

Annual meeting

15 August 2019
Auckland, New Zealand

 WELLINGTON | NEW ZEALAND



xero

Important notice

This presentation is given on 15 August 2019 on behalf of Xero Limited (Xero) (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, or purchase of, or a recommendation to invest in, 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 2019, 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
- includes comparative period results that have been restated to reflect the effect of three new accounting standards. See page 23 for more information

All information in this presentation is current at 31 March 2019, 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 36 for a glossary of the key terms used in this presentation

Board of Directors



Graham Smith

CHAIR OF THE BOARD
INDEPENDENT NON-EXECUTIVE DIRECTOR
Nominations Committee (Chair)
Audit and Risk Management Committee



Rod Drury

XERO FOUNDER
NON-EXECUTIVE DIRECTOR



Lee Hatton

INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee (Chair)



Dale Murray, CBE

INDEPENDENT NON-EXECUTIVE DIRECTOR
Audit and Risk Management Committee



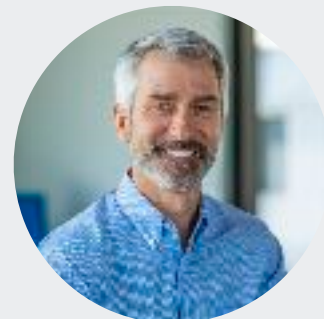
Susan Peterson

INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee (Chair)



David Thodey, AO

INDEPENDENT NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee



Bill Veghte

INDEPENDENT NON-EXECUTIVE DIRECTOR
Retiring 15 August 2019



Craig Winkler

NON-EXECUTIVE DIRECTOR
People and Remuneration Committee
Nominations Committee

Agenda

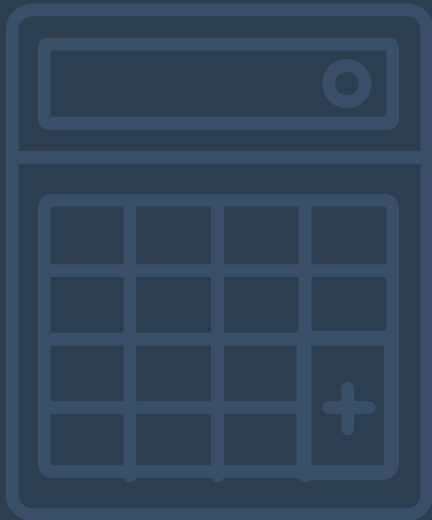
Chair's address

Graham Smith
CHAIR OF THE BOARD



Financial overview

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



CEO update

Steve Vamos
CHIEF EXECUTIVE OFFICER



Q&A

Chair's address

Graham Smith
CHAIR OF THE BOARD



Resolutions



RESOLUTION 1

Fixing the remuneration of the auditor

That the Board is authorised to fix the remuneration of the auditor for the ensuing year

For

91,335,072

96.96%

Against

2,774,653

2.95%

Discretionary

86,088*

0.09%

** 43,772 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 2

Re-election of Susan Peterson as a director

That Susan Peterson, retiring from office as a director of Xero at the meeting by rotation in accordance with Xero's Constitution, be re-elected as a director of Xero



For

93,391,971

99.15%

Against

715,217

0.76%

Discretionary

83,434*

0.09%

** 42,718 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 3

Election of David Thodey as a director

That David Thodey, appointed by the Board as a director on 27 June 2019, and who will retire at the meeting in accordance with Xero's Constitution and the ASX Listing Rules, be elected as a director of Xero



For

94,096,987

99.90%

Against

7,814

0.01%

Discretionary

87,353*

0.09%

** 45,037 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 4

Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ\$800,000 from NZ\$1,400,000 to NZ\$2,200,000 with immediate effect

For

65,315,557

99.61%

Against

171,636

0.26%

Discretionary

82,078*

0.13%

** 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 4

Target
director
fees

Target Xero director fees

New Zealand Dollars

Country	Chairman		Director		Audit Chair		Remuneration Chair		Nominations Chair	
	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21	FY19	FY20-21
NZ	\$180,000	\$358,000	\$90,000	\$145,000	\$20,000	\$30,000	\$15,000	\$30,000	-	-
AU	\$180,000	\$358,000	\$90,000	\$145,000	\$20,000	\$30,000	\$15,000	\$30,000	-	-
US	\$310,000	\$358,000	\$226,000	\$252,000	\$21,000	\$30,000	\$14,000	\$30,000	-	-
UK	\$260,000	\$373,000	\$115,000	\$145,000	\$19,000	\$30,000	\$19,000	\$30,000	-	-

RESOLUTION 4

Director fees

Director fees - by individual

New Zealand Dollars

Name	Previous Fees			Actual @ 27 Jun 2019			Proposed @ 1 Sept 2019		
	Director Fees	Committee Chair Fees	Total Fees	Director Fees	Committee Chair Fees	Total Fees	Director Fees	Committee Chair Fees	Total Fees
Graham Smith	\$310,000	-	\$310,000	\$342,000	-	\$342,000	\$440,000	-	\$440,000
Rod Drury	\$90,000	-	\$90,000	\$127,000	-	\$127,000	\$145,000	-	\$145,000
Lee Hatton	\$90,000	\$20,000	\$110,000	\$127,000	\$28,000	\$155,000	\$145,000	\$30,000	\$175,000
Dale Murray	\$115,000	-	\$115,000	\$127,000	-	\$127,000	\$145,000	-	\$145,000
Susan Peterson	\$90,000	-	\$90,000	\$127,000	-	\$127,000	\$145,000	\$30,000	\$175,000
David Thodey	-	-	-	\$127,000	-	\$127,000	\$145,000	-	\$145,000
Bill Veghte/TBD	\$226,000	\$14,000	\$240,000	\$240,000	\$27,000	\$267,000	\$252,000	-	\$252,000
Craig Winkler	\$90,000	-	\$90,000	\$127,000	-	\$127,000	\$145,000	-	\$145,000
Total	\$1,011,000	\$34,000	\$1,045,000	\$1,344,000	\$55,000	\$1,399,000	\$1,562,000	\$60,000	\$1,622,000

RESOLUTION 4

Increase cap on non-executive director remuneration

That, for the purposes of ASX Listing Rule 10.17, the maximum annual remuneration able to be paid to all of the non-executive directors of Xero taken together be increased by NZ\$800,000 from NZ\$1,400,000 to NZ\$2,200,000 with immediate effect

For

65,315,557

99.61%

Against

171,636

0.26%

Discretionary

82,078*

0.13%

** 41,962 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

RESOLUTION 5

Approval of the issue of shares to a director - Lee Hatton

That, for the purposes of ASX Listing Rule 10.11 and for all other purposes, approval is given for Xero to issue shares to Lee Hatton in lieu of her remuneration on the terms and conditions set out in the Explanatory Notes of the Notice of Meeting

