

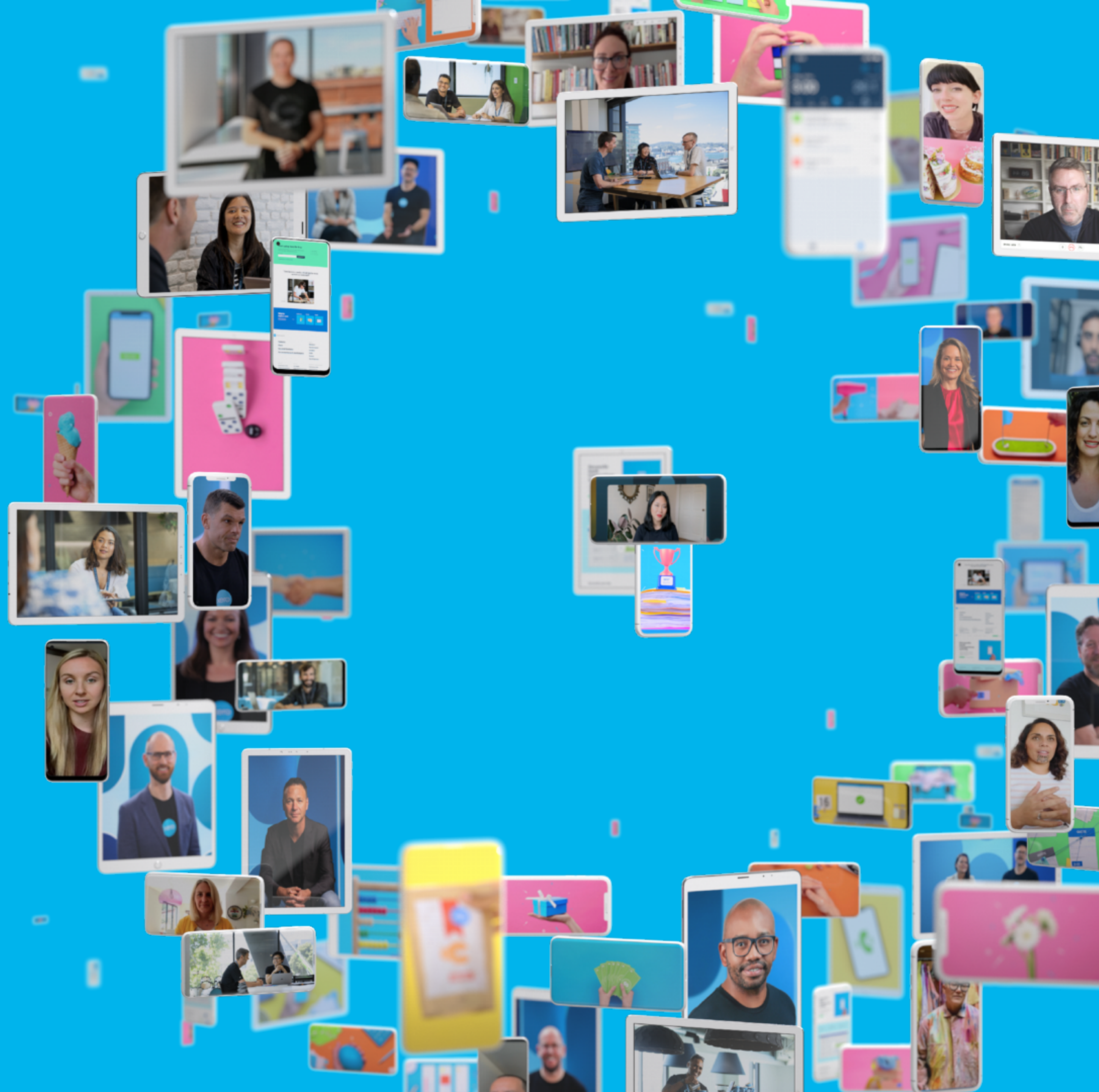
Investor briefing

Full year results to 31 March 2021

13 MAY 2021



Beautiful business



Important notice

This presentation is given 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, 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 2021, 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 2021, 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 28 for a glossary of the key terms used in this presentation.

