

Investor briefing

Full year results to
31 March 2018



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 2018, and Xero's market releases on the ASX
- 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
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- 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 31 March 2018, unless otherwise stated

All currency amounts are in NZ dollars, unless otherwise stated

See page 32 for a glossary of the key terms used in this presentation

Agenda

Business overview



Steve Vamos
Chief Executive Officer

Operating performance



Sankar Narayan
Chief Operating and
Financial Officer

Financial results



Kirsty Godfrey-Billy
Chief Accounting Officer

Outlook

Q&A

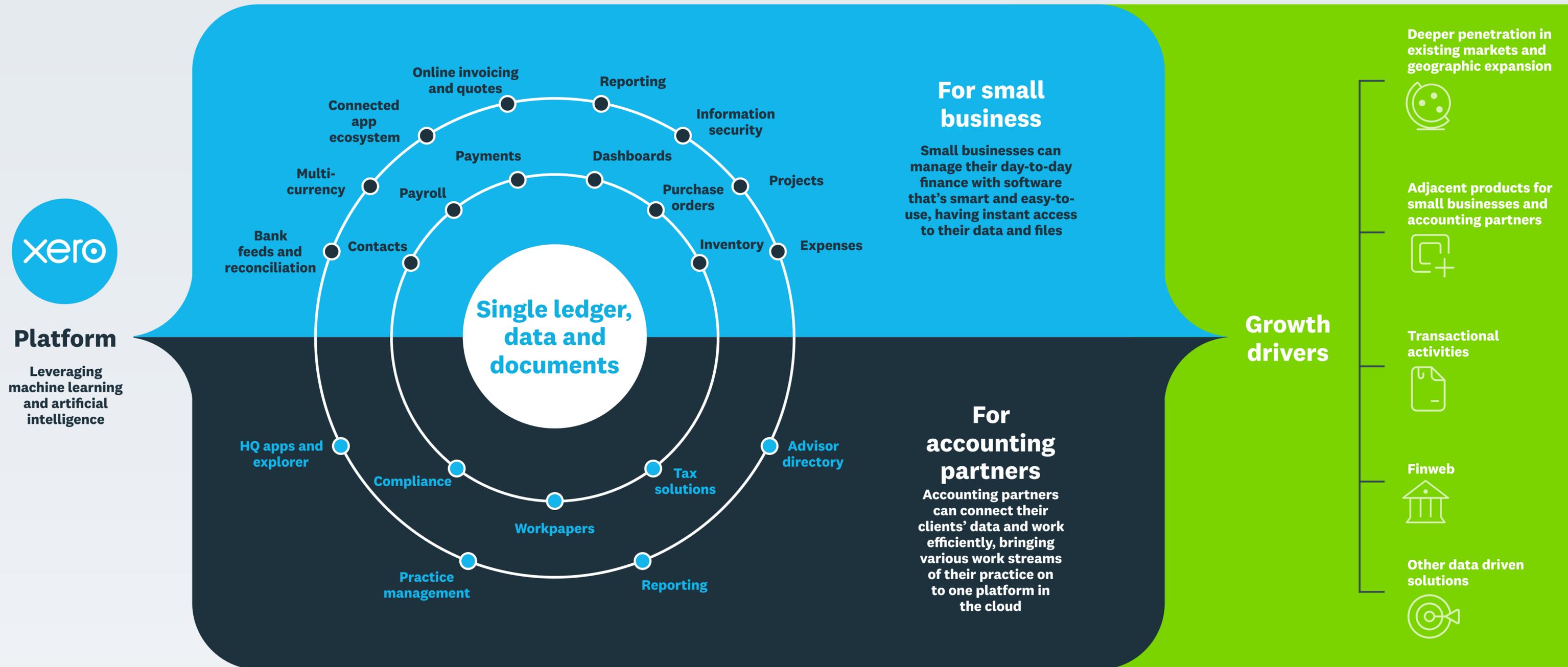
Business overview



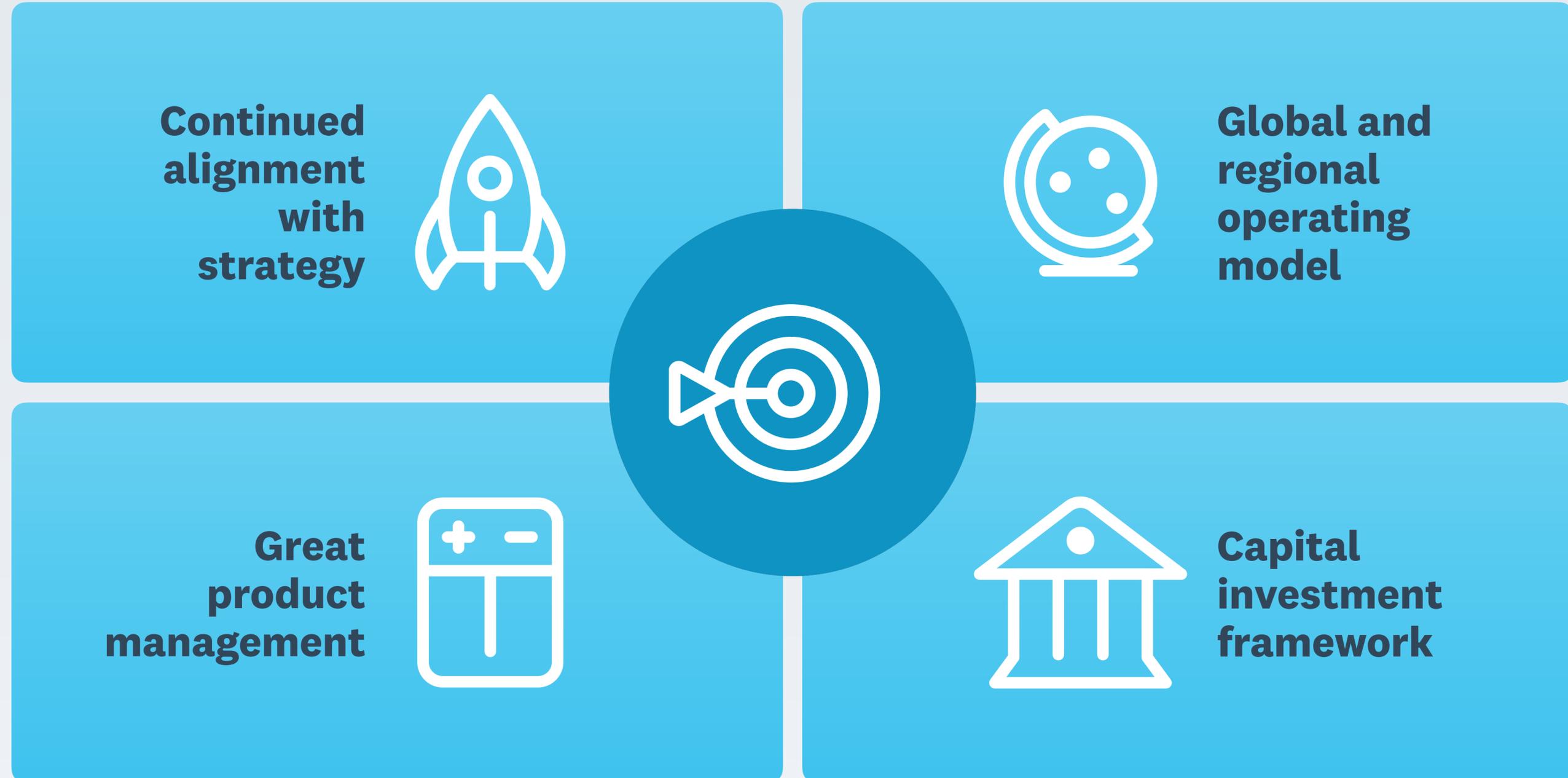
Steve Vamos
Chief Executive Officer



Xero platform – scalable growth through partners



Focus going forward



**Great
people and
teams**



**Win with
accountants
and
bookkeepers**

**Xero's mission is to
rewire the global
economy, connecting
millions of
businesses to their
banks, advisors and
each other**

