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Investor Briefing

Full year results to 31 March 2020

14 MAY 2020

Beautiful business



Orenda Tribe | United States

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Important notice

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Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription or purchase of, or a recommendation to invest in, Xero securities
- 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 2020 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
- may contain information from third parties believed to be reliable, but no representations or warranties are made as to the accuracy or completeness of such information
- 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 2020, unless otherwise stated.

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

Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

See page 34 for a glossary of the key terms used in this presentation.

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Agenda

Business update



Steve Vamos
CHIEF EXECUTIVE OFFICER

Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

Strategy update

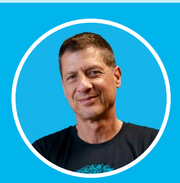
Steve Vamos
CHIEF EXECUTIVE OFFICER

Outlook

Q&A

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Business update



Steve Vamos
CHIEF EXECUTIVE OFFICER



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How we're responding to COVID-19



Supporting our people to ensure their safety and wellbeing

- Offices closed globally and all staff working from home
- Remote working technology, communication tools and wellbeing support
- Restrictions on travel and in-person events, cancelled Xerocon Sydney 2020, fully virtual annual general meeting



Helping customers and partners with immediate needs

- Xero Central as our main customer support centre, with a business continuity hub for live webinars and other targeted resources at central.xero.com/s/business-continuity
- A dedicated customer response team available 24/7 for case-by-case guidance
- Deferral of planned price rise
- Ensuring quality and continuity of Xero's cloud-based platform



Prioritised product development

- Extending pilot access of Short-term cash flow and Business Snapshot features to all Business Edition customers
- Simplifying and automating payroll and tax changes to help small business with reporting data, proving eligibility for and accessing government stimulus benefits
- In-product prompts and reminders to help stay on top of government initiatives

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The COVID-19 environment

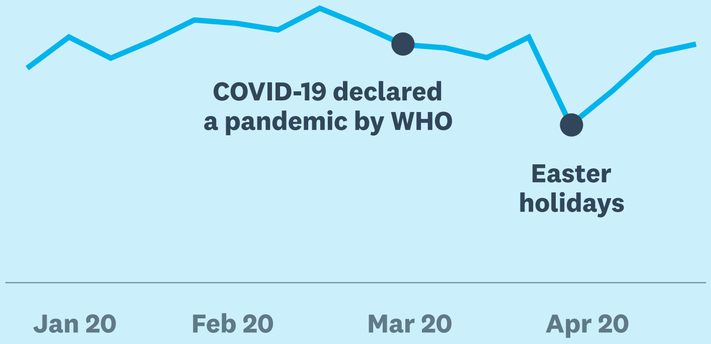
What are we seeing?

Overall, Xero usage levels have remained relatively steady during 2020 calendar year, as measured by subscriber login activity

Subscriber additions slowed towards the end of March 2020. All regions impacted with UK to a greater extent

Initial analysis of Australian subscribers indicates sectors most impacted were hospitality, and arts and entertainment

Weekly login activity YTD



Weekly total subscriber logins for first full seventeen weeks of the 2020 calendar year

What are we hearing?

Xero voice-of-customer surveys indicate most have been significantly impacted by COVID-19, with many foreseeing a negative business outlook

Main concerns of small business customers:

- Managing cash flow
- Digital tools and the need for rapid up-skill
- Retaining and motivating staff
- Work-life balance



What are customers doing?

Some actions small businesses are taking:

- Business continuity planning, protecting employees
- Managing cash flow and capital resources, accessing government stimulus packages
- Widespread adoption of digital tools such as videoconferencing and e-commerce platforms
- Adapting and pivoting business models and services to respond to new market dynamics



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Continued global growth drives FY20 results

SUBSCRIBERS

2.285m

+ 467,000 YOY

ARPU

$29.93

+ 2% YOY (-1% in constant currency)

AMRR

$820.6m

+ 29% YOY (25% in constant currency)

TOTAL LIFETIME VALUE

$5.5b

+ $1.2b YOY

OPERATING REVENUE

$718.2m

+ 30% YOY (29% in constant currency)

EBITDA

$137.7m

+ $64.6m YOY

NET PROFIT AFTER TAX

$3.3m

+ $30.5m YOY

FREE CASH FLOW

$27.1m

+ $20.7m YOY

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Xero's global footprint



FY20	Australia		New Zealand		United Kingdom		North America		Rest of World	
Subscribers	914k	+26%	392k	+12%	613k	+32%	241k	+24%	125k	+51%
Revenue	$320m	+23%	$116m	+19%	$184m	+54%	$55m	+25%	$43m	+43%

>50% cloud adoption[1] | **<20% cloud adoption[1]**

[1] Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

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Australia and New Zealand highlights

Australia

- Single Touch Payroll accelerated digitisation of payroll compliance
- Enterprise partnership announced with RSM Australia, a leading national accounting firm
- Enhanced partnership with Square to further embed payment and PoS transactional features and functionality
- Launched Xero NAB Payments to help automate multiple bill payments, and received a Canstar Innovation Excellence Award for 2020
- Revenue growth of 25% YOY constant currency

	FY20	YOY change
Subscribers	**914k**	**+26%**
Net additions	**188k**	**+31%**
Revenue	**$320m**	**+23%**



New Zealand

- Continued positive ARPU trends driven by emphasis on additional platform solutions and product upsell
- Strong traction from new roadshow approach to include direct small business engagement contributed to >1,500 small business attendees at roadshows nationwide, a near threefold increase YOY
- Launched 2019 Small Business Wellbeing Report and extended the Xero Assistance Programme to an estimated 850,000 Kiwis

	FY20	YOY change
Subscribers	**392k**	**+12%**
Net additions	**41k**	**-18%**
Revenue	**$116m**	**+19%**