For

94,045,433

99.85%

Against

54,438

0.06%

Discretionary

90,575*

0.10%

** 45,859 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

Financial overview

Kirsty Godfrey-Billy

CHIEF FINANCIAL OFFICER

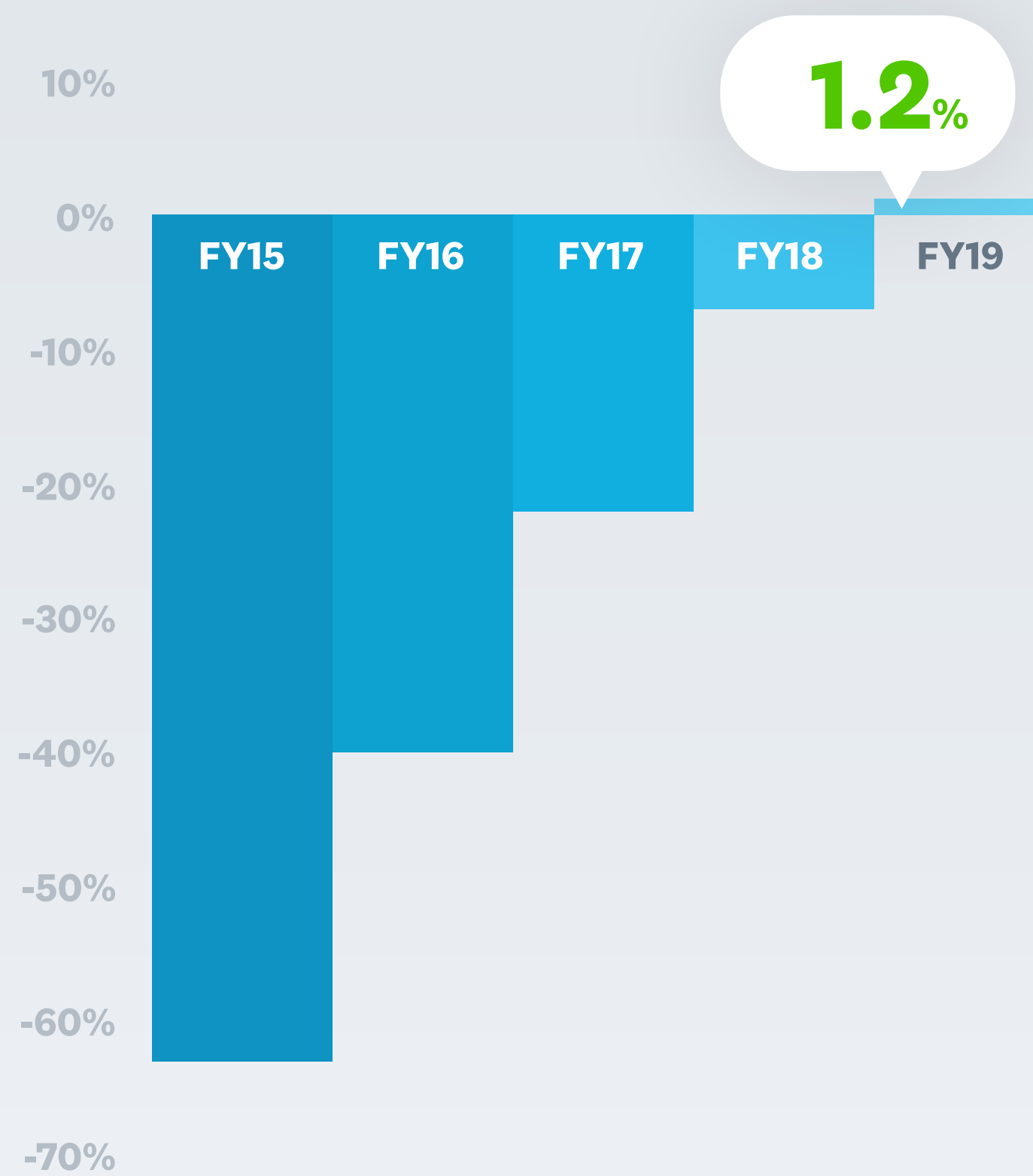


Proof points of a strong business model

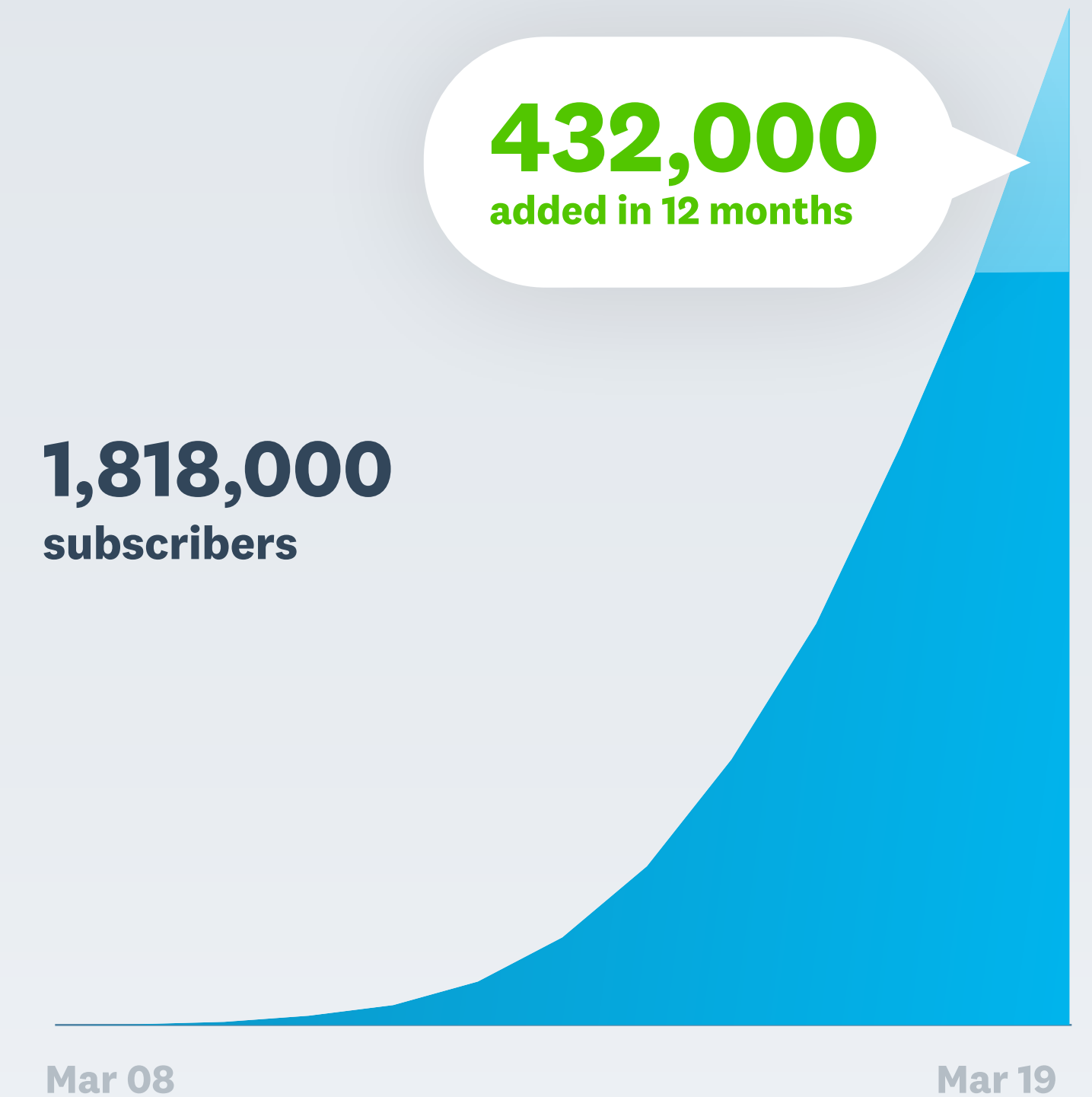
Annualised monthly recurring revenue



Free cash flow¹ as % of revenue



Xero subscriber growth



¹ See glossary for definition

Global growth and major cash flow milestone

AMRR

\$638.2m

+ 32% YOY (32% in constant currency¹)

FREE CASH FLOW

\$6.5m

+ \$35.0m YOY

SUBSCRIBERS

1.8m

+ 432,000 YOY

ARPU

\$29.25

+ 0.4% YOY (0.8% in constant currency¹)

OPERATING REVENUE

\$552.8m

+ 36% YOY (34% in constant currency¹)