**Beautiful
products
and global
platform**



**Grow into
new spaces
and places**

**Love and
protect
our
customers**



**Build to
scale
globally**

Operating performance



Sankar Narayan

Chief Operating and Financial Officer



Positive EBITDA with continued growth



¹ See page 32 for details on annualised monthly recurring revenue

Consolidated listing on the ASX – inclusion in S&P/ASX 100



**Access to a
larger market**



**Increased
liquidity**

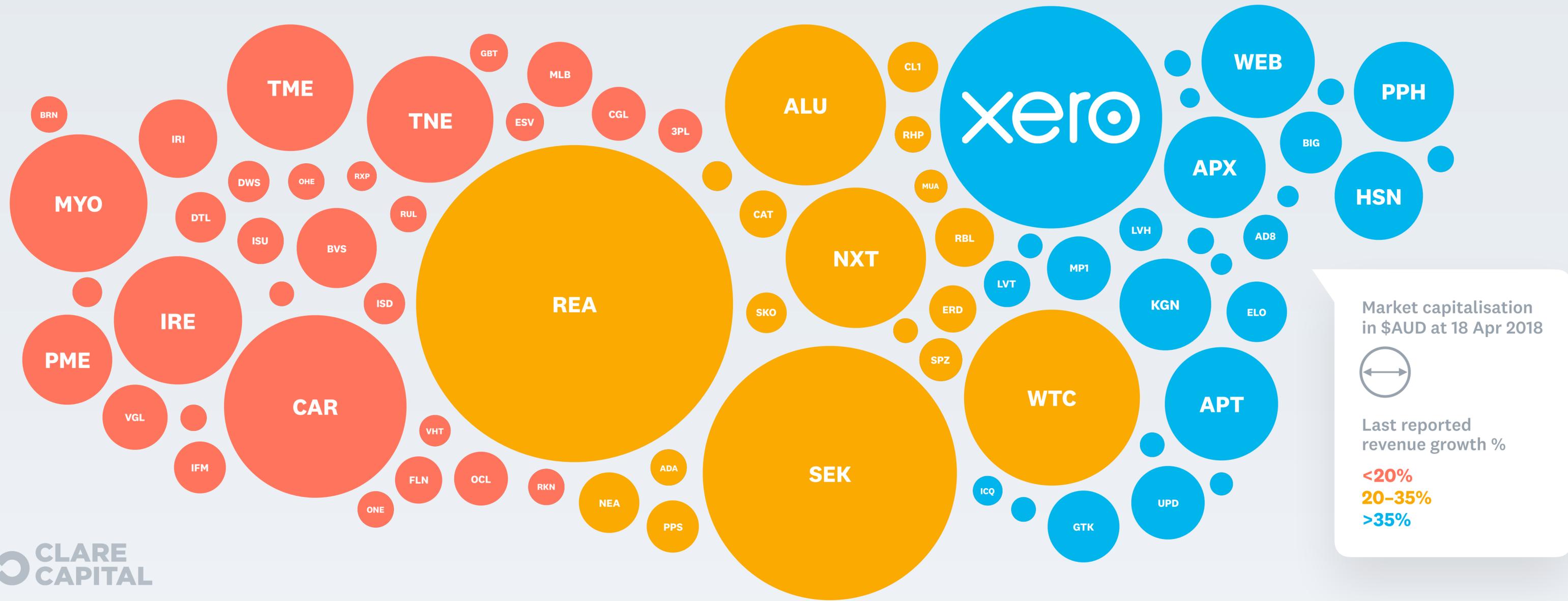


**Increased
relevance to a
more diverse
range of larger
investors**



**Broader analyst
and broker
coverage**

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



Source: FactSet

Note: Analysis excludes companies under A\$50 million market capitalisation and share registry companies

