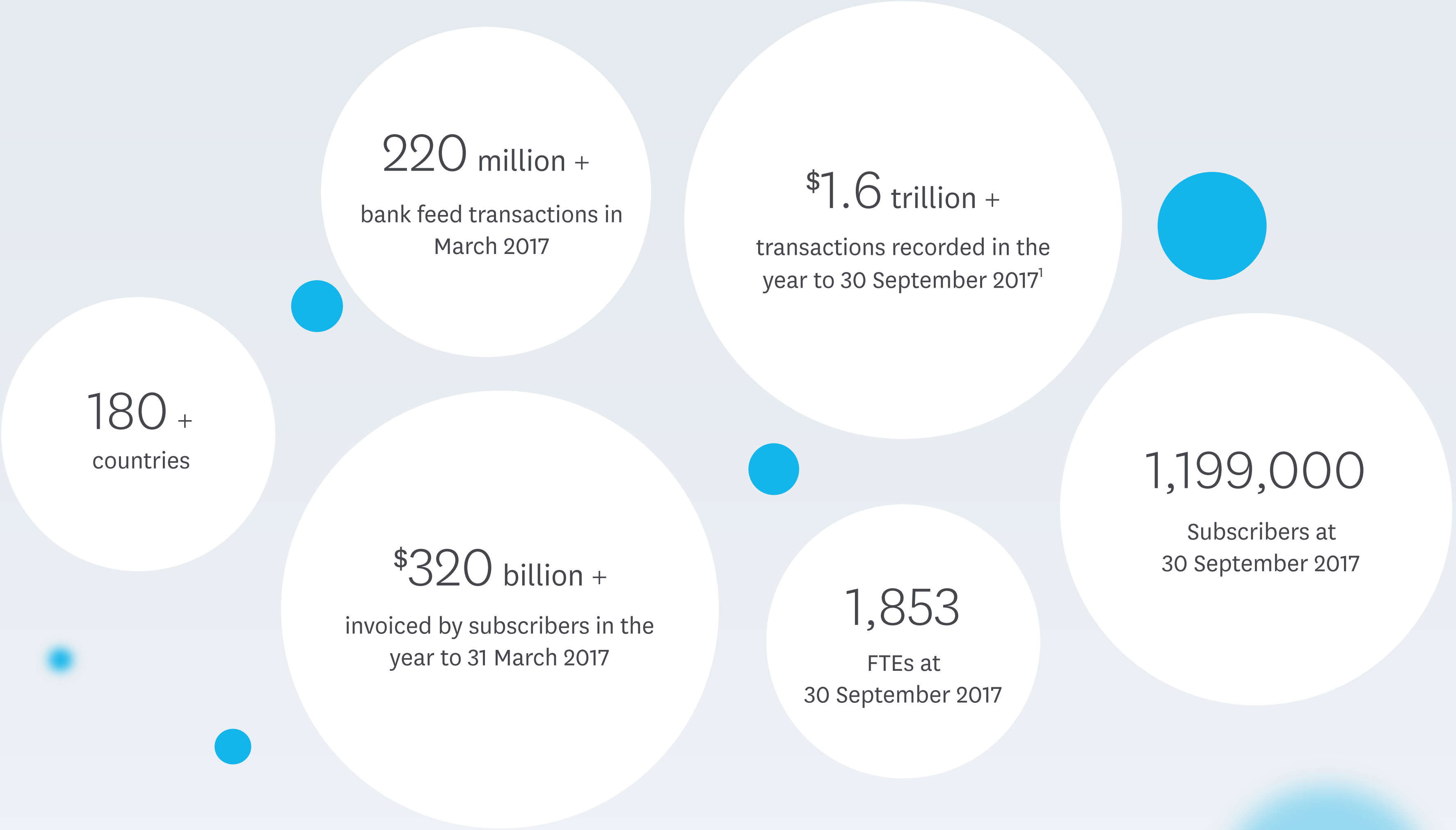


Xero has a global ecosystem of 600+ partner solutions



MacBook Air

Global scale of Xero and platform



¹ Incoming and outgoing transactions

The power of the Xero platform



Global cloud platform connecting the small business economy



Built on a single code base optimised for AWS



Compelling economics of a single global platform delivers R&D investment efficiencies across multiple geographies