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International highlights



United Kingdom

- Making Tax Digital (MTD) continued to contribute to performance
- Launched first phase of Xero Tax, activating proven ANZ compliance product strategy
- Investment in readiness for Open Banking
- Two awards won for Xero Expenses (AccountingWeb Software Excellence Awards, Digital Accountancy Awards 2019)
- Revenue growth of 50% YOY constant currency

	FY20	YOY change
Subscribers	**613k**	**+32%**
Net additions	**150k**	**-1%**
Revenue	**$184m**	**+54%**

North America

- Continued growth in estimated partner channel capacity to almost 1.5 million small businesses
- Signed new partnership agreements with number of large national accounting firms in both Canada and the US
- New Toronto office strengthening presence in Canada
- Revenue growth of 19% YOY constant currency

	FY20	YOY change
Subscribers	**241k**	**+24%**
Net additions	**46k**	**+5%[1]**
Revenue	**$55m**	**+25%**

[1] excludes acquired Hubdoc subscribers in FY19

Rest of World

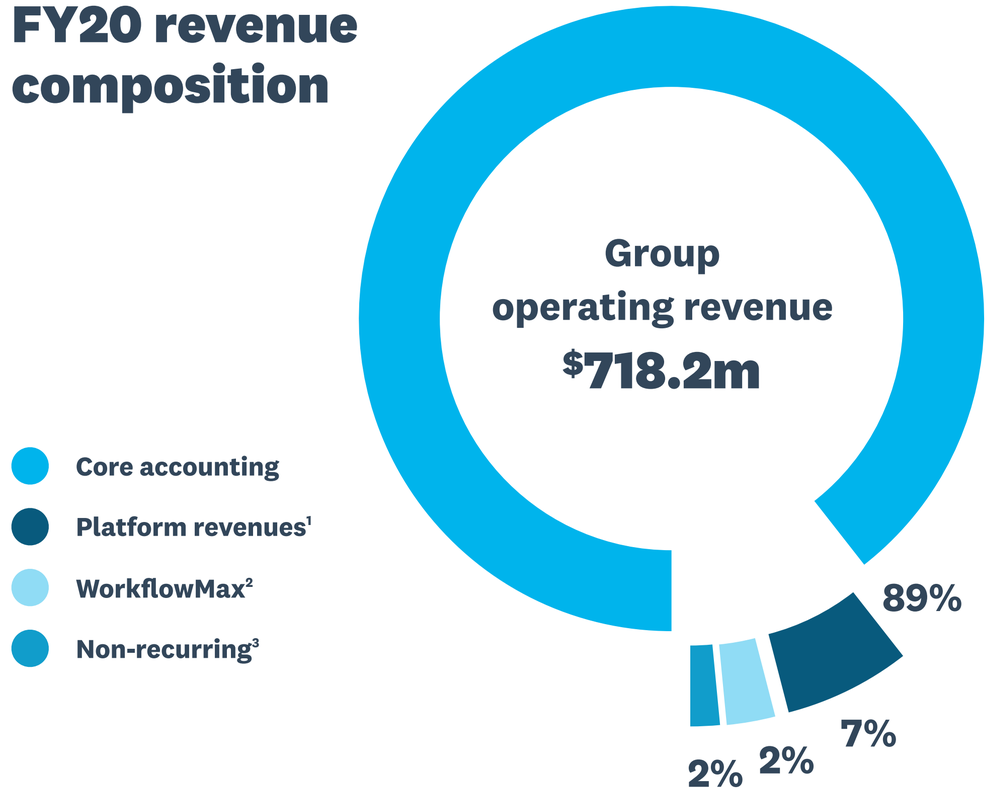
- Launch of e-invoicing by Singapore Government from January 2020 a catalyst for SME digitisation
- Enterprise partnership with leading Malaysian accounting firm YYC Advisors to migrate SME clients onto Xero
- Strong progress in South Africa, executing the partner-led market development playbook
- Revenue growth of 36% YOY constant currency

	FY20	YOY change
Subscribers	**125k**	**+51%**
Net additions	**42k**	**+68%**
Revenue	**$43m**	**+43%**

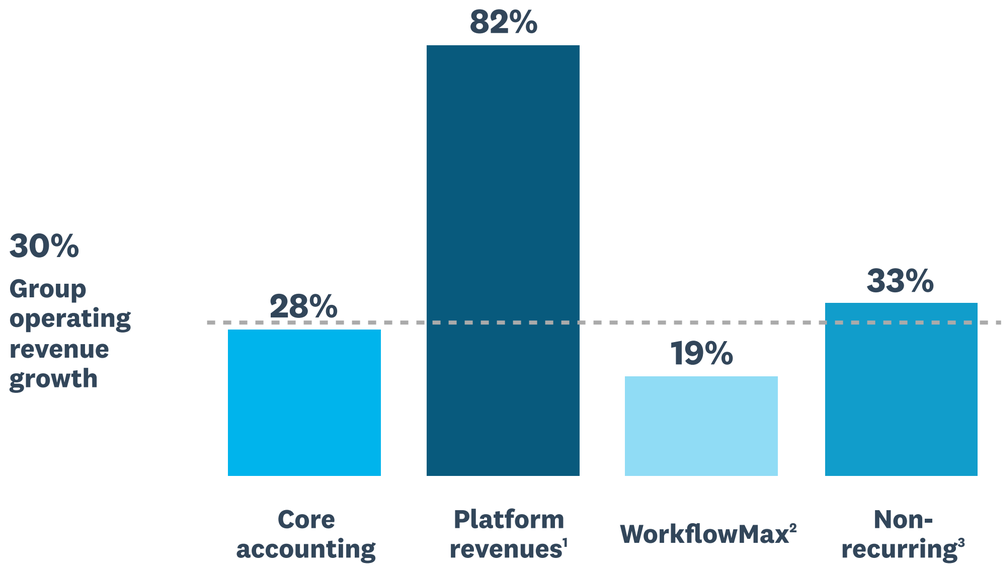
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Driving growth through the platform