351,000
added in 12 months

1,386,000
Subscribers

\$484m

Annualised monthly recurring revenue

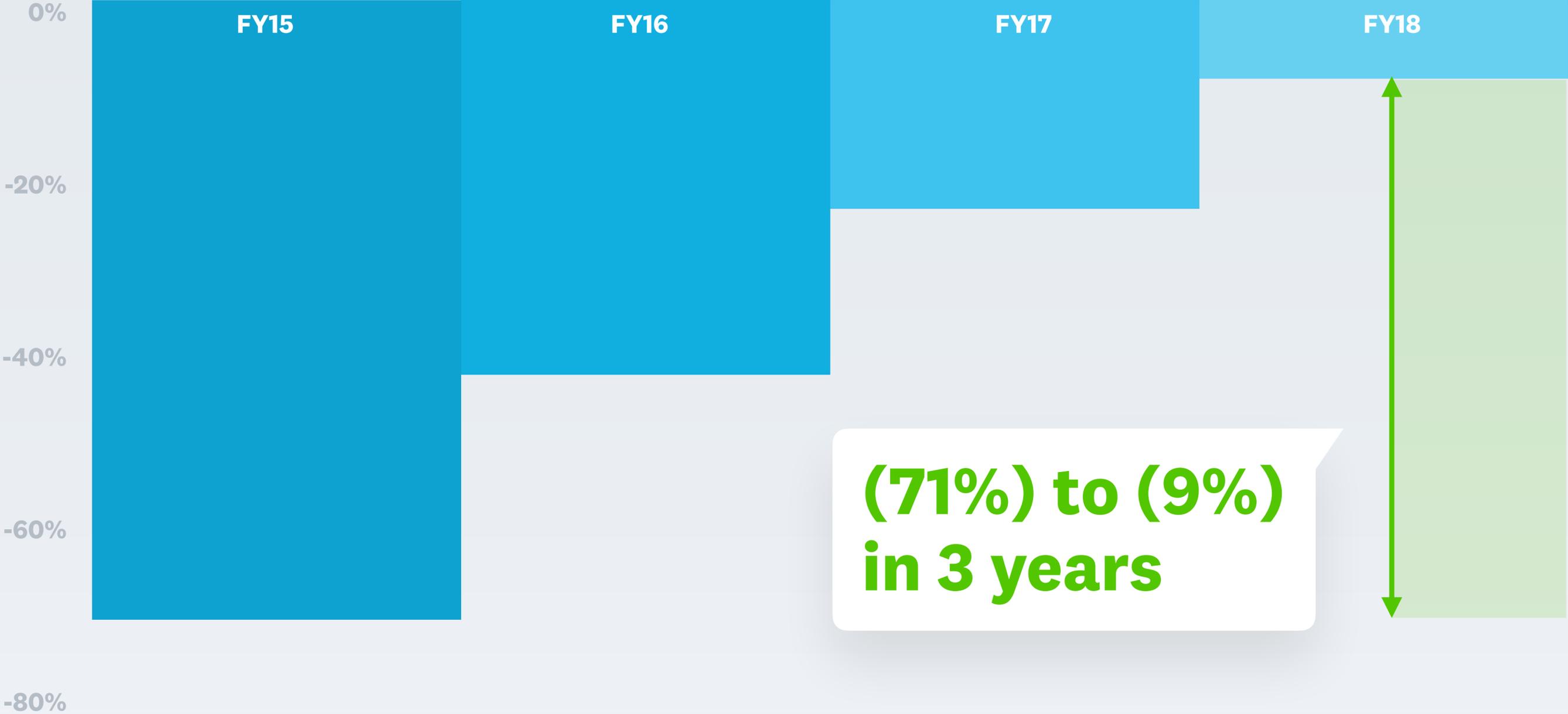


\$121m
added in 12 months

Mar 11

Mar 18

Cash outflow¹ as % of revenue



¹ Operating and investing cash flows

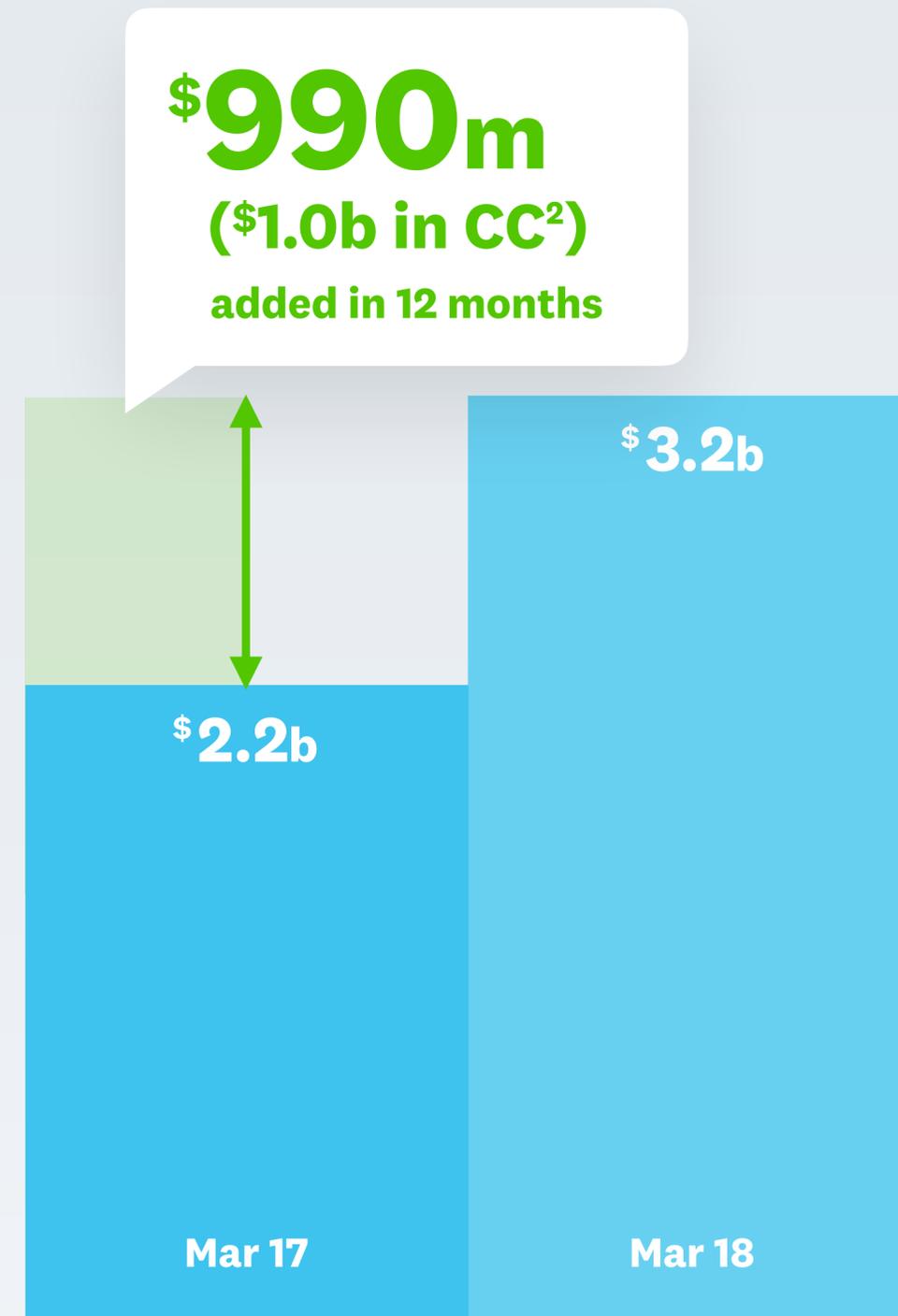
Increasing lifetime value

	March 2018	Progress from March 2017
ARPU	\$29.13	—
MRR churn %	1.10%	↓
Gross margin	81%	↑
LTV per subscriber ¹	\$2,310	+9% ²

¹ Increased 8% YOY in nominal terms

² Constant currency based on FX rates at 31 March 2017

Total group subscriber lifetime value (LTV)

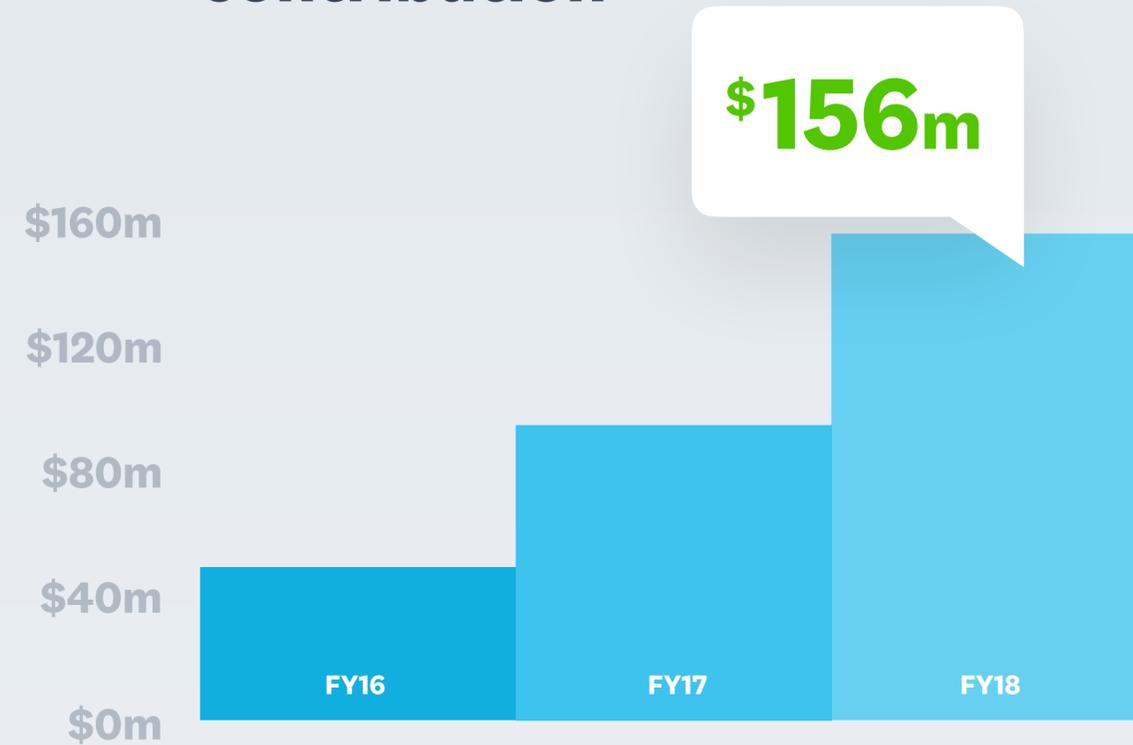


Contribution margins improving

Australia and New Zealand improvements highlight continuing efficiencies and operating leverage

