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MARKET RELEASE

Xero acquires Hubdoc - leading data capture solution

Significant step in code-free accounting strategy

WELLINGTON, 1 August 2018 - Xero Limited (ASX: XRO) announces the acquisition of Hubdoc, a leading data capture solution that helps accountants, bookkeepers, and small businesses to streamline administrative tasks such as financial document collection and data entry.

Founded in 2011, Hubdoc is headquartered in Toronto, Canada, currently serving customers in the US, Canada, UK and Australia. Hubdoc will continue to operate on a stand-alone basis within Xero, led by co-founders and co-CEOs Jamie McDonald and Jamie Shulman.

Hubdoc has been a Xero ecosystem partner since 2014. Hubdoc automatically collects bank statements, bills, and receipts from more than 700 financial institutions, utilities, telecom providers, and suppliers, delivering streamlined data capture and a seamless integration with accounting solutions such as Xero. This data capture capability is a key element of Xero's code-free accounting strategy, which enables small businesses and their advisors to focus on growing their businesses.

Hubdoc will continue to be sold separately, and available to non-Xero customers, maintaining its current business model. Over the longer-term, customers can expect to see a deeper integration between Hubdoc and the Xero platform, servicing customers globally.

Xero remains fully committed to its open ecosystem strategy and Xero customers will continue to have access to the full range of more than 700 apps that connect with Xero.

Xero will pay the acquisition price for Hubdoc in two stages, initially US\$60 million consisting of 35% cash and 65% in Xero equity. Xero has arranged new debt funding for the cash component of the acquisition price. A second tranche of US\$10 million in equity will be issued to Hubdoc's shareholders in 18 months, subject to meeting agreed operational targets and conditions. The first tranche of equity will be issued based on a five trading-day VWAP ending 30 July 2018, and the second tranche will be issued based on a five trading-day VWAP at the time of issue.

The transaction is expected to be completed in August 2018. The transaction and integration costs, together with continuing investment in Hubdoc's growth, is expected to reduce Xero's EBITDA in FY19 by approximately NZ\$7 million.

Xero remains committed to managing its business to cash flow break-even within its current cash balance, without drawing down on its debt facility, excluding capital outlays for M&A such as the current transaction.

Xero CEO Steve Vamos commented: "The acquisition of Hubdoc enables us to take the next step in delivering a platform that seamlessly connects small businesses with their financial data, and their accountants and bookkeepers. This acquisition accelerates our ability to streamline the collection and classification of the data small businesses and their advisors need in order to focus on driving better business outcomes."

Xero Limited (XRO)
NZ Company no. 1830488
ARBN 160 661 183

Registered Address
19-23 Taranaki St
Te Aro
Wellington 6011

www.xero.com

Hubdoc's co-founders and co-CEOs Jamie McDonald and Jamie Shulman commented: "Over the past four years, Hubdoc has built an industry-changing product, a passionate following of customer advocates and a reputation for an authentic, human service. What is exciting about this transaction is the opportunity to deeply partner with Xero in its mission to rewire the global small business economy."

About Hubdoc

Hubdoc is a cloud bookkeeping solution that helps small businesses and their advisors spend less time chasing financial documents and more time growing their business. With Hubdoc, documents and their data are automatically fetched from hundreds of financial institutions and suppliers, and seamlessly synced to cloud accounting software, such as Xero. Headquartered in Toronto, with 100 employees, Hubdoc is proud to support thousands of accountants, bookkeepers, and the small businesses they serve in North America, Australia, and the United Kingdom.

About Xero

[Xero](#) is a beautiful, easy-to-use global online platform for small businesses and their advisors. The company has 1.4 million subscribers in more than 180 countries. Xero seamlessly integrates with more than 700 apps. It was ranked No. 1 by Forbes as the World's Most Innovative Growth Company for two years running, won Technology Provider of the Year for the British Small Business Awards, and was rated by Canstar Blue as Australia's best accounting software three consecutive years from 2015-2017.

Contact

Xero Corporate Communications
Kate McLaughlin
+64 27 533 4529
kate.mclaughlin@xero.com