FY20 revenue composition



FY20 revenue growth YOY



[1] Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), add-ons with incremental revenue (such as payroll and expenses modules), payments 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

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Investing in great products, leveraging the ecosystem

Code-free accounting

Hubdoc bundled into all Business Edition plans globally

- Single sign-on with access from inside Xero
- Smarter, faster data capture from bills, receipts and other sources
- Less manual data entry and coding reduces errors, saves time
- Simpler bank reconciliation process



Integrated tax prep and filing

Xero Tax launched at no extra cost through Partner Program in UK

- Features include single sign-on, multi-user review, e-signing, auto tax adjustments
- Completed Corporation Tax and Accounts Production for micro entities, and small companies abridged accounts
- Preparing for MTD for Income Tax (personal tax, trusts, partnerships and estates)



Better business and cash flow insights

Business Snapshot and Short-term cash flow pilots being extended to all Business Edition customers

- Business Snapshot provides a simplified, quick-access financial metrics dashboard
- Short-term cash flow projects a 30-day bank balance to help with cash flow management decisions

Industry recognition

Xero recognised as a leader in the IDC MarketScape: Worldwide SaaS and Cloud-Enabled Small Business Finance and Accounting Applications 2020 Vendor Assessment[1]

Read more at xero.com/about/investors/idc-report

[1]doc #US45837020, April 2020

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Payments and access to capital

Receiving payments

- Get paid by customers faster, and with more ways to pay
- Streamlining automatic payments and facilitating settlement of invoices on the spot or through direct debit
- Enhanced functionality like Stripe feed and daily sales summaries in Square
- Point-of-sale integration for richer transactional data with Square in Australia
- Extension of GoCardless partnership to North America

Paying bills

- Bank agnostic solution in the UK through TransferWise
- Automating bill payment processes, simplifying repetitive manual tasks
- Reducing chances of human error
- Seamless and more secure processes, eg direct connection to NAB avoids handling of ABA files
- Transaction-based, tiered pricing plans



Access to capital

- Better ways to access capital through ecosystem partners
- Options for invoice financing, lines of credit and cash advances, medium to long-term financing
- Working with wide range of established providers and new model fintech offerings

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Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



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Managing COVID-19 financial risks

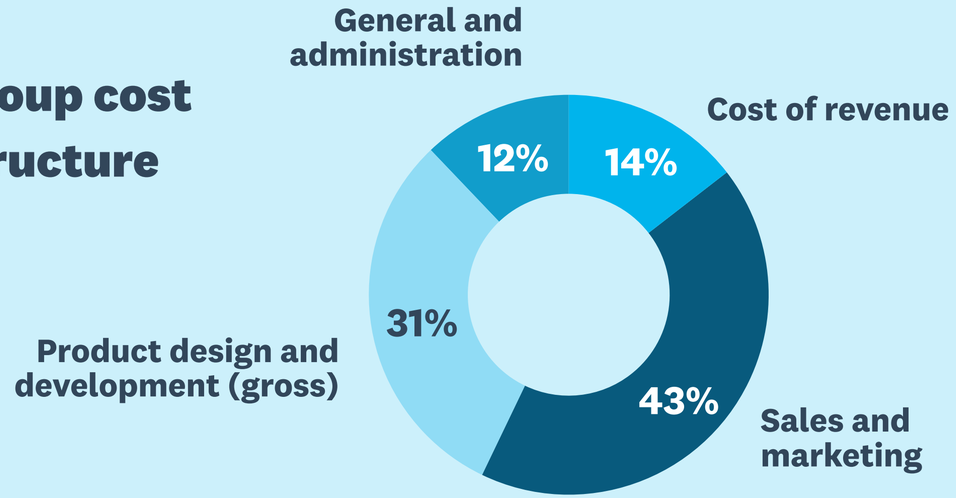


Scenario planning

Rigorous stress testing of revenue, spending and investment outlook under a range of scenarios by market, considering:

- **Gross subscriber additions:** Impact of macro conditions and lead indicators external to Xero, eg web traffic, trials, business closures and new business creation rate
- **Subscription cancellations and churn:** Customer sentiment and small business performance indicators
- **Other revenue contributors:** Eg Xerocon and other events

Group cost structure



Focus on costs and capital allocation

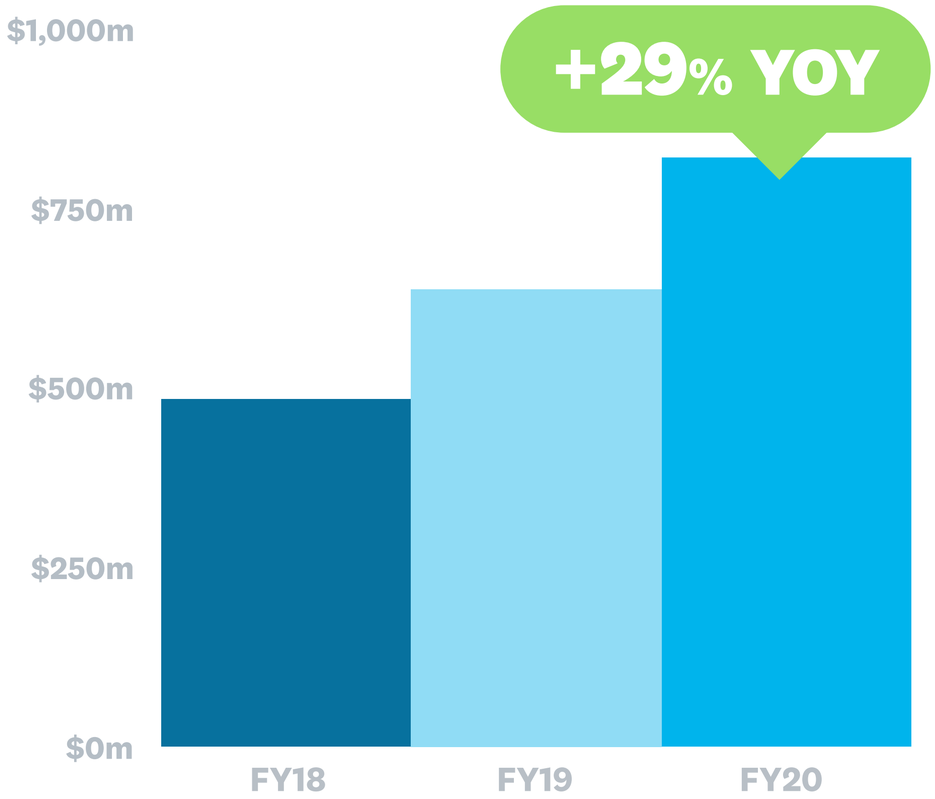
Identification of fixed and variable cost base elements:

- **People:** Selective approach to staff-related costs including hiring, compensation and travel
- **Workplace:** Support for extended office closures and work-from-home arrangements
- **Procurement:** Reassessment of vendor agreements
- **Capital allocation:** Capital allocation and resource planning necessary to support and reprioritise strategic investment planning

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Strong top-line trends maintained with further free cash flow improvement

Annualised monthly recurring revenue



Free cash flow



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Total available liquid resources of $686 million

Positive free cash flow result in FY20 of $27.1m, equivalent to 3.8% of operating revenues

Operating cash flow increased 46% to $166.6m for FY20, an improvement of $52.4m from $114.2m in FY19

Net cash position at 31 March 2020 was $111.5m (comprising cash and short-term deposits less term debt) compared to $100.6m at 31 March 2019

Total available liquid resources, inclusive of $150m of undrawn committed debt facilities, of $686m

Movement in net cash position

	FY19 ($000s)	**FY20 ($000s)**	YOY change ($000s)
Cash and cash equivalents	121,527	**108,027**	(13,500)
Short-term deposits	336,819	**428,052**	91,233
Total cash and short-term deposits	**458,346**	**536,079**	**77,733**
Convertible notes – term debt liability	(357,731)	**(424,587)**	(66,856)
Net cash	**100,615**	**111,492**	**10,877**

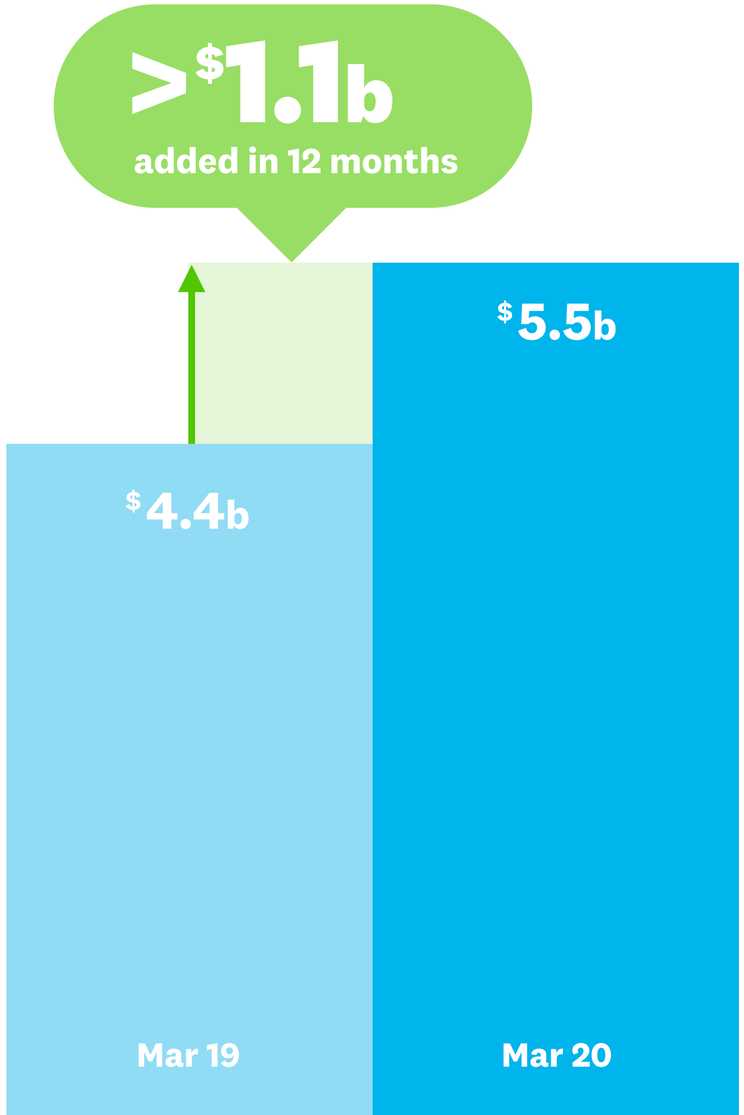
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27% uplift in lifetime value

	March 2020	Progress from March 2019
ARPU	**$29.93**	↑
Churn %	**1.13%**	↓
Gross margin	**85%**	↑
LTV per subscriber	**$2,422**	**1%**[1]

[1] LTV per subscriber growth in nominal terms. 0.6% decrease in constant currency terms based on exchange rates at 31 March 2019

Total subscriber lifetime value (LTV)



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Unit economics and track record of value creation