A unique comprehensive system of record for small businesses to view the operating performance of the business

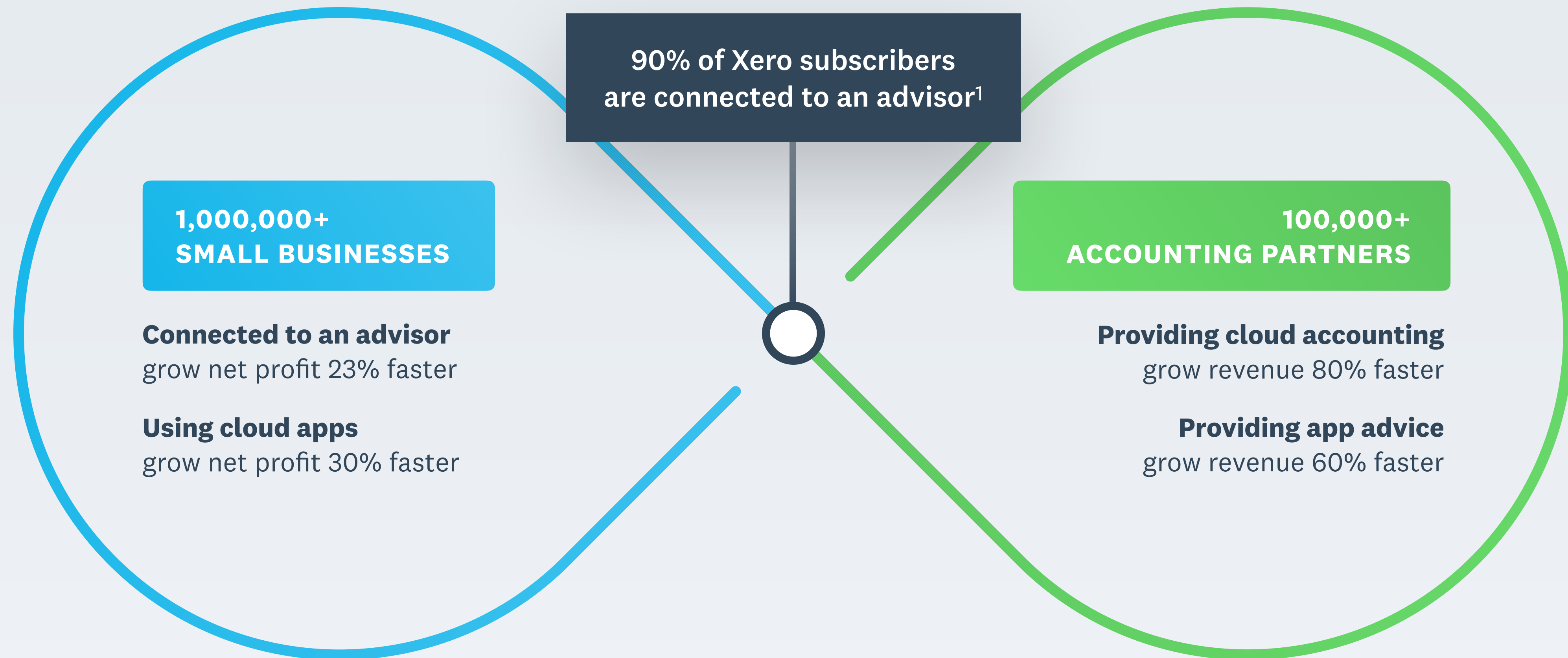


Integrated applications delivering