EBITDA
EXCLUDING IMPAIRMENTS

\$91.8m

+ \$42.0m YOY

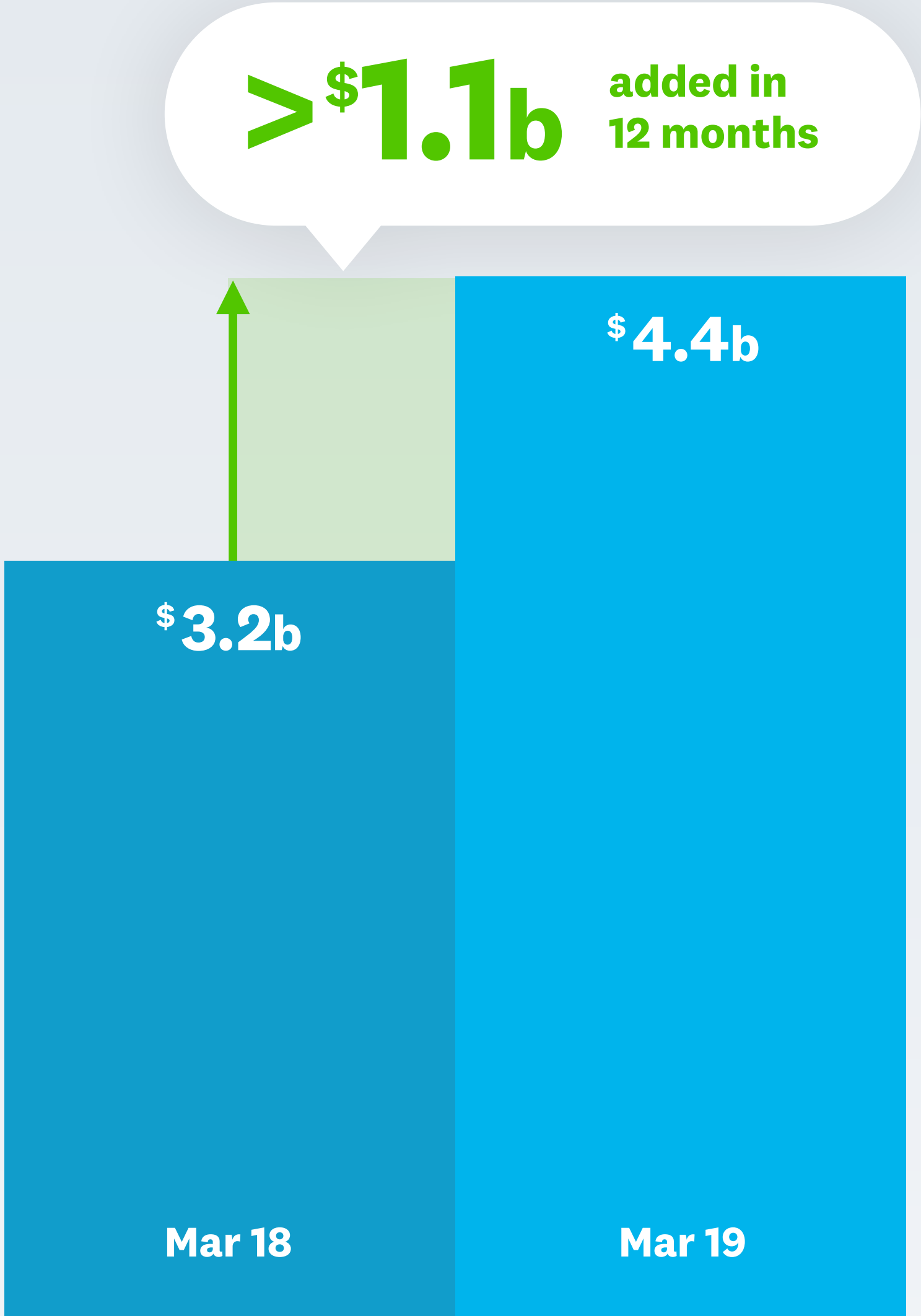
¹ See glossary for definition

Positive LTV trends plus strong subscriber growth

	March 2019	Progress from March 2018
ARPU	\$29.25	↑
Churn %	1.10%	—
Gross margin	84%	↑
LTV per subscriber	\$2,398	+4% ¹

¹ Constant currency based on FX rates 31 March 2018. 3% increase in nominal terms.

Total subscriber lifetime value (LTV)



Positive EBITDA momentum

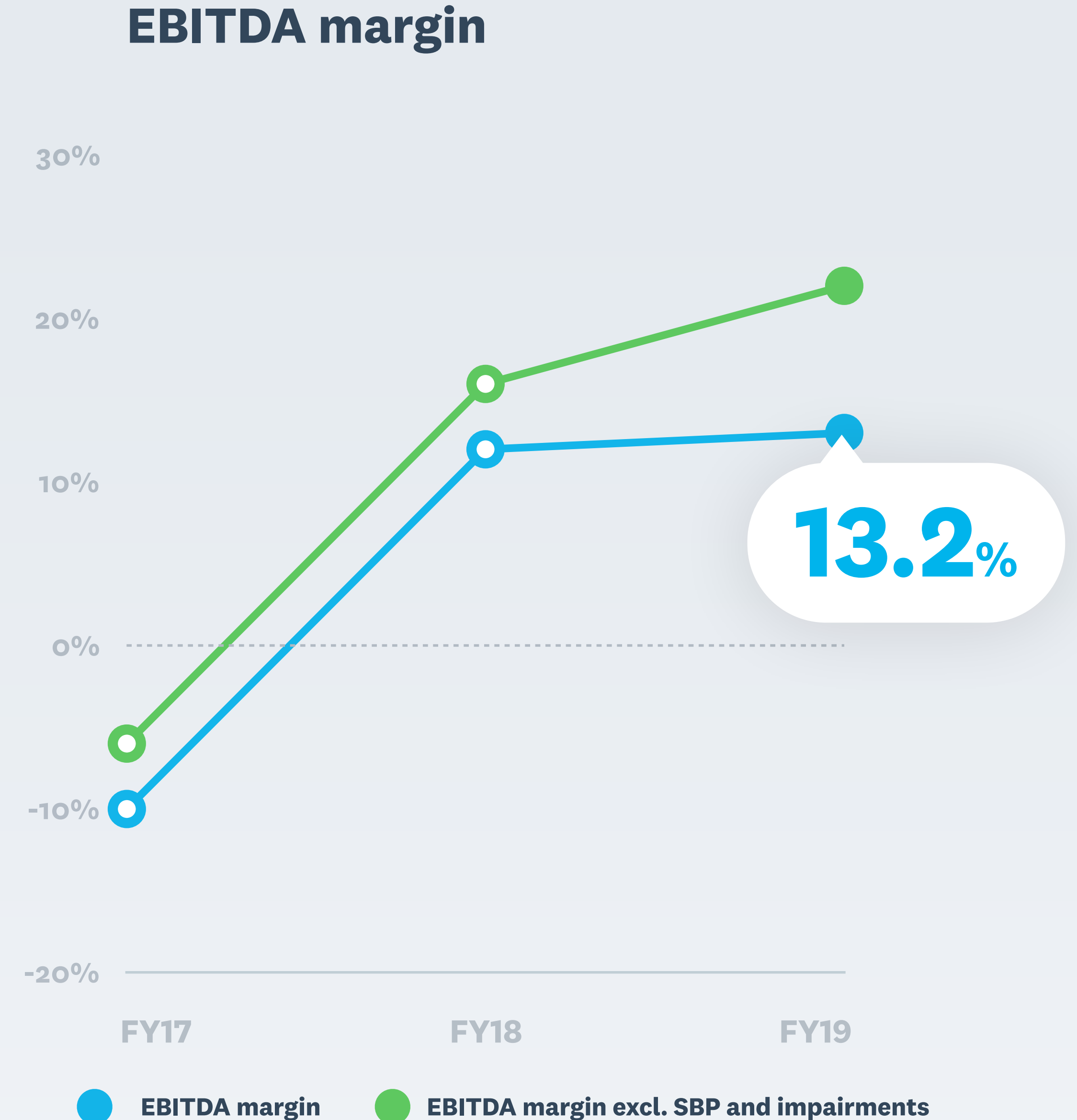
Continued scale and efficiency progress contributed to FY19 performance:

EBITDA margin improved modestly due to \$18.6m of impairment costs, relating to costs associated with our change in US payroll strategy, and acquisition related costs of \$1.3 million, relating to the acquisitions of Hubdoc and Instafile

Gross margin improved by 2pp to 84%

CAC (customer acquisition costs) improved by 2pp to 45% of revenues

Product costs, including opex and capex, improved by 4pp to 31% of revenues



First positive free cash flow result

Significant milestone passed with first positive free cash flow result in FY19 of \$6.5m, equivalent to 1.2% of FY19 operating revenues

Net cash position at 31 March 2019 was \$100.6m (comprising cash and short-term deposits less term debt) compared to \$80.0m at 31 March 2018

Movement in net cash position

	FY18 (\$000s)	FY19 (\$000s)	YOY change (\$000s)
Cash and cash equivalents	20,955	121,527	100,572
Short-term deposits	59,000	336,819	277,819
Total cash and short-term deposits	79,955	458,346	378,391
Convertible notes – term debt liability	–	(357,731)	(357,731)
Net cash	79,955	100,615	20,660

Beauty of Xero's SaaS model



Generate long-term value



Acquire subscribers economically at scale



Grow revenue per subscriber



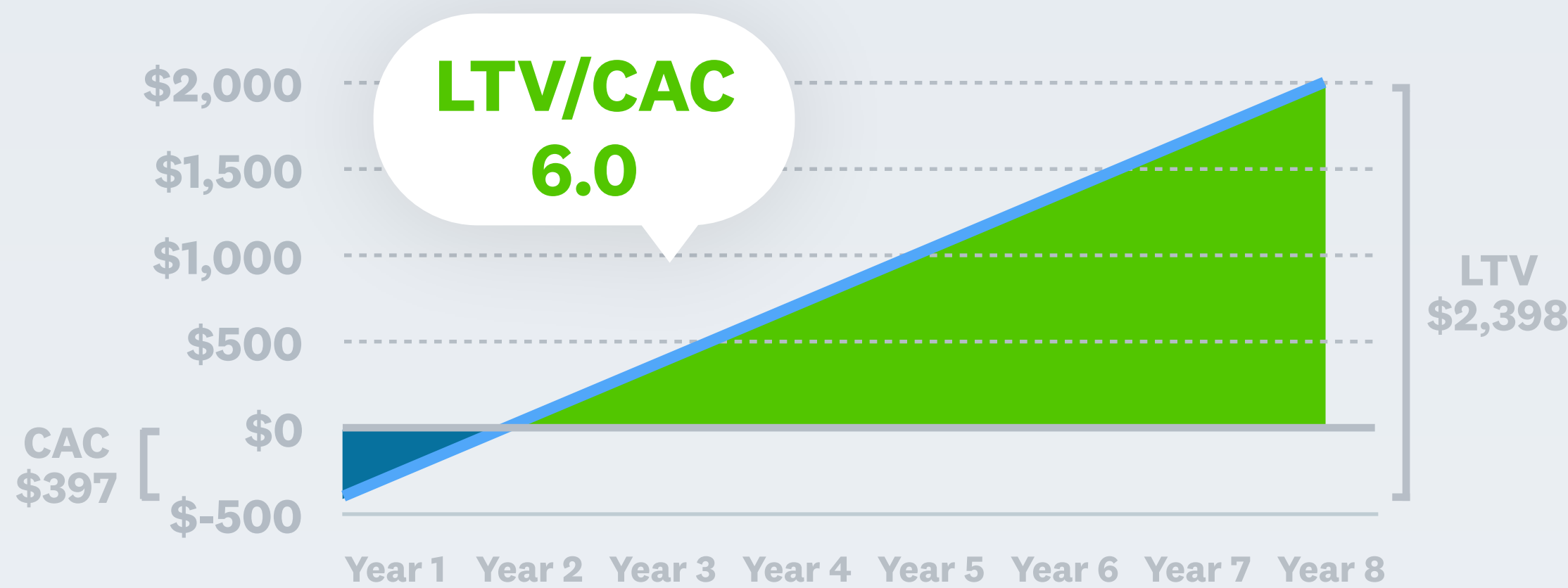
Grow gross margins



Retention at scale

Unit economics and track record of value creation

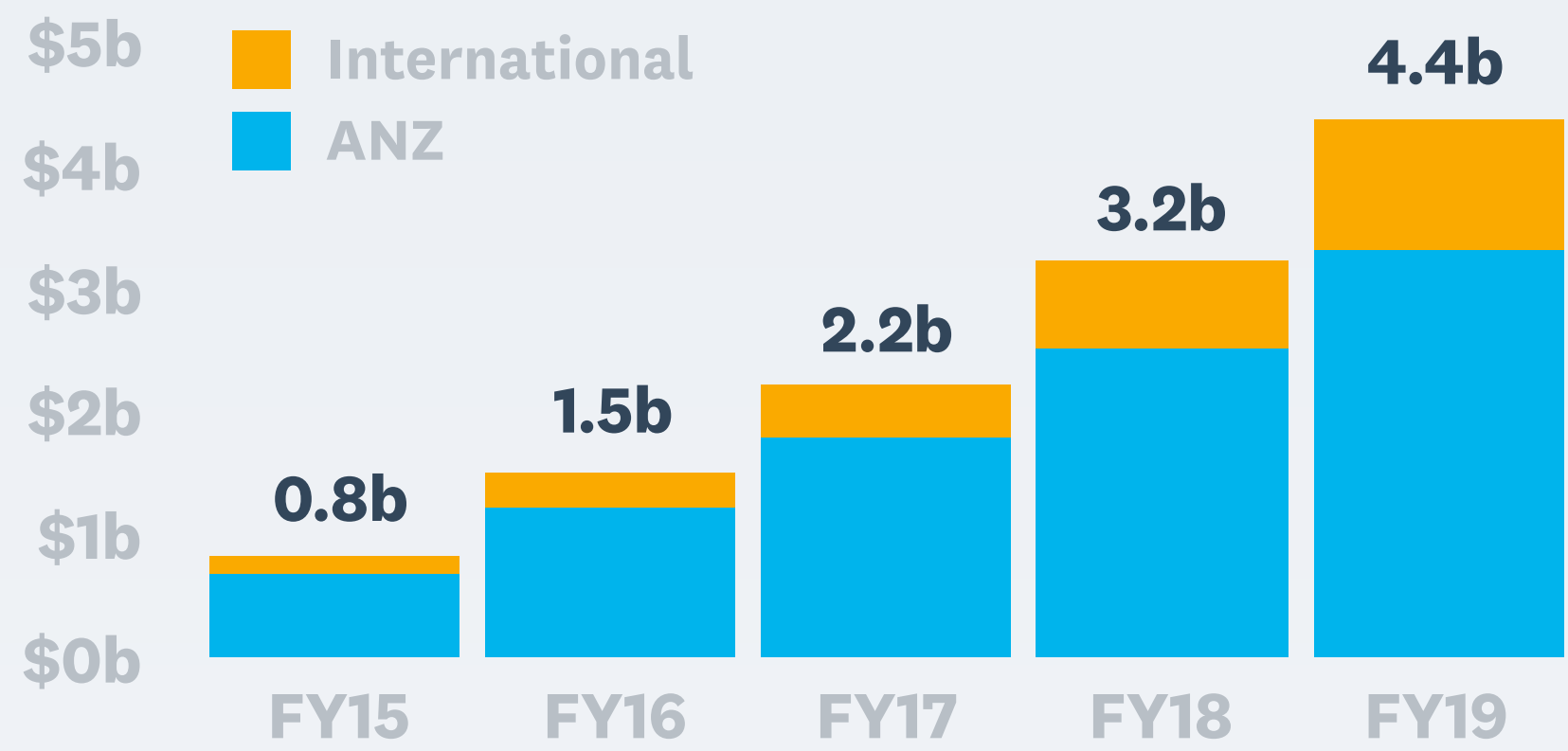
Value of a Xero subscriber



Compelling SaaS unit economics

CAC months 13.6
MRR churn 1.10%
LTV/CAC 6.0
LTV \$2,398

Total lifetime value



Strong track record of value creation

>\$1.1 billion in LTV added in FY19
LTV doubled in last two years
ANZ: FY15-19 LTV CAGR 48%
International: FY15-19 CAGR 65%

New accounting standards

Xero adopted three new
accounting standards from
1 April 2018

IFRS 15

Revenue from contracts with customers

- Xero's commission costs will be capitalised and expensed over time
- This standard also changes the classification and timing of when revenue is recognised

IFRS 16

Leases

- The majority of Xero's leases will be recognised on the balance sheet, with the expense moving from operating expenses to depreciation and finance expense

IFRS 9

Financial instruments

- Amends the classification and measurement of Xero's financial instruments and simplifies its hedge accounting model to align more closely to risk management strategies and objectives

CEO update

Steve Vamos

CHIEF EXECUTIVE OFFICER



XERO UNDER | MELBOURNE, AU



OUR PURPOSE IS

“

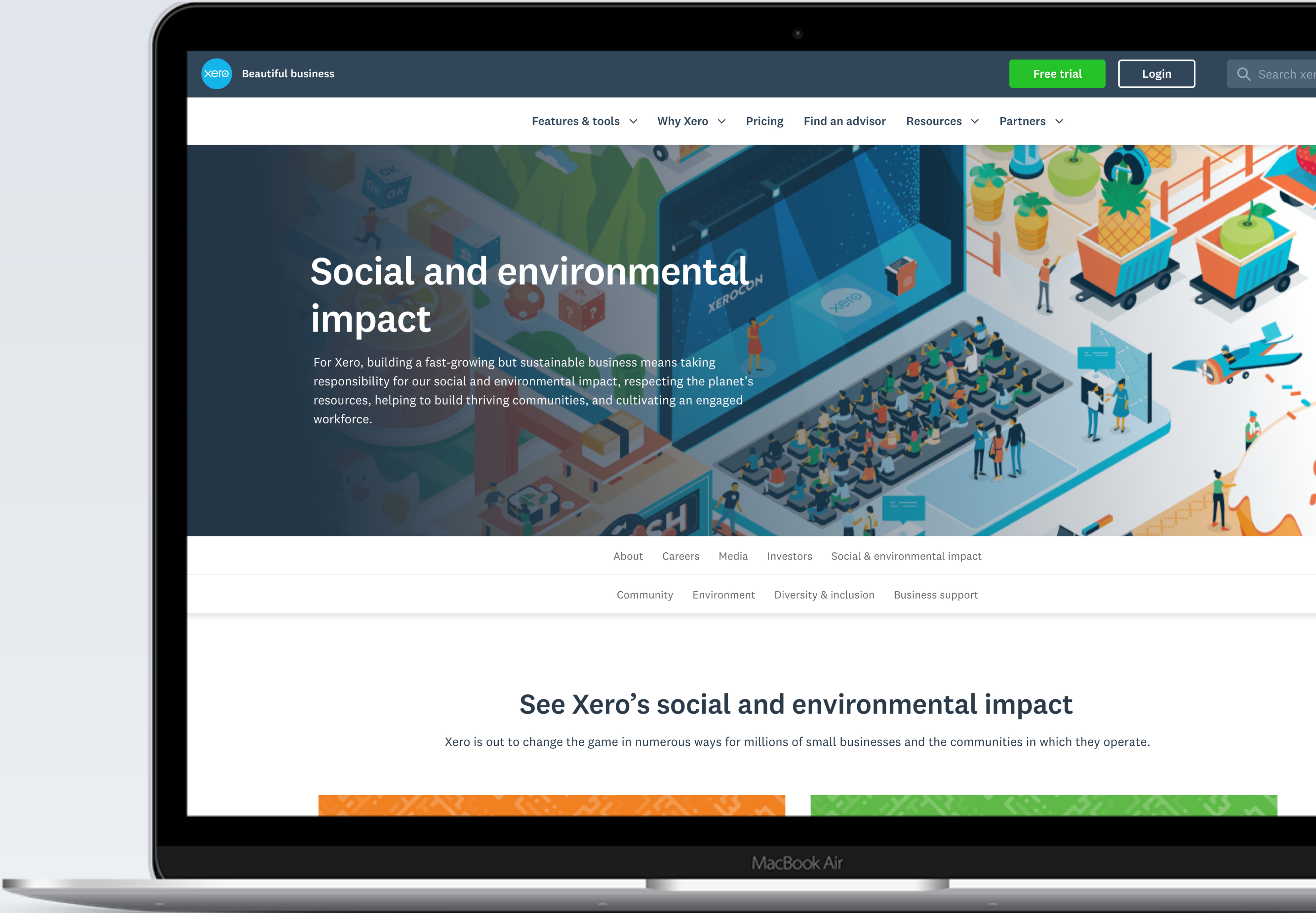
***Make life better for
people in small
business, their advisors
and communities
around the world***