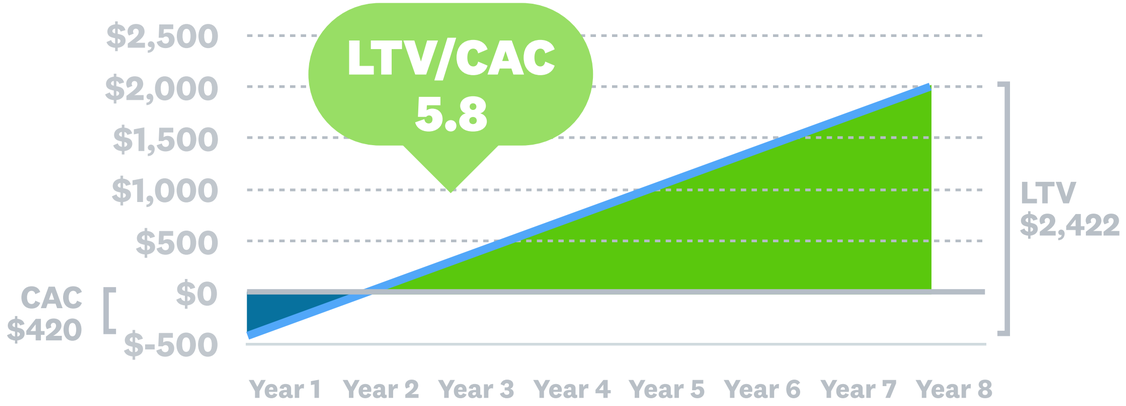
Compelling SaaS unit economics:

CAC months	**14.0**
MRR churn	**1.13%**
LTV/CAC	**5.8**
LTV	**$2,422**

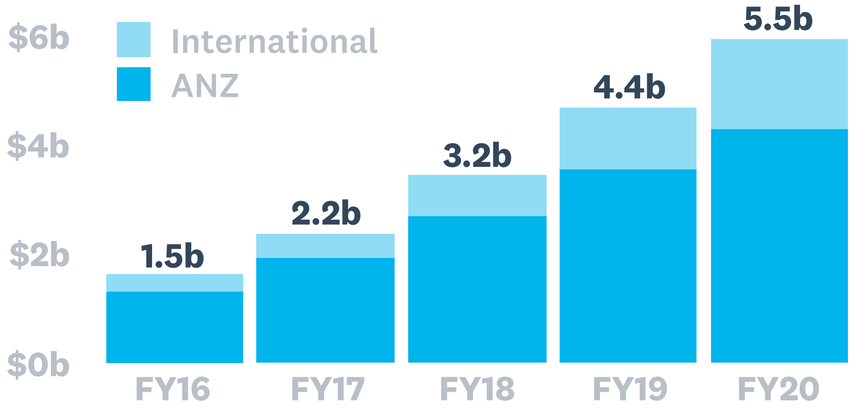
Strong track record of value creation:

- >$1.1 billion LTV added in 12 months
- LTV grew 1.7x in last 2 years
- FY16 to FY20 CAGR for LTV was 34% for ANZ and 52% for International

Value of a Xero subscriber
at 31 March 2020



Total lifetime value



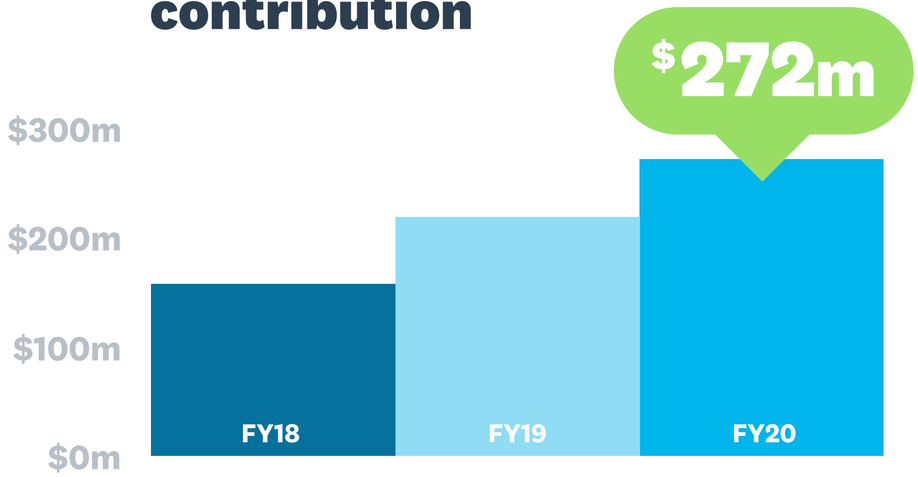
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Contribution margins positive in both segments

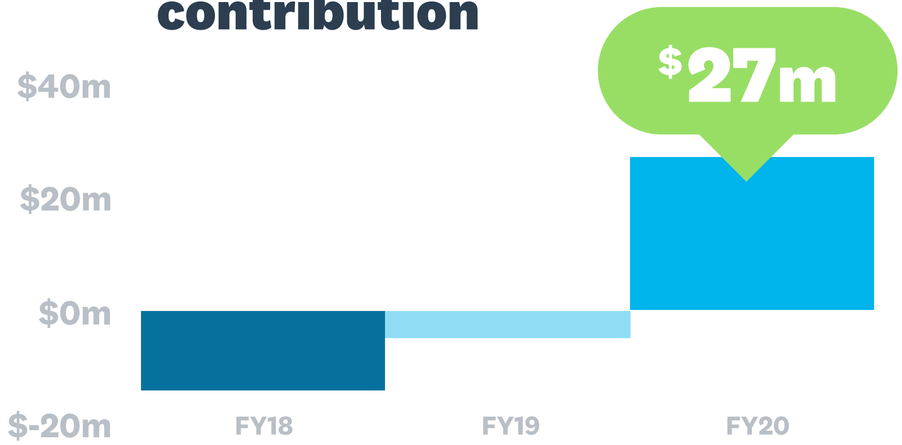
Australia and New Zealand contribution improved 24% YOY, exceeding revenue growth of 22% YOY due to continued operating discipline and scale benefits

International full year contribution positive for the first time in FY20 as scaling and CAC efficiencies offset continued investment to drive subscriber additions