International investment loss reduced even with investments in new geographies such as South East Asia. Strong revenue growth rate for the international segment of 49% YOY

Australia and New Zealand contribution



International segment contribution loss



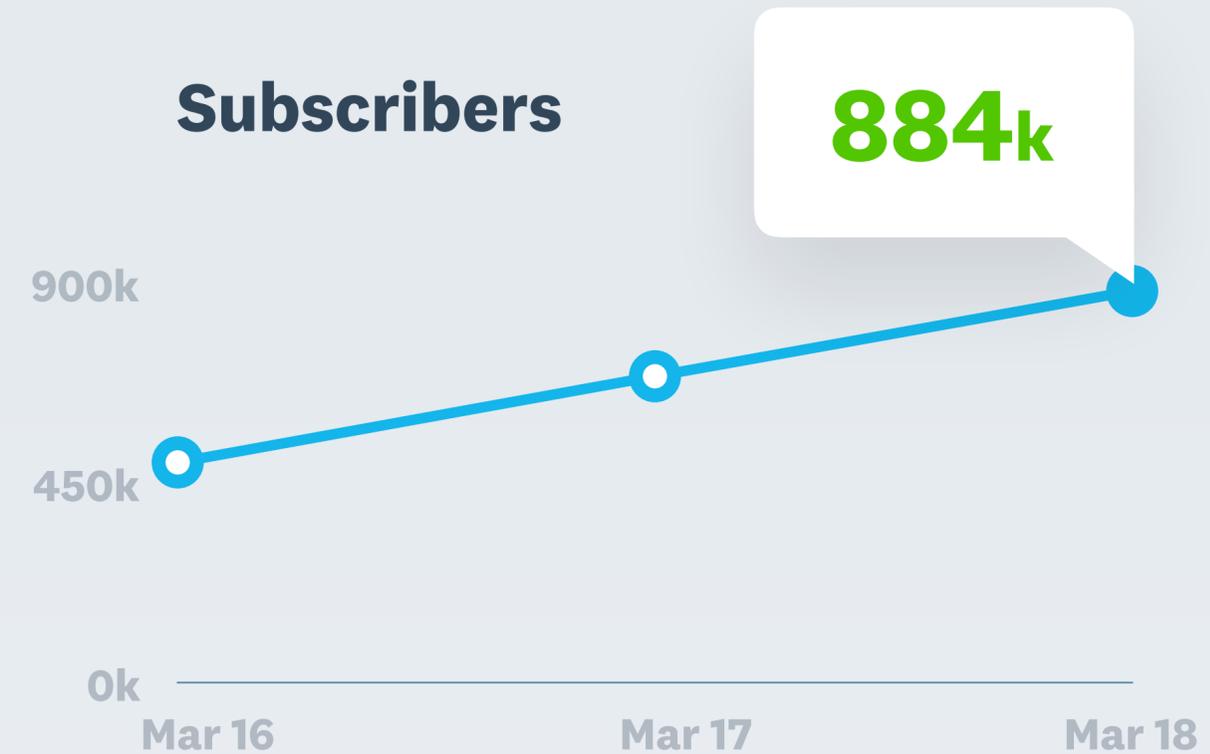
Australia and New Zealand

Australia

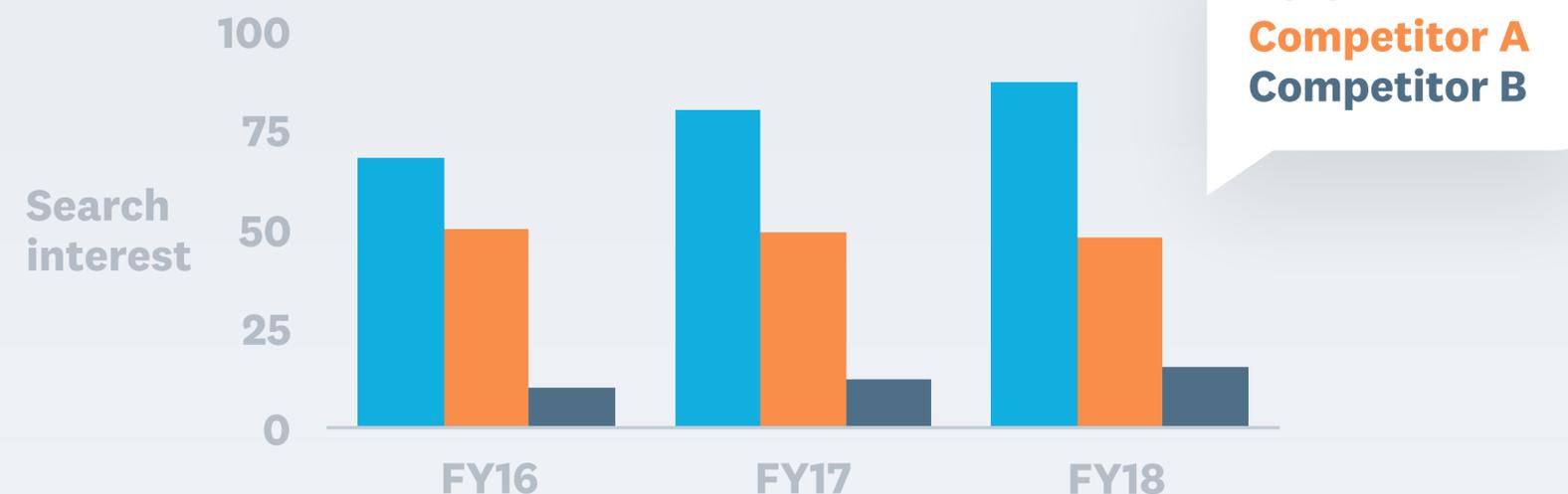
- 31% subscriber growth to 583,000 subscribers (adding 137,000 in the period). Revenue growth of 35% YOY
- Extending partnership with NAB on payments and data
- Xero Small Business Insights highlights real-time trends in the small business economy

New Zealand

- 22% subscriber growth to 301,000 subscribers (adding 55,000 in the period). Revenue growth of 27% YOY
- With good market penetration and moderating subscriber growth, the focus is on deepening customer relationships and leveraging platform strengths