OUR MISSION IS

“

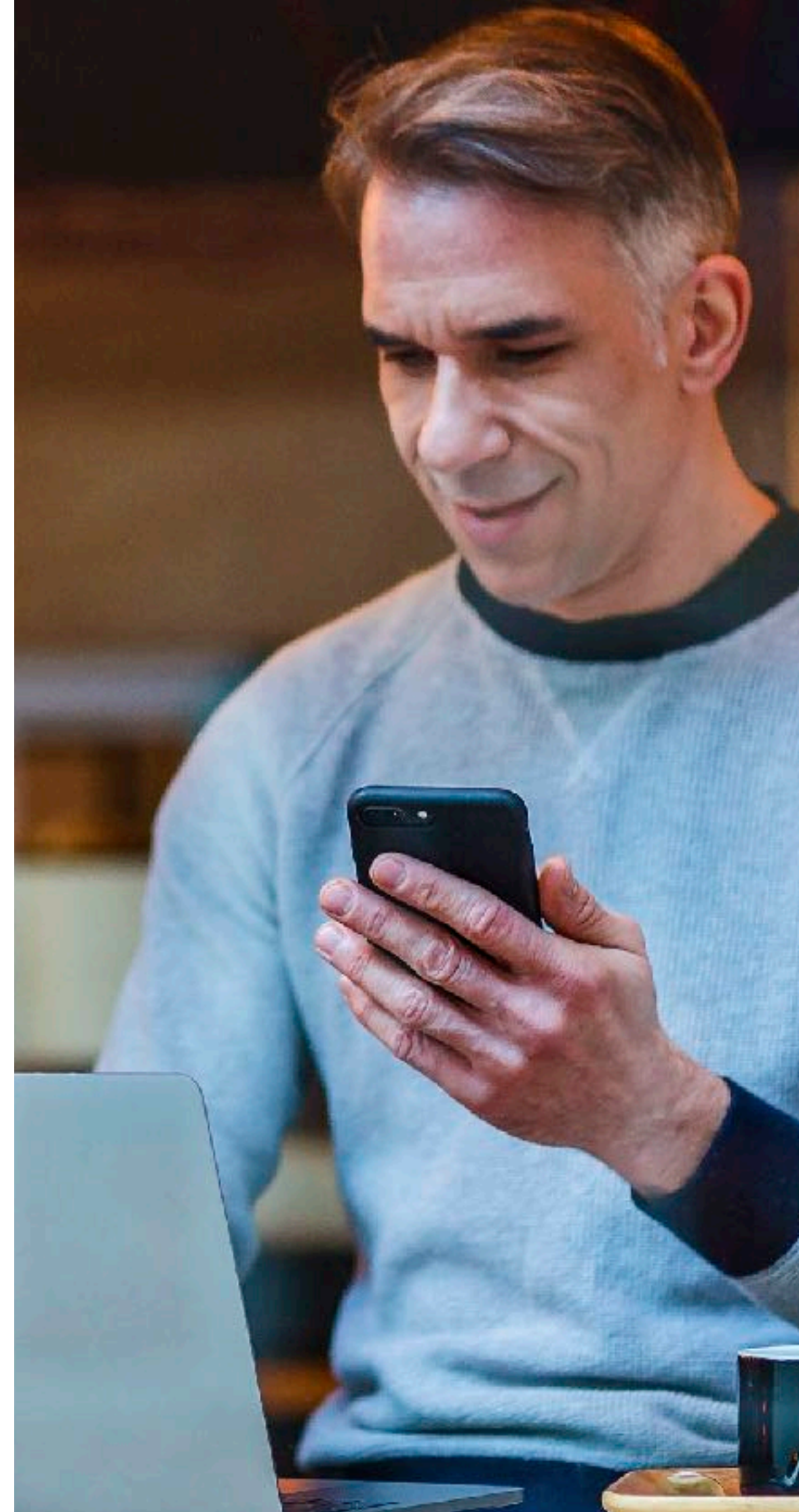
***Rewire the world of
small business,
making it seamless,
simpler and smarter***