Australia and New Zealand contribution



International segment contribution



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Financial performance

Operating revenue growth of 30% YOY (29% constant currency), driven primarily by subscriber growth across all markets combined with modestly positive ARPU trends

EBITDA improved $64.6 million YOY, resulting in a 6.0pp increase in EBITDA margin over the period as the business continues to benefit from scale and efficiency improvements

EBITDA excluding impairments increased by 52% YOY while EBITDA margin, excluding impairments, increased by 2.8pp

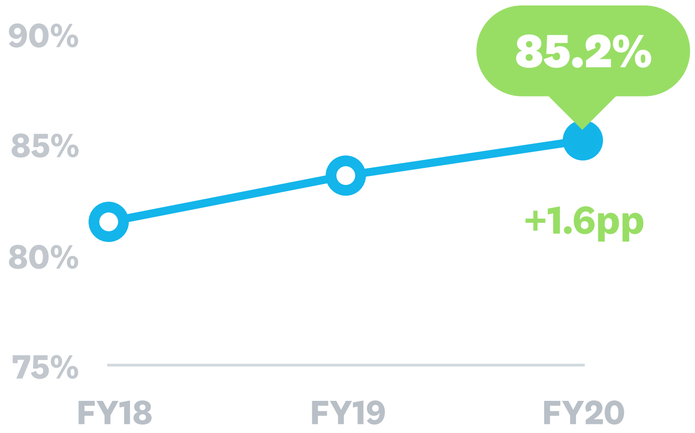
Achieved first time full year net profit of $3.3 million

	FY19 ($000s)	**FY20 ($000s)**	YOY change (%)
Total operating revenue	552,819	**718,231**	30%
Gross profit	461,904	**611,649**	32%
Gross margin	**83.6%**	**85.2%**	**+1.6pp**
Sales & marketing costs	248,014	**312,852**	26%
Product design & development	137,795	**178,258**	29%
General & administration	66,072	**88,980**	35%
EBITDA	73,171	**137,743**	88%
EBITDA excl. impairments	91,775	**139,170**	52%
EBITDA margin	**13.2%**	**19.2%**	**+6.0pp**
EBITDA margin excl. impairments	16.6%	**19.4%**	+2.8pp
Net profit/(loss) after tax	(27,143)	**3,336**	NM
Net profit/(loss) after tax excl. impairments	**(8,539)**	**4,763**	**NM**

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Progress on scale and operating efficiency

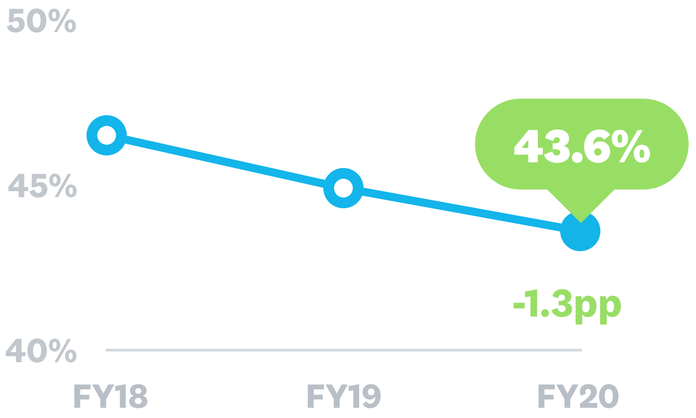
Gross margin



Both Australia and New Zealand and International segments saw positive gross margin trends

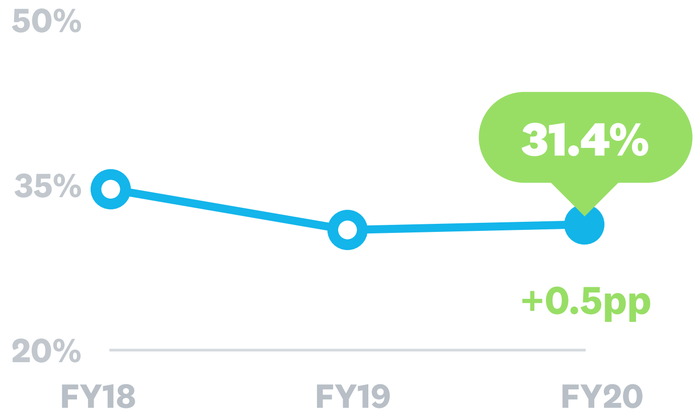
Gross margin improvement powered by efficiencies in cloud hosting and other platform-related benefits which are driving further improvements to customer service quality at a lower cost

CAC as % of revenue



Sales and marketing costs increased by 26% YOY which was lower than growth in operating revenue in FY20. This resulted in a 1.3pp improvement YOY in CAC as percentage of revenue

Product costs including opex and capex as % of revenue[1]

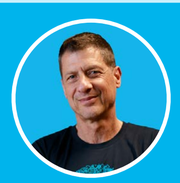


Product investment level stabilised and will continue to support longer-term strategic priorities and related technological needs. Hubdoc and Instafile were acquired and successfully embedded into the product portfolio over FY19 and FY20

[1] Net of government grants

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Strategy update



Steve Vamos

CHIEF EXECUTIVE OFFICER

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Strategic trends

Adoption of cloud technologies

Digitisation of tax and compliance

Innovation in financial services



Post COVID-19 small business economy

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Strategy on a page

WHY WE EXIST

Purpose

Make life better for people in small business, their advisors and communities around the world

Vision

To be the most insightful and trusted small business platform

VALUES

#Human #Challenge #Team #Ownership #Beautiful

STRATEGIC PRIORITIES

Drive cloud accounting

Grow small business platform

Build for global scale and innovation

OUTCOMES

Our Customers

Customers and partners are more successful and confident on Xero

Our People

Our people are doing the best work of their lives

Xero

Long-term value creation by becoming the small business platform of choice

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Areas of planned strategic investment