wide range of business solutions



Machine learning unlocks new addressable segments

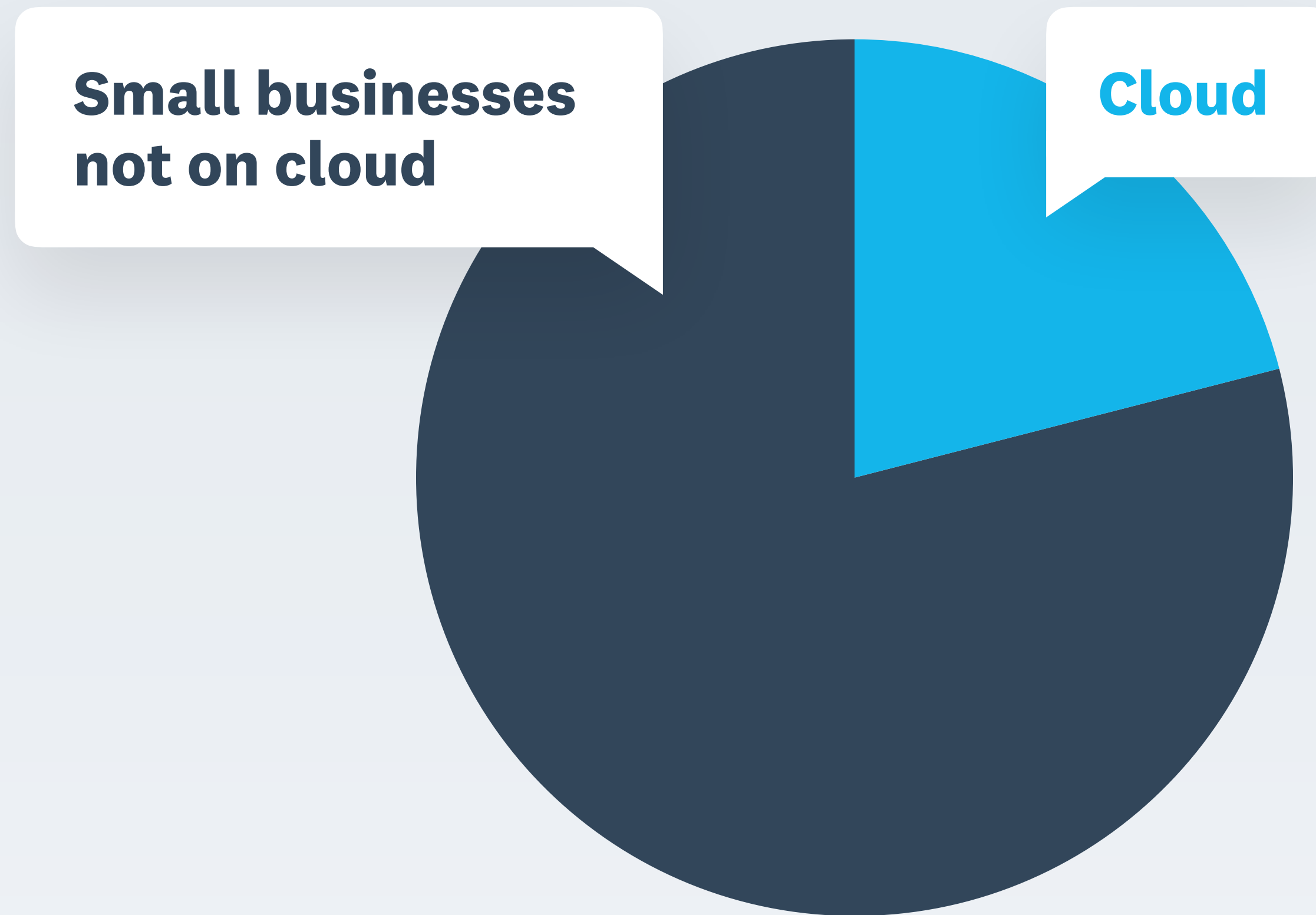
Xero's accounting channel is a global competitive advantage