Social and environmental impact



Strategic priorities

Drive cloud accounting



Grow small business platform



Building for global scale and innovation



Drive cloud accounting

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

Cloud accounting adoption¹



>50%

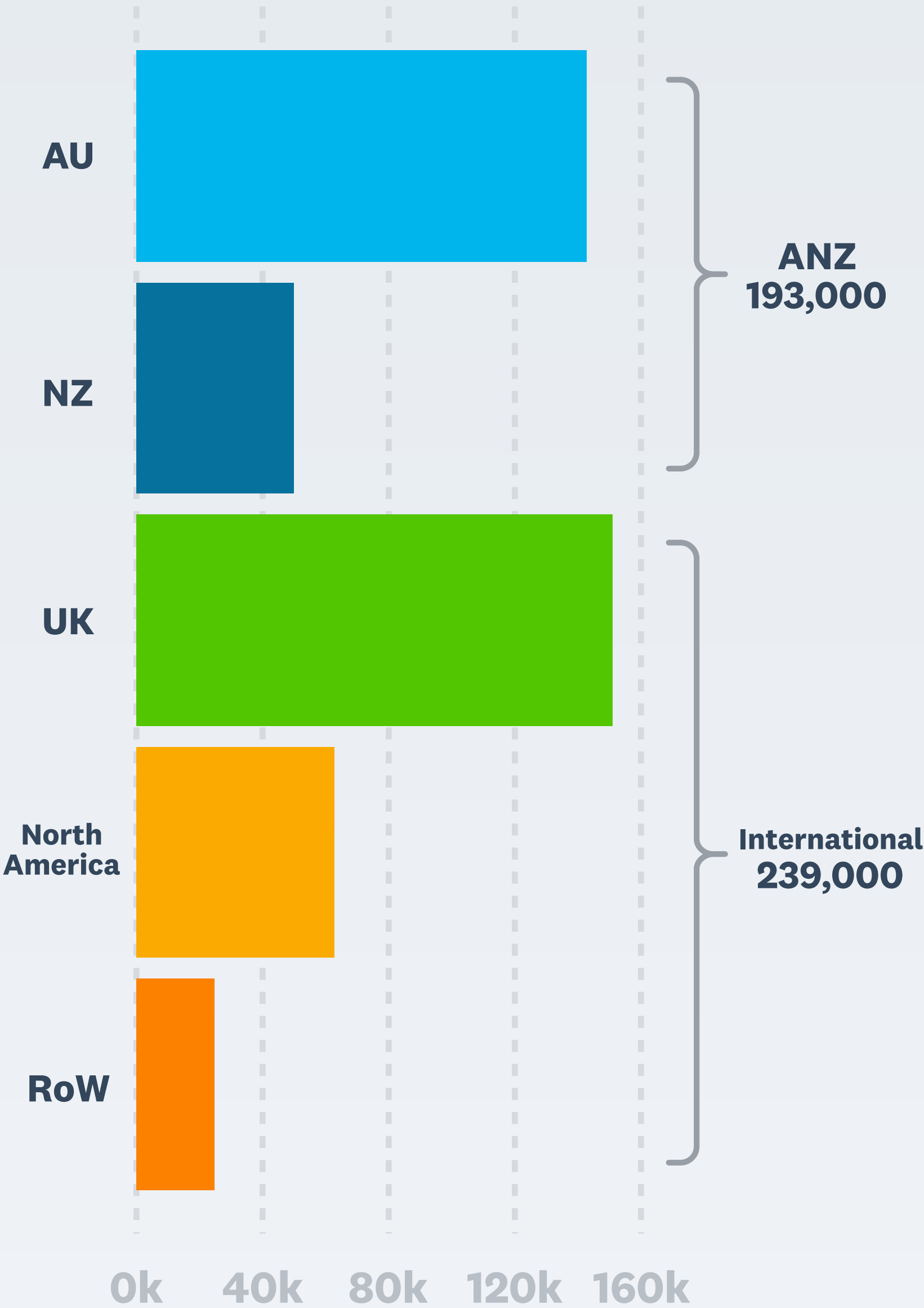
Australia and New Zealand



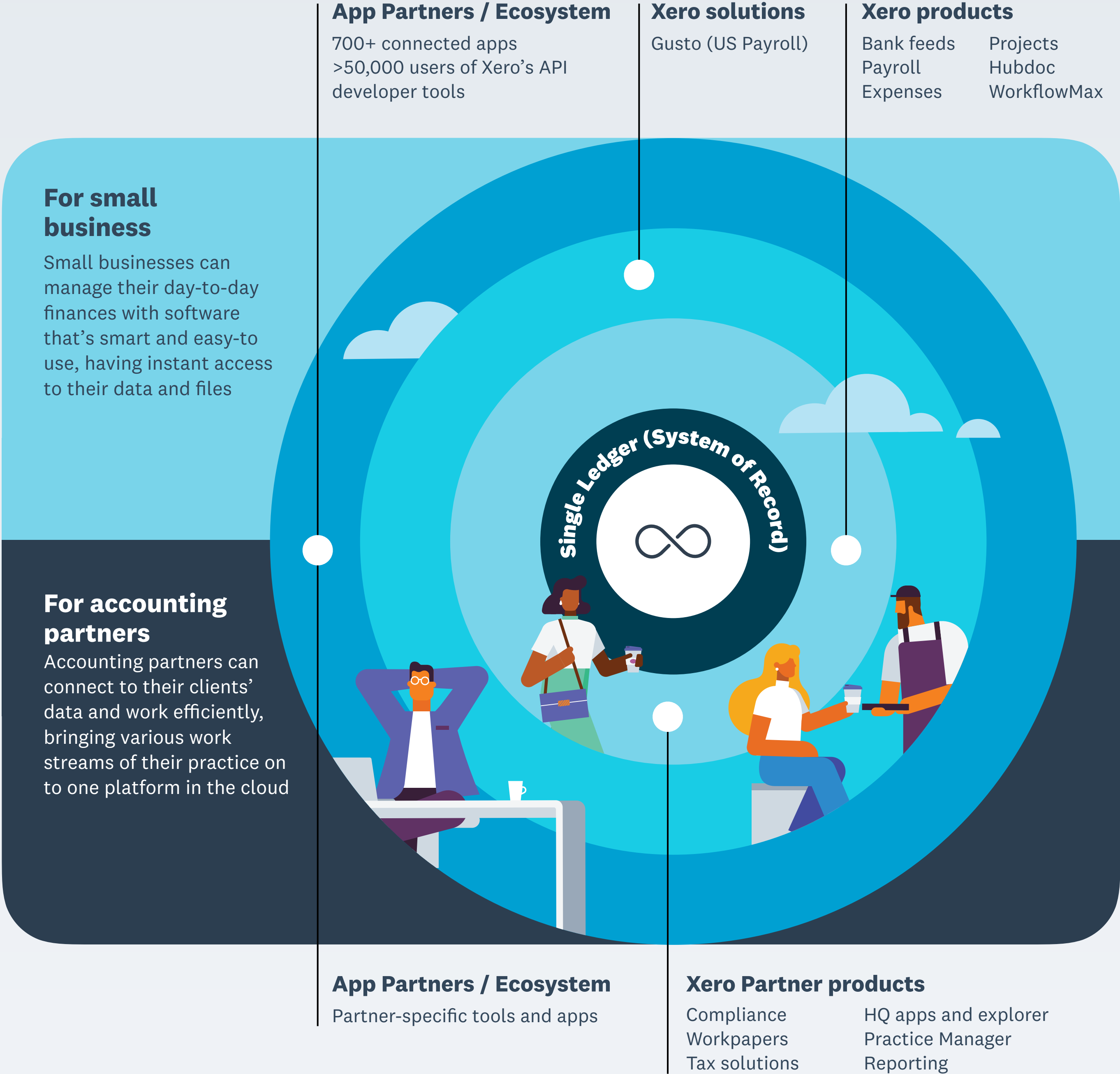
<20%

Global

FY19 subscriber additions by geography

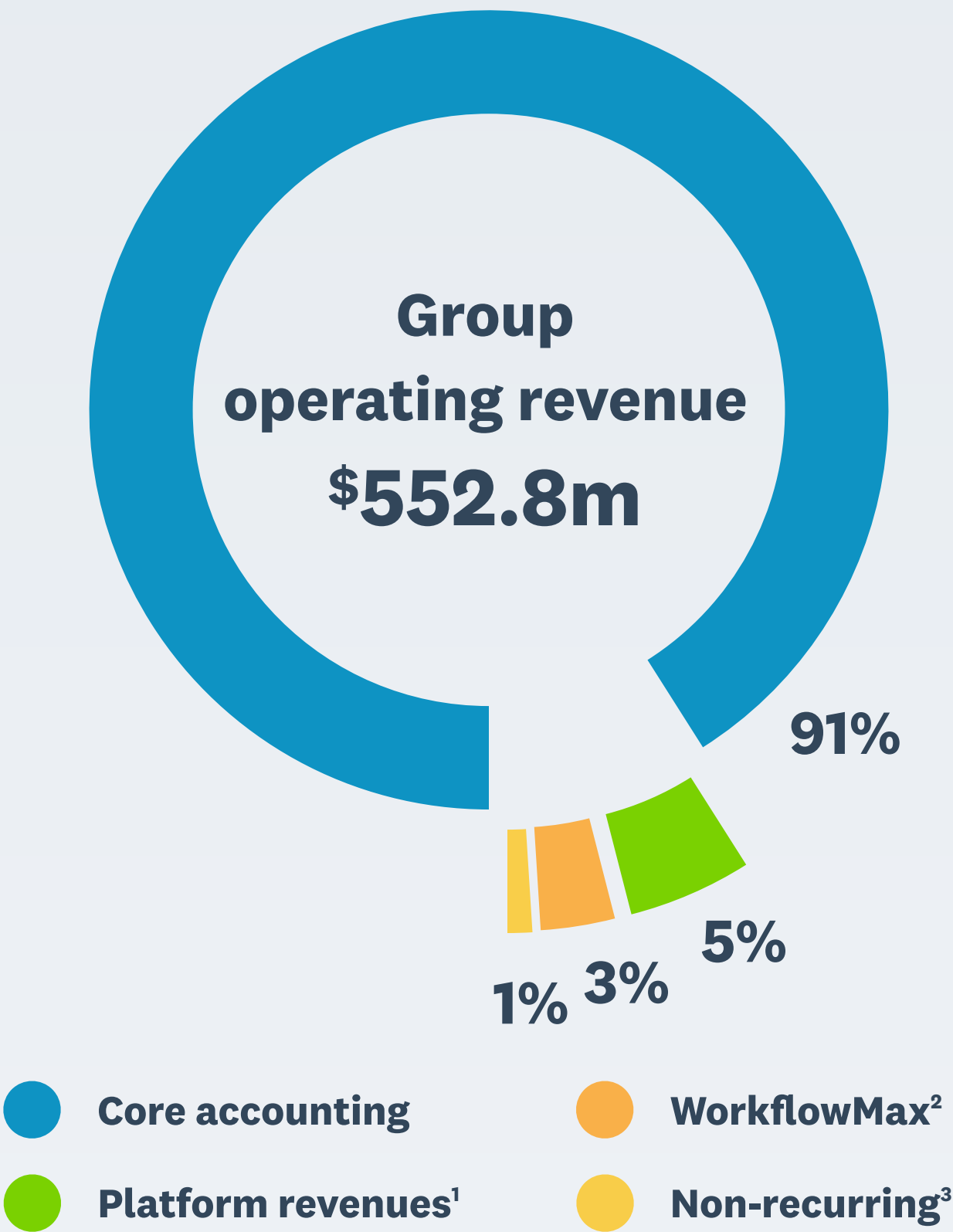


Grow small business platform

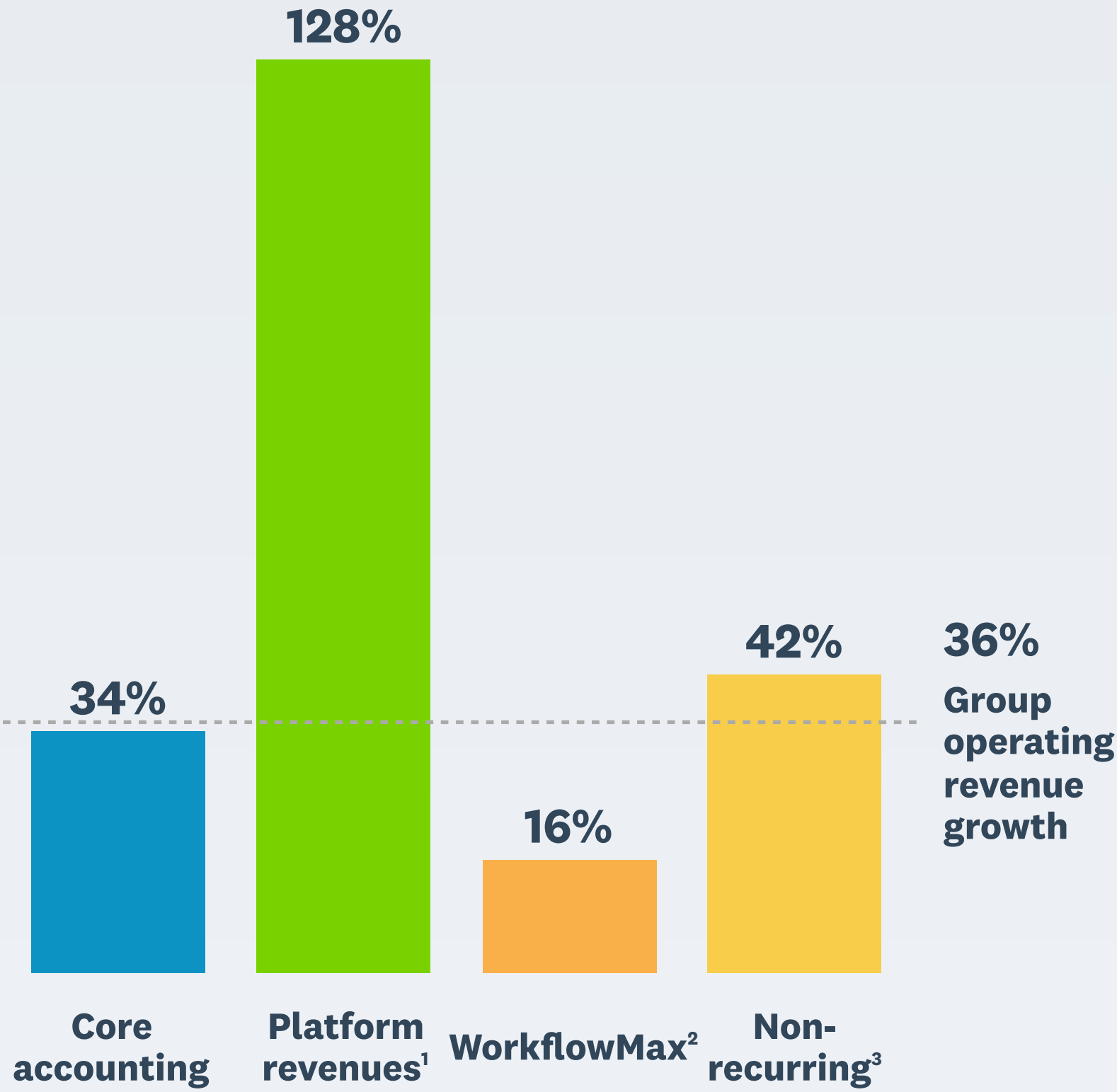


Grow small business platform

Revenue composition



Revenue growth YOY

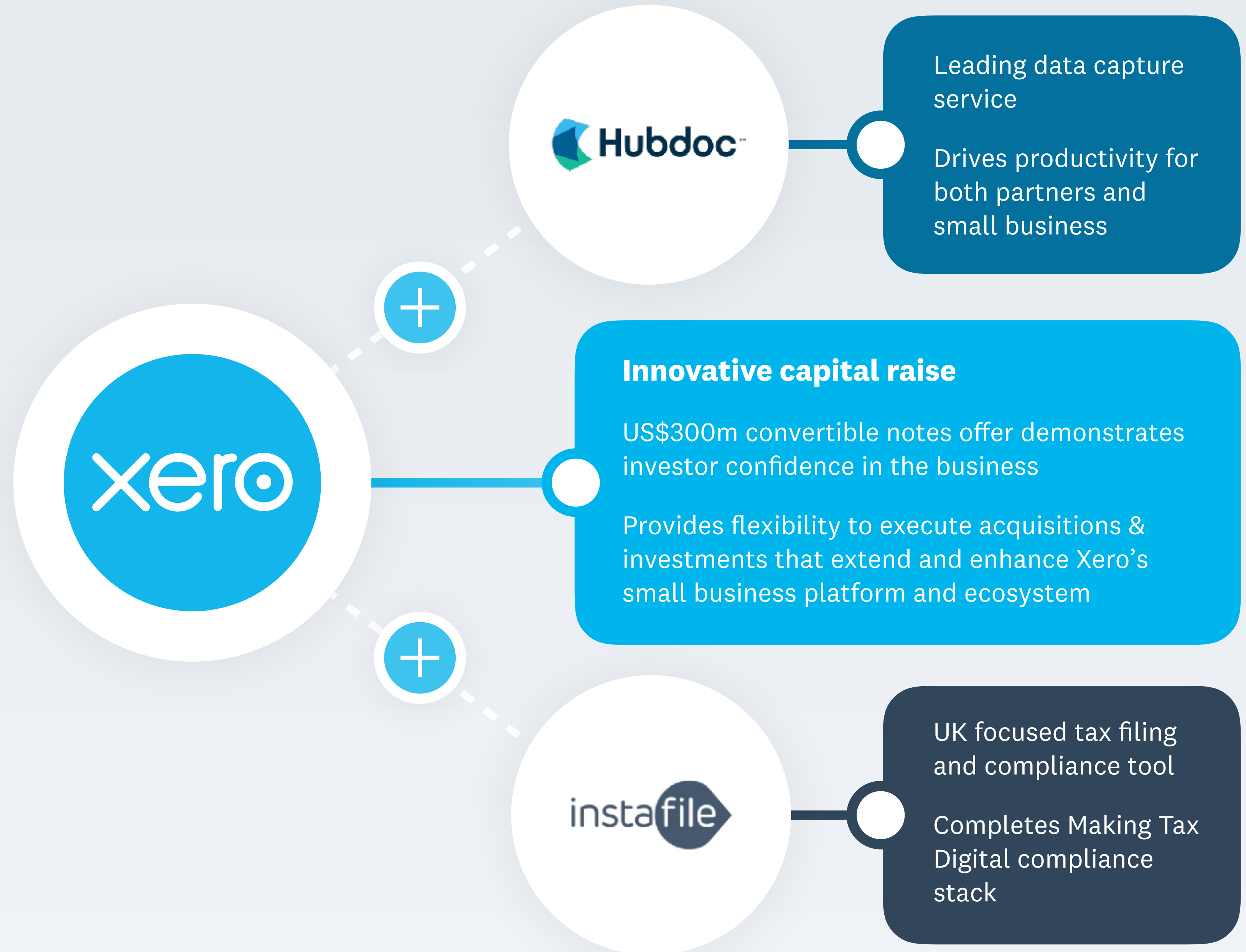


¹ Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), add-ons with incremental revenue (such as payroll and expenses modules) and revenue share agreements with partners