	Drive cloud accounting	Grow small business platform	Build for global scale and innovation
STRATEGIC PRIORITIES			
AREAS OF PLANNED INVESTMENT	Best-in-class cloud accounting for small business Extend access and distribution to serve all small businesses Serve small businesses with multi-lingual editions	Small business needs beyond accounting and compliance Payments and access to capital New applications leveraging data, AI and machine learning	Attract, inspire and retain world class talent Robust technology to drive innovation at speed Optimised operational and financial structure
IMPACT	• Increased adoption of cloud accounting within Xero's existing markets • Extension into new segments and geographies	• Increased platform revenue contribution • Increased attach and usage of ecosystem apps and financial services products	• Improved scale and efficiency indicators • Revenue from new product launches • Disciplined capital allocation

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Social and environmental impact

Business Support and Communities

Launch of Xero Assistance Programme in New Zealand and partnership with Beyond Blue in Australia

Diversity & Inclusion

Included in 2020 Bloomberg Gender-Equality Index

Environment

Completed retrospective 100% carbon offset for FY19 footprint through three internationally recognised environmental and conservation projects



ISS ESG

MSCI ESG RATINGS A

CCC | B | BB | BBB | A | AA | AAA

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Outlook

While Xero has performed strongly in FY20, trading in the early stages of FY21 has been impacted by the COVID-19 environment. The continued uncertainty surrounding COVID-19 means it would be speculative for us to say anything more at this time on its potential impact on our expected performance for FY21.

Xero's ambition is to be a long-term oriented, high-growth business. We continue to operate with disciplined cost management and targeted allocation of capital. This allows us to remain agile so we can continue to innovate, invest, support our customers, and respond to opportunities and changes in our operating environment.



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Q&A



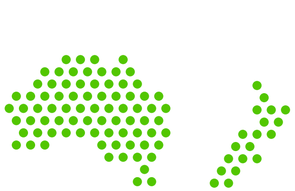
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Appendix



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SaaS metrics summary







	ANZ		International		Group	
	FY19	FY20	FY19	FY20	FY19	FY20
ARPU	$30.66	$29.83	$27.21	$30.05	$29.25	$29.93
CAC months	9.4	9.7	18.3	18.1	13.6	14.0
MRR churn	0.85%	0.84%	1.55%	1.59%	1.10%	1.13%
Subscribers	1,077,000	1,306,000	741,000	979,000	1,818,000	2,285,000
LTV per sub	$3,075	$3,058	$1,413	$1,573	$2,398	$2,422
LTV/CAC	10.7	10.6	2.8	2.9	6.0	5.8
Total LTV	$3.31b	$3.99b	$1.05b	$1.54b	$4.36b	$5.53b