Google search trends - Australia



Graph source: Google trends of Xero and competitor products

United Kingdom

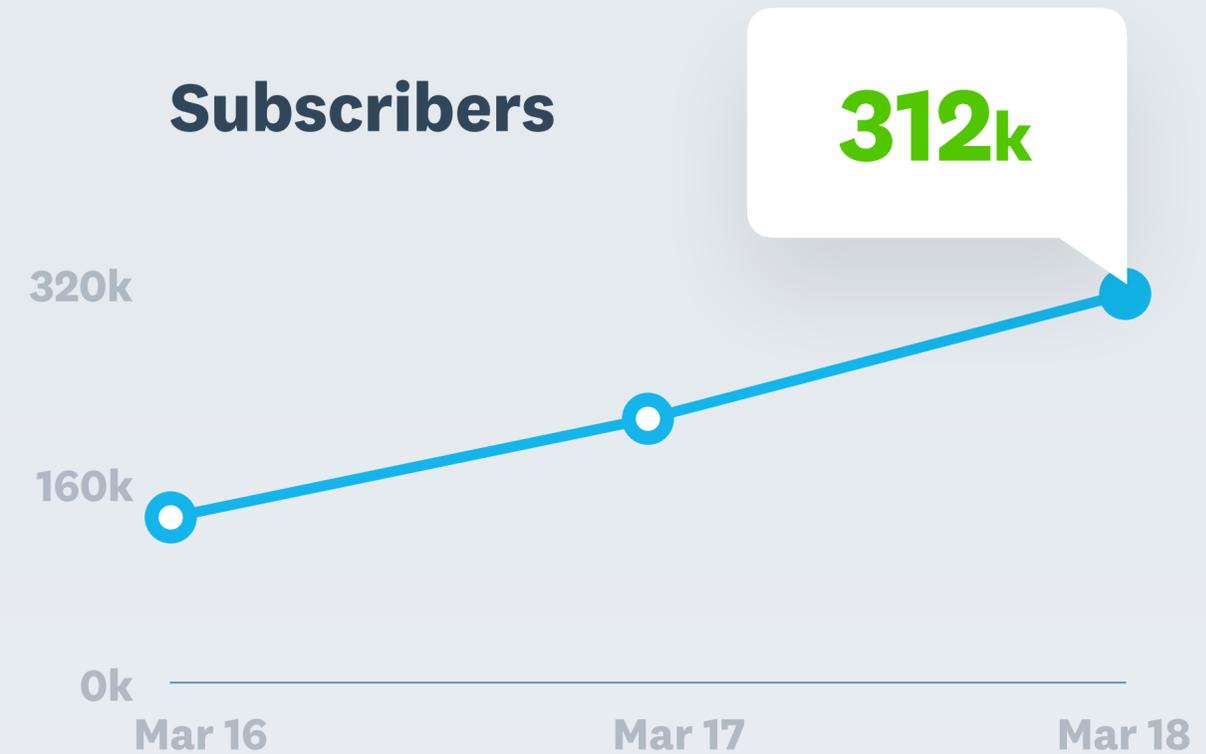
47% subscriber growth to 312,000 subscribers (adding 100,000 in the period). Revenue growth of 60% YOY

Leadership position further enhanced with cloud based accounting revenue growth. Overtaken New Zealand to be the second largest region behind Australia

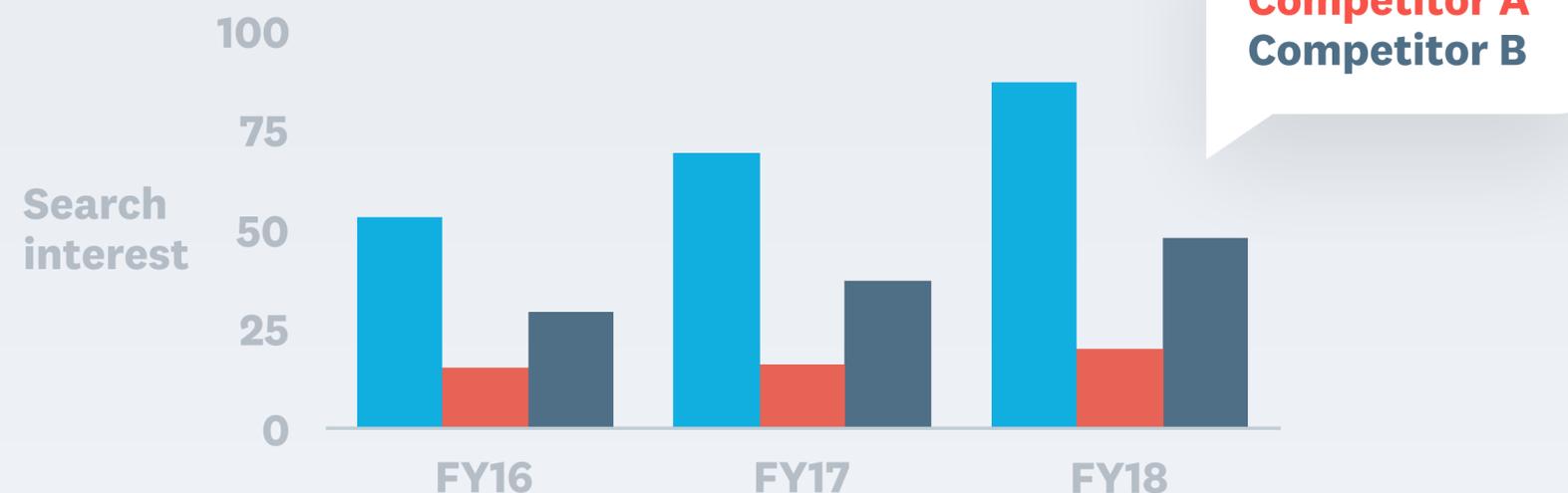
Xerocon London is now UK's largest accounting industry conference with over 2,000 attendees in October 2017

Open Banking, Payment Services Directive (PSD2) and HMRC Making Tax Digital continue to create favourable market conditions. Added support for HMRC Construction Industry Scheme (CIS)

A number of new Finweb partnerships launched including Worldpay, UK's largest merchant acquirer



Google search trends - United Kingdom



North America

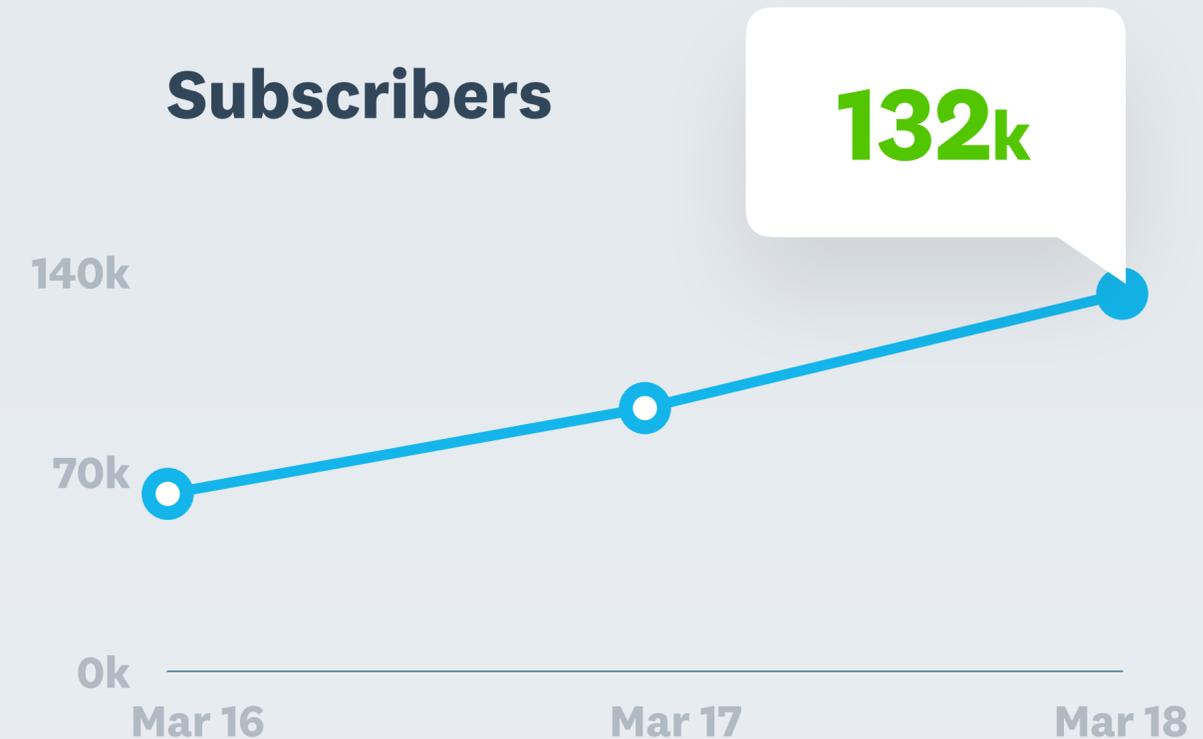
43% subscriber growth to 132,000 subscribers (adding 40,000 in the period). Revenue growth of 28% YOY