Authorised for release to the ASX by the Chair of the Board and the Chair of the Audit and Risk Management Committee.

Agenda

Business update



Steve Vamos
CHIEF EXECUTIVE OFFICER

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Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

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Business update



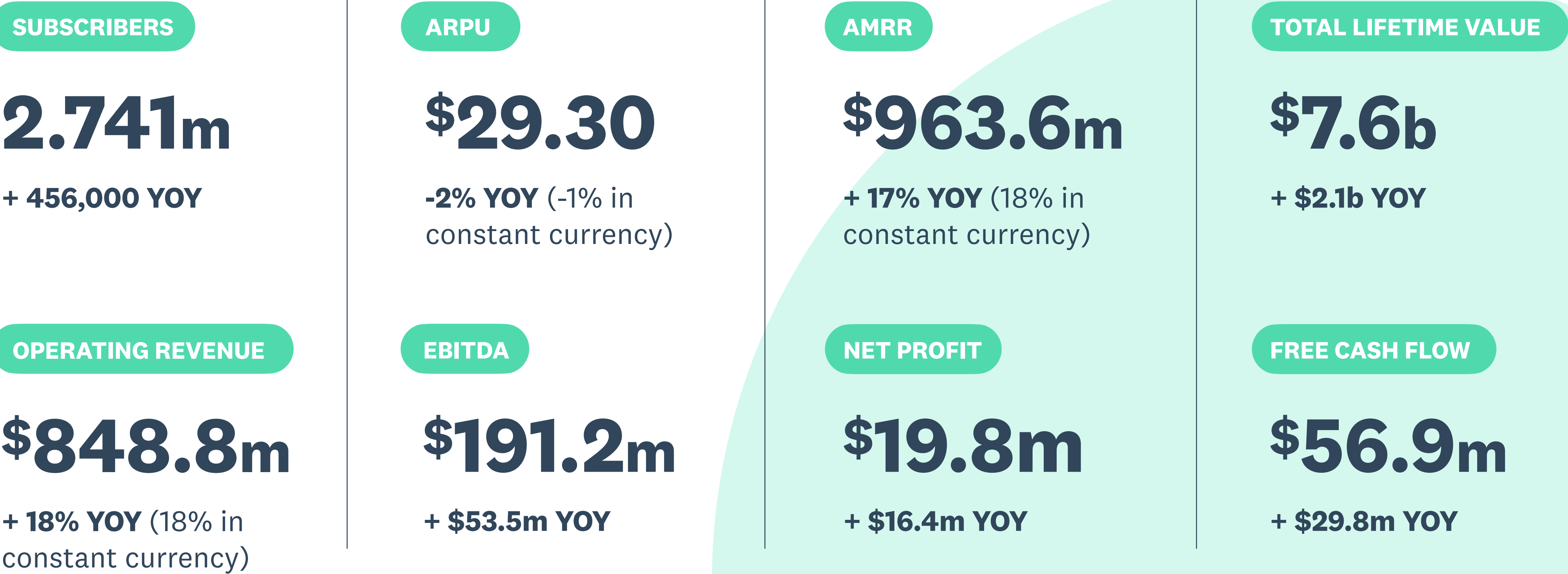
Steve Vamos

CHIEF EXECUTIVE OFFICER



Growing momentum through a challenging year

Financial and operating performance highlights for the full year ending 31 March 2021