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COVID-19: How we're helping

Case study – Xero Central

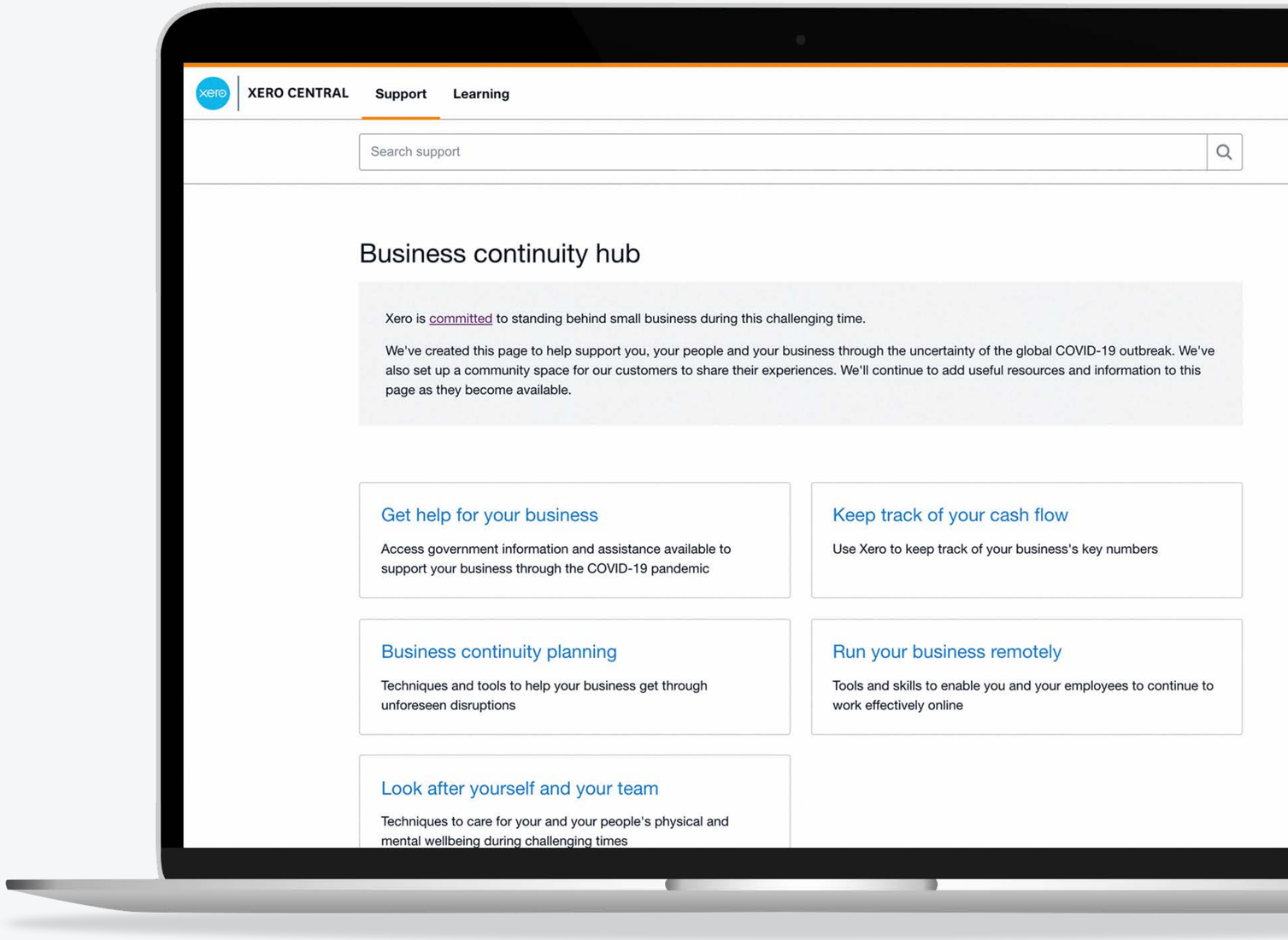
Business continuity hub

Customised with relevant content for user region

Access to live webinars, guides and other resources on topics like latest government initiatives, managing cash flow, business continuity planning, running a business remotely and wellbeing

Contact details for our dedicated, 24/7 customer response team for case-by-case assistance

Read more at central.xero.com/s/business-continuity



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COVID-19: How we're helping

Case study – Australia

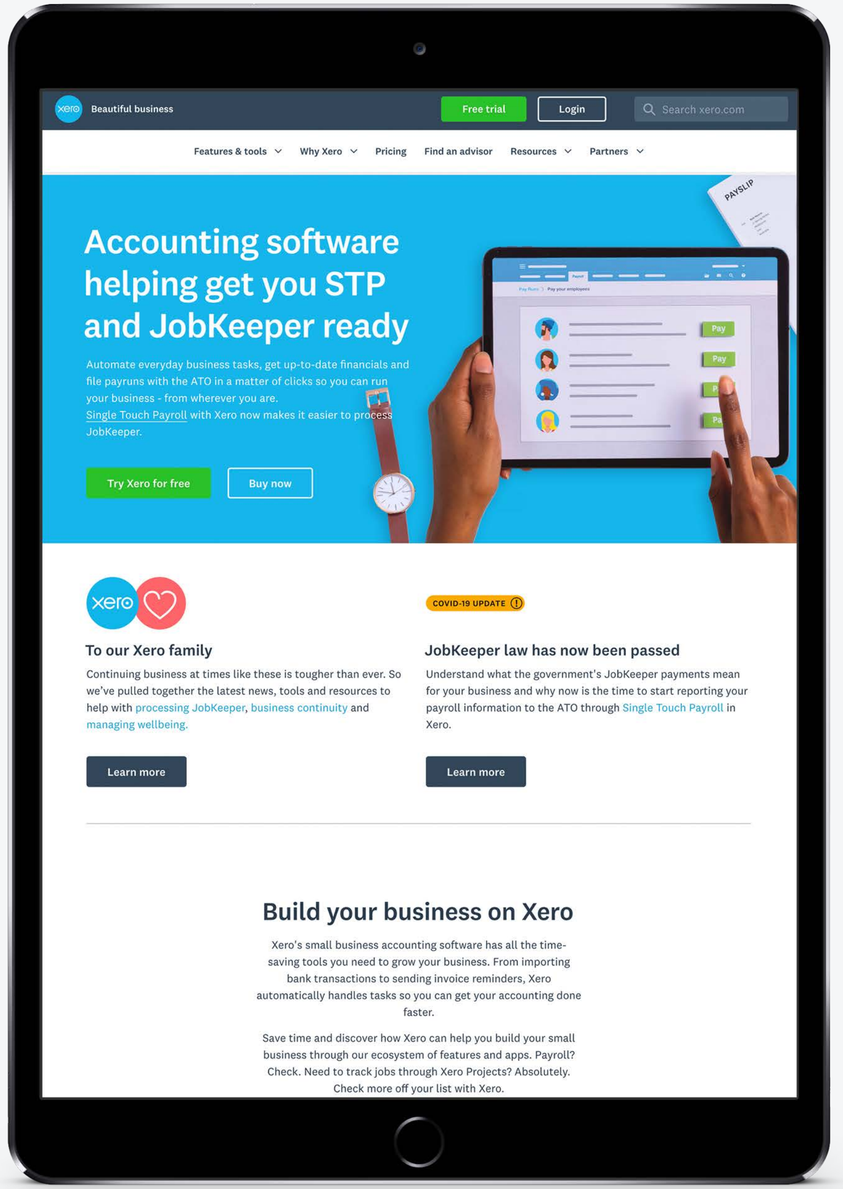
JobKeeper & Xero Payroll

Employee eligibility calculator based on eligibility criteria and employee data within Xero Payroll

Enrolment of employees directly with the ATO and pay runs incorporating JobKeeper payment top-up as a pay item within the allowances category, and ability to file directly with ATO through STP

Ongoing GST reporting and declaration of continued eligibility

Read more at central.xero.com/s/article/Account-for-COVID-19-government-support-in-Xero-AU



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Glossary

Subscribers

Subscriber means each unique subscription to a Xero-offered product that is purchased by an accounting partner or an end user (small business subscriber) which is (or is available to be) deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber

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

Average revenue per user (ARPU) is calculated as AMRR at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)

Churn

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

Constant currency

Constant currency comparisons for revenue are based on average exchange rates for the 12 months ended 31 March 2019. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2019

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 churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by their respective segment subscribers, divided by total Group subscribers

CAC months

Customer Acquisition Cost (CAC) months are months of ARPU to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the year excluding the capitalisation and amortisation of commissions paid to sales people, less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU

Liquid resources

Liquid resources comprises cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities

Free cash flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets

Finweb

Financial web

SBP

Share-based payments

TAM

Total addressable market

GAAP

Generally accepted accounting principles

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