Continued focus on strengthening the accounting partner channel, making inroads into mid and large size accounting firms

Under-penetrated cloud accounting market with slow market adoption in the small business accounting segment

Improvement in Google search trends YOY, and brand position expected to improve with further accounting partner channel buildout

Strengthening banking relationships with new partners including a top five Canadian bank



Accounting partner channel capacity¹



¹ Capacity is the number of small business subscribers connected to Xero's certified and revenue generating partner base

Rest of World

49% subscriber growth to 58,000 subscribers (adding 19,000 in the period). Revenue growth of 47% YOY

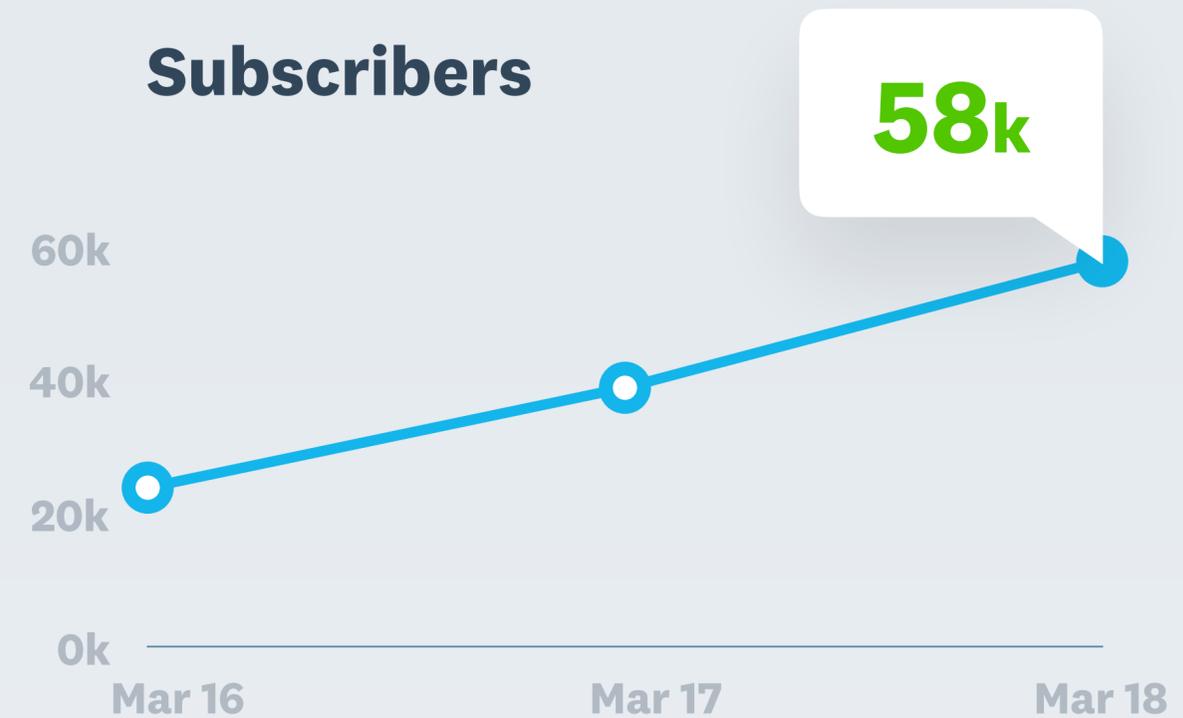
South East Asia

- Enhancing financial partnerships and integrations. Improving brand position in the cloud accounting market
- Focus on developing the accounting partner channel

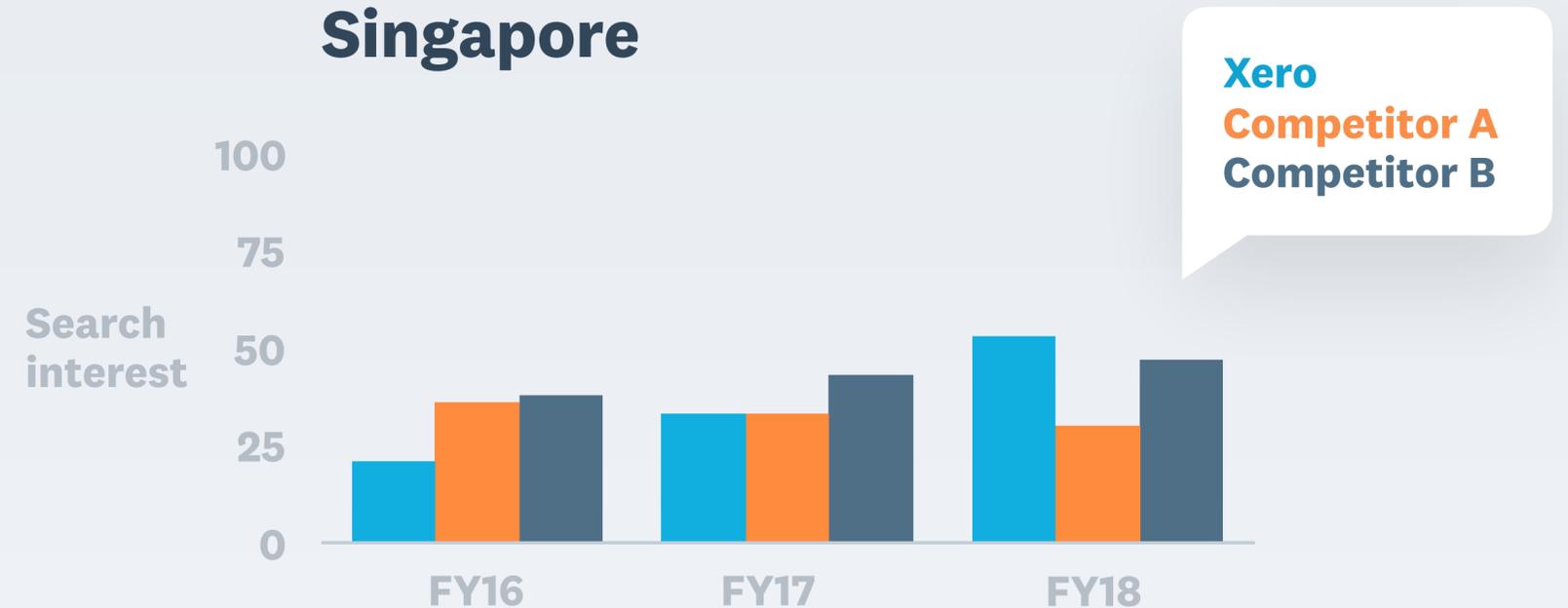
South Africa

- Continuing to gain traction among accounting partners and small businesses
- Over 1,200 attendees at the 2018 roadshows