Lower churn and increasing customer activity

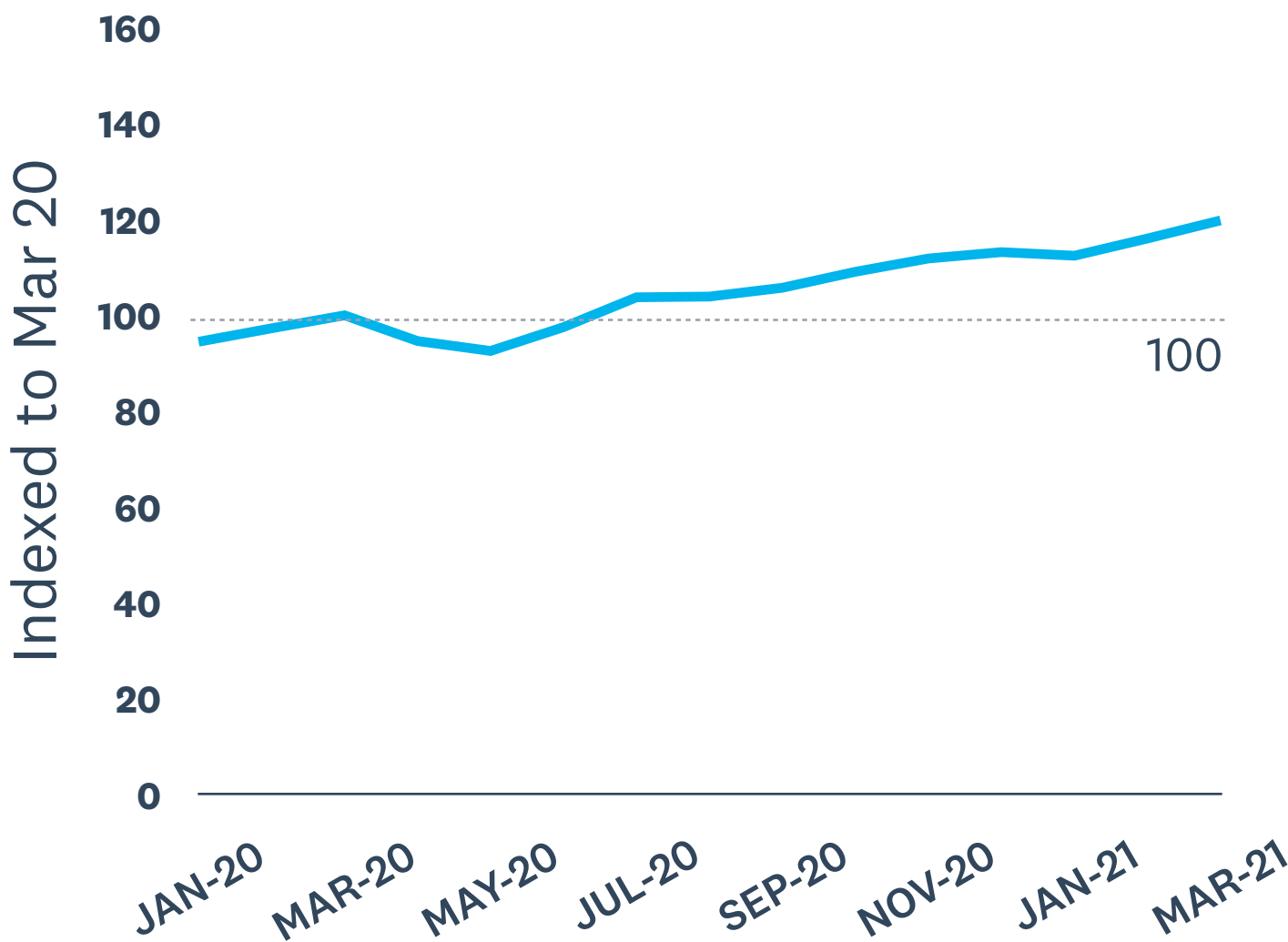
Reduction in churn reflects a number of factors including the value of Xero to our customers in a difficult environment. Customer activity, illustrated below by employees paid and total invoice payments, shows recovery and continued momentum throughout the year