¹ As at July 2017

Source: Xero surveys, analysis and estimates

TAM potential in a large global unserviced market¹



¹ Estimated English speaking addressable market based on publicly available data

Rapidly evolving competence in machine learning

LEARNING

Bots
3rd party expertise
Marketing noise

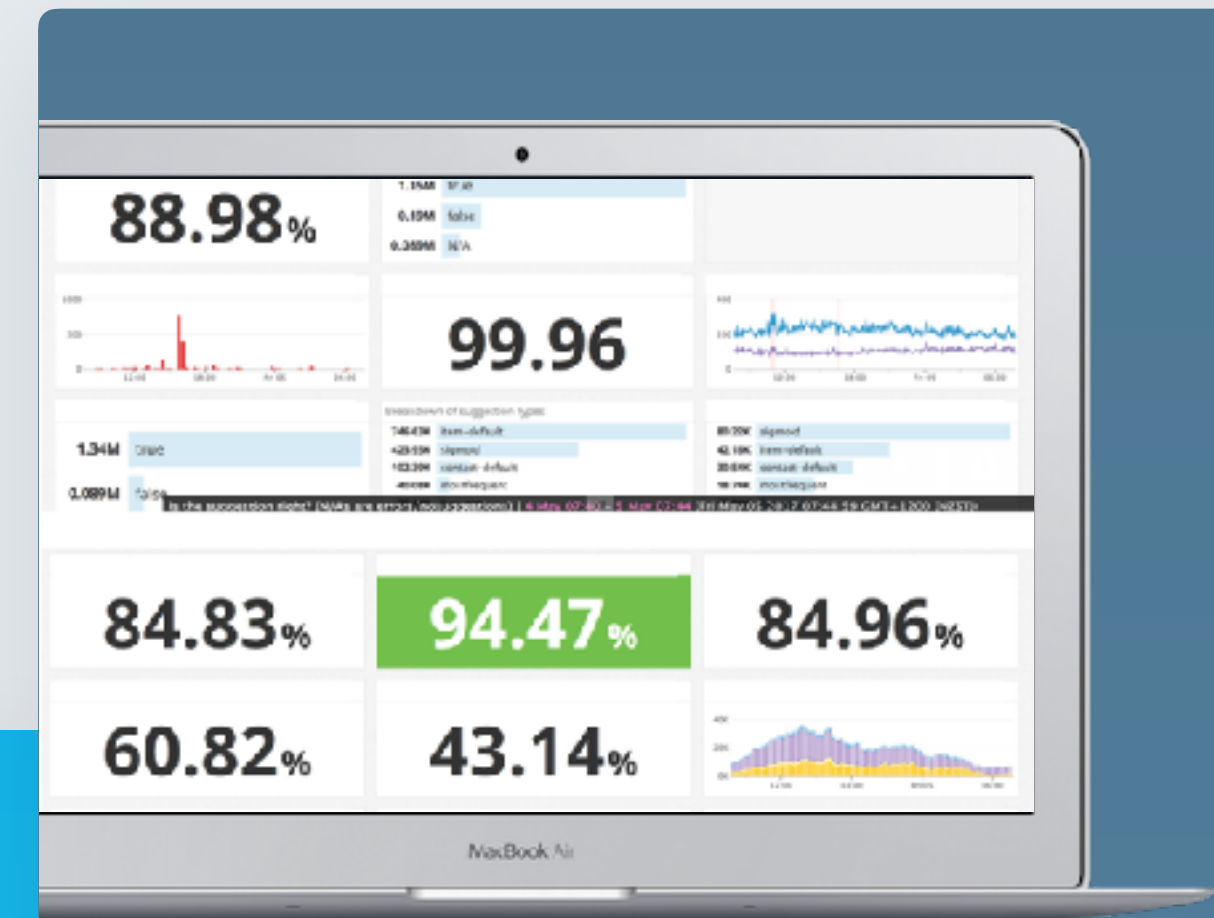
EXPERIENCE

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

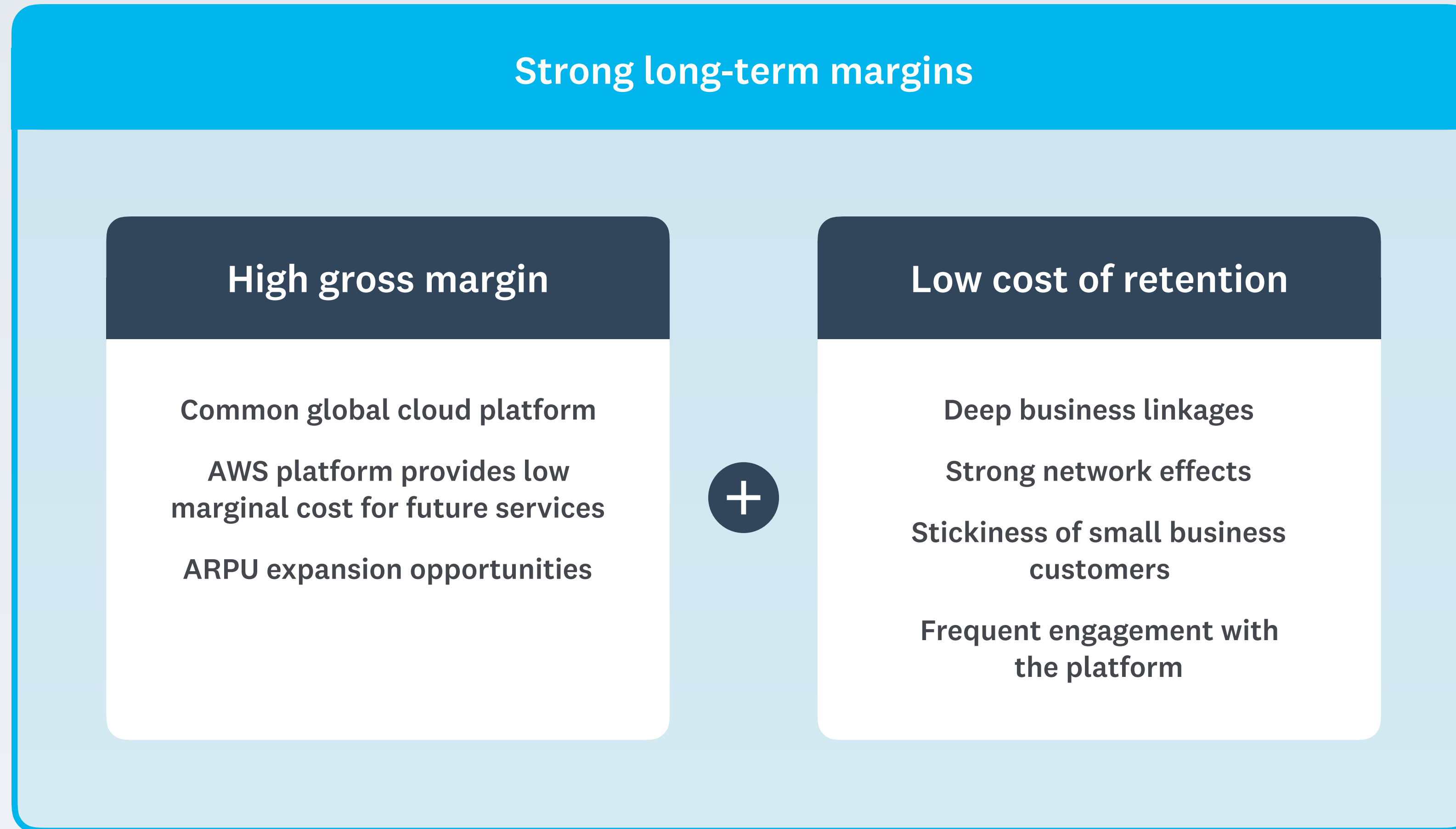
- ✓ Realtime management of multiple models, with reinforcement learning and deployment
- ✓ ML integrated with single application code base
- ✓ ML seamlessly integrated into product lifecycle
- ✓ Chaining together multiple complex models

Majority application features predictive
New workflows optimised for ML
Capability across all teams

Beauty of Xero's SaaS model

- ✓ Acquire subscribers economically at scale
- ✓ Price for value and grow revenue per subscriber
- ✓ Grow gross margins
- ✓ Retention at scale
- ✓ Generate long-term value

Underpinned by a strong margin model



Growth opportunities

As we move beyond accounting

Back office application →

Core accounting →

Small businesses →

Subscription revenues →

English speaking →

AWS completed →

Front office applications
Next generation tools for advisors

Per employee services

Larger businesses

Finweb and other platform revenues

New geographies

Accelerating machine learning and
automation

Sankar Narayan

CHIEF OPERATING AND
FINANCIAL OFFICER



Trent Innes

AU MANAGING DIRECTOR



Anna Curzon

CHIEF PARTNER OFFICER



Gary Turner

UK AND EMEA
MANAGING DIRECTOR



Tony Stewart

CHIEF PRODUCT, PLATFORM
AND DATA OFFICER



Craig Hudson

NZ COUNTRY MANAGER



Rod Drury

CHIEF EXECUTIVE OFFICER



Rachael Powell

CHIEF CUSTOMER AND
PEOPLE OFFICER



Keri Gohman

PRESIDENT AMERICAS



Kirsty Godfrey-Billy

CHIEF ACCOUNTING OFFICER



Alex Campbell

ASIA MANAGING DIRECTOR





Beautiful accounting software

www.xero.com/investors