Subscribers

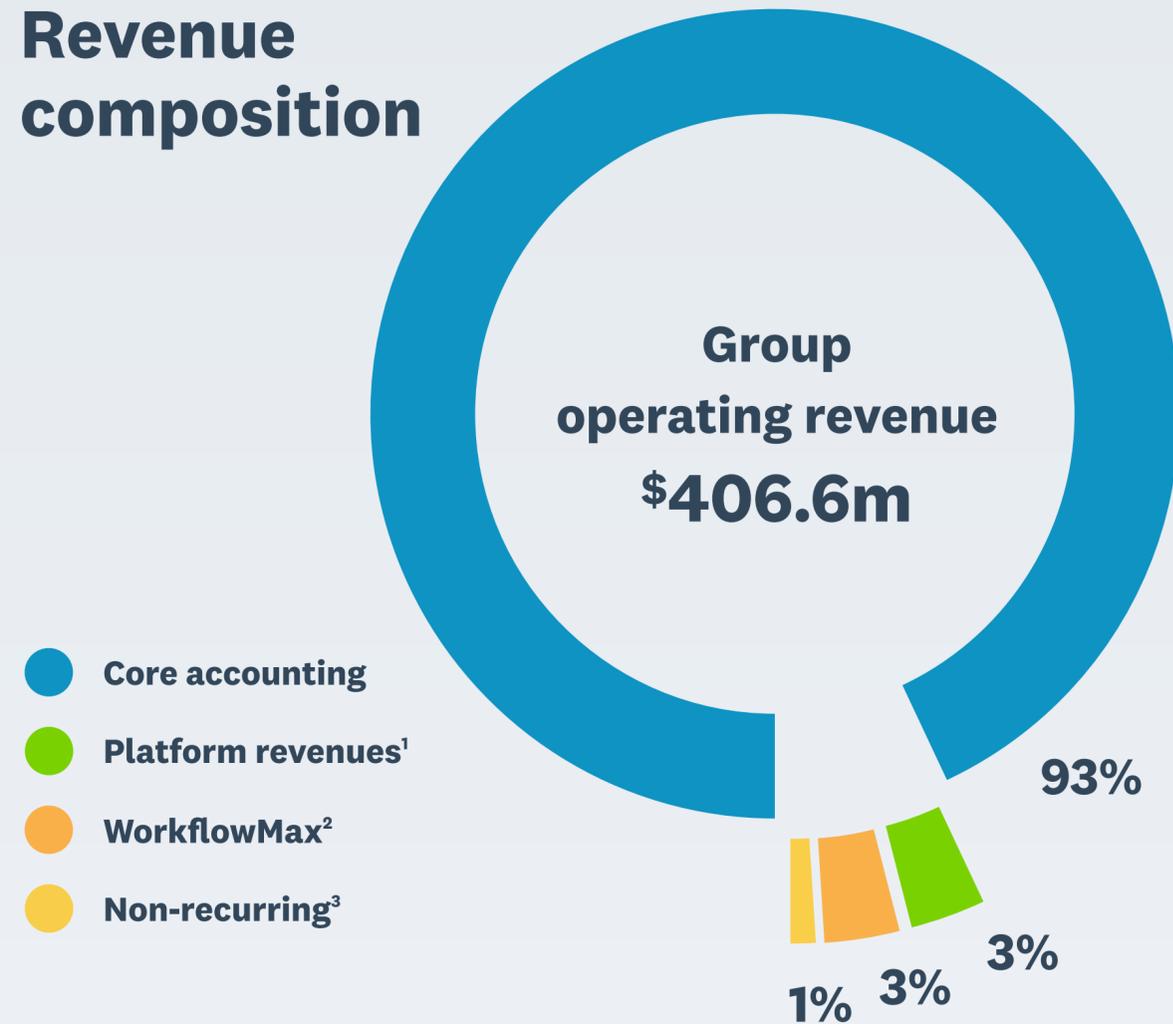


Google search trends - Singapore

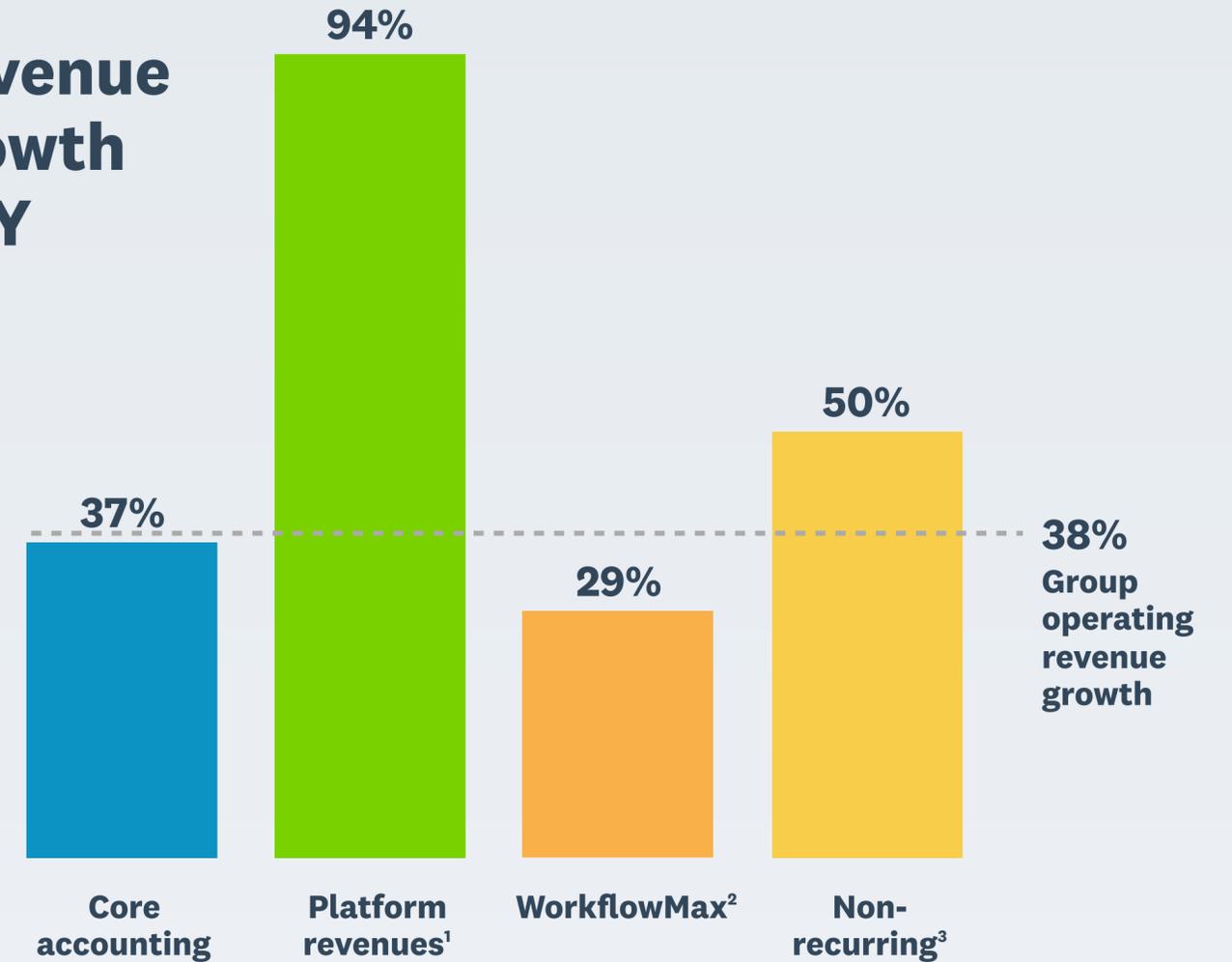


Growing the small business platform

Revenue composition



Revenue growth YOY



¹ Platform revenues include revenue derived from related services, including add-ons with incremental revenue (such as payroll and expenses modules) and revenue share agreements with partners