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

Building for global scale and innovation



Xero Leadership Team



Steve Vamos
CHIEF EXECUTIVE OFFICER



Anna Curzon
CHIEF PRODUCT OFFICER



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



Craig Hudson
MANAGING DIRECTOR, NEW
ZEALAND AND PACIFIC ISLANDS



Trent Innes
MANAGING DIRECTOR,
AUSTRALIA AND ASIA



Rachael Powell
CHIEF CUSTOMER, PEOPLE AND
MARKETING OFFICER



Mark Rees
CHIEF TECHNOLOGY OFFICER



Chaman Sidhu
CHIEF LEGAL OFFICER
AND COMPANY SECRETARY



Damien Tampling
CHIEF STRATEGY AND CORPORATE
DEVELOPMENT OFFICER



Gary Turner
MANAGING DIRECTOR,
UNITED KINGDOM AND EMEA



Tony Ward
PRESIDENT OF AMERICAS

Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value

Free cash flow¹ in the financial year to 31 March 2020 is expected to be a similar proportion of total operating revenue to that reported in the financial year to 31 March 2019

¹ 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



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 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 exchange rates for the 12 months ended 31 March 2018. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2018

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 deferral 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

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

GAAP

Generally accepted accounting principles

SBP

Share-based payments

TAM

Total addressable market



Beautiful business

xero.com/investors