² Revenues relating to Workflowmax, online workflow and job management software

³ Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services

Financial results



Kirsty Godfrey-Billy

Chief Accounting Officer



Financial performance

Operating revenue growth of 38% YOY driven by Australia and New Zealand segment growth of 33% and International segment growth of 49%

ARPU is stable compared to FY17

Earnings improvement driven by operating efficiencies

Continued investment in geographic expansion and new products

EBITDA impacted by \$1.5m in costs relating to ASX consolidation and higher share-based payments. Share-based payments increased 45% to \$17.0m in FY18

Product capitalisation rate was lower YOY at 42%

	FY17 (\$000s)	FY18 (\$000s)	YOY change (\$000s)	YOY change (%)
Total operating revenue	295,389	406,579	111,190	38%
Gross profit	226,004	330,333	104,329	46%
Gross margin	77%	81%		+4pp
EBITDA	(28,614)	26,006	54,620	n/m ¹
EBITDA margin	(10%)	6%		+16pp
Net loss	(69,057)	(27,843)	41,214	60%
EBITDA excl. SBP	(16,891)	43,010	59,901	n/m ¹
EBITDA excl. SBP margin	(6%)	11%		+17pp

¹ Not meaningful

Improving gross margin

Gross margin of 81% for FY18, +4pp over prior year

Realised benefits of AWS platform since successful migration in H2 FY17

Opportunities to further increase gross margin with further efficiencies in AWS platform and automation in customer experience

Gross profit as percentage of revenue

85%

80%

75%

FY16

FY17¹

FY18

81%

¹ Duplicated costs due to transition to AWS

Positive EBITDA

First positive EBITDA for the full-year driven by operating efficiencies across the business

EBITDA excl. SBP¹ was \$43.0m in FY18, an improvement of \$59.9m YOY from \$(16.9m) loss in FY17

¹ SBP is a non-cash cost to Xero

EBITDA margin



Improved product and acquisition efficiencies

Next phase of investment in realising benefits from a single global platform

Investments focused on driving future ARPU and revenue growth:

- Strengthening core product and platform leveraging machine learning and artificial intelligence
- Adjacent products for small businesses and accounting partners
- Transactional activities
- Finweb
- Other data-driven solutions

Product costs including opex and capex as % of revenue¹



LTV to CAC



¹ Net of government grants

Positive operating cash flow

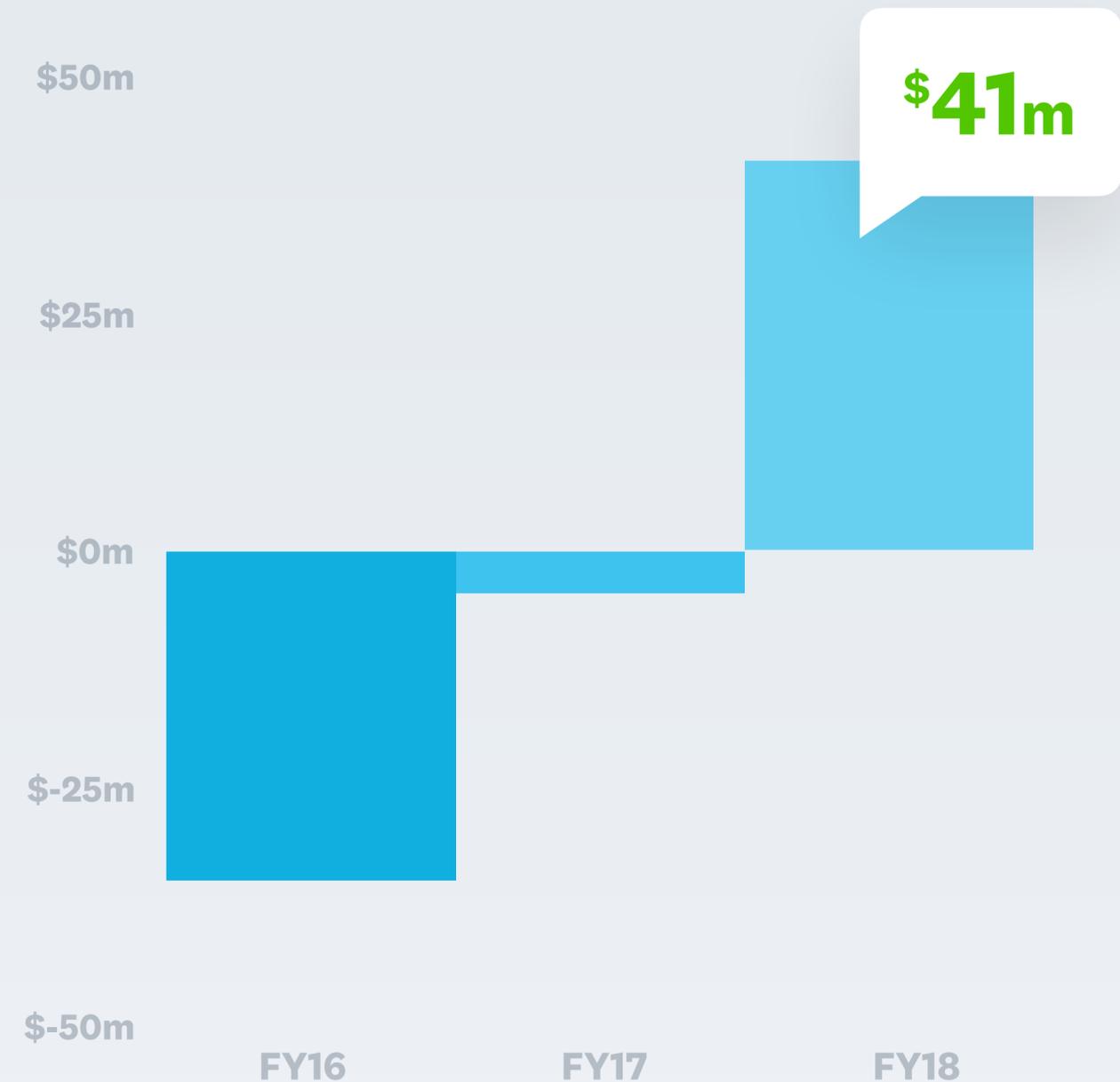
Positive operating cash flow of \$41.2m for FY18, an improvement of \$45.6m from \$(4.4m) in FY17

Operating and investing cash flows as a % of revenue improved to 9% in FY18. Total operating and investing cash flows was \$(36.9m) for FY18, a reduction from \$(70.8m) in FY17

Cash and short-term deposits balance at 31 March 2018 was \$80.0m

No current plans to draw down on two-year stand-by debt facility of \$100m

Improvement in operating cash flow



Outlook





Xero will continue to focus on growing its global small business platform

Cash outflow¹ in FY19 is forecast to reduce from FY18. Xero is managing the business to cash flow break-even within its current cash balance (without drawing on its debt facility) through operational efficiencies

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

AMRR

Annualised monthly recurring revenue (AMRR) represents monthly recurring revenue at 31 March, multiplied by 12. It provides a 12 month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing and foreign exchange remain unchanged during the year

ARPU

ARPU is calculated as annualised monthly recurring revenue at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)

MRR churn

MRR churn is the value of monthly recurring revenue (MRR) from subscribers who leave Xero in a month as a percentage of the total MRR 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 MRR 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 gross new subscribers added during the same period, divided by ARPU

Opex

Operating expenses

SBP

Share-based payments

Capex

Capital expenditure

Finweb

Financial web

CAC

Customer acquisition costs

GAAP

Generally accepted accounting principles



www.xero.com/investors