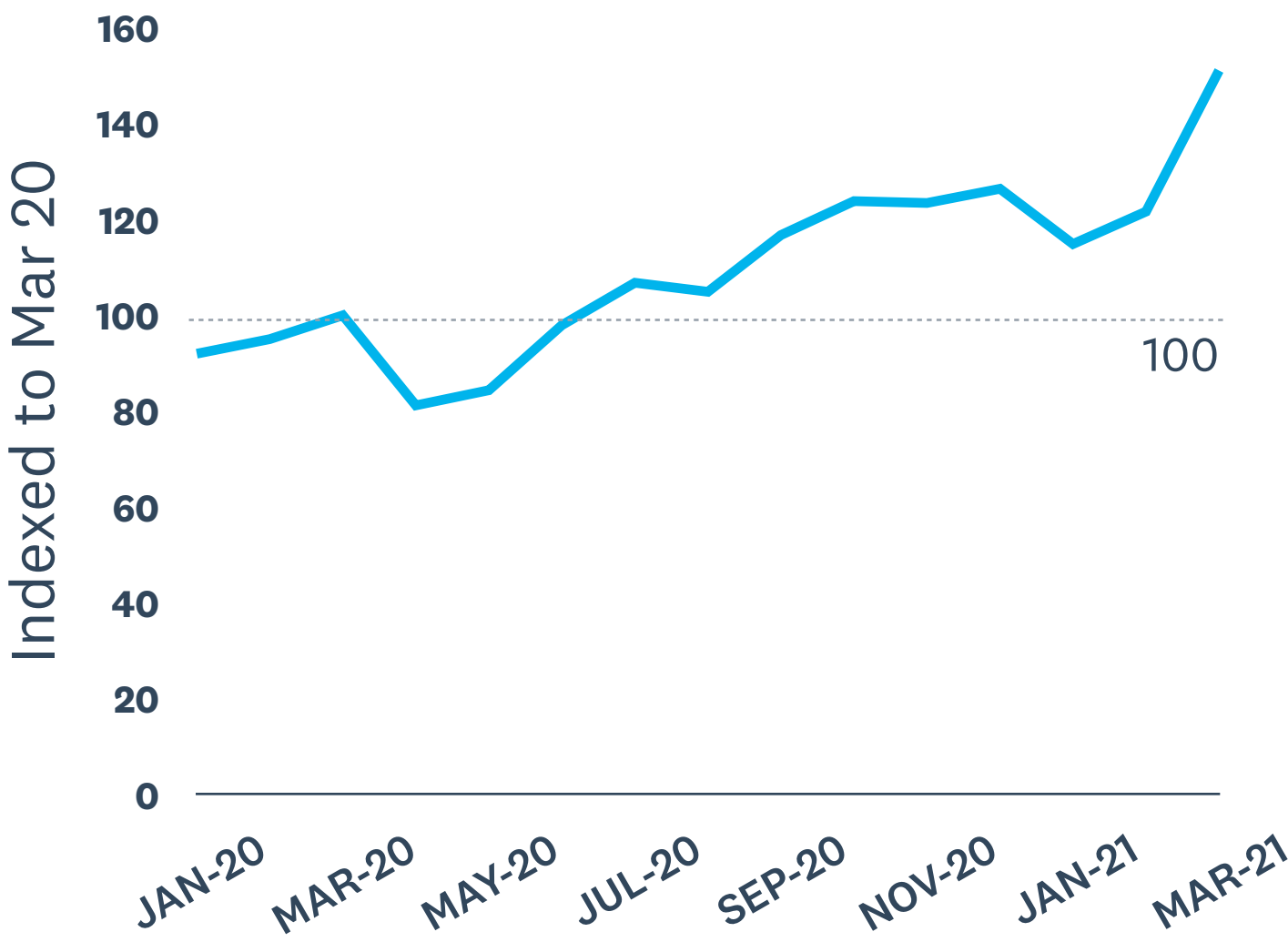
MRR churn¹

	FY20	FY21	Δ YOY
ANZ	0.84%	0.73%	-0.11pp
International	1.59%	1.43%	-0.16pp
Group	1.13%	1.01%	-0.12pp

Total employees paid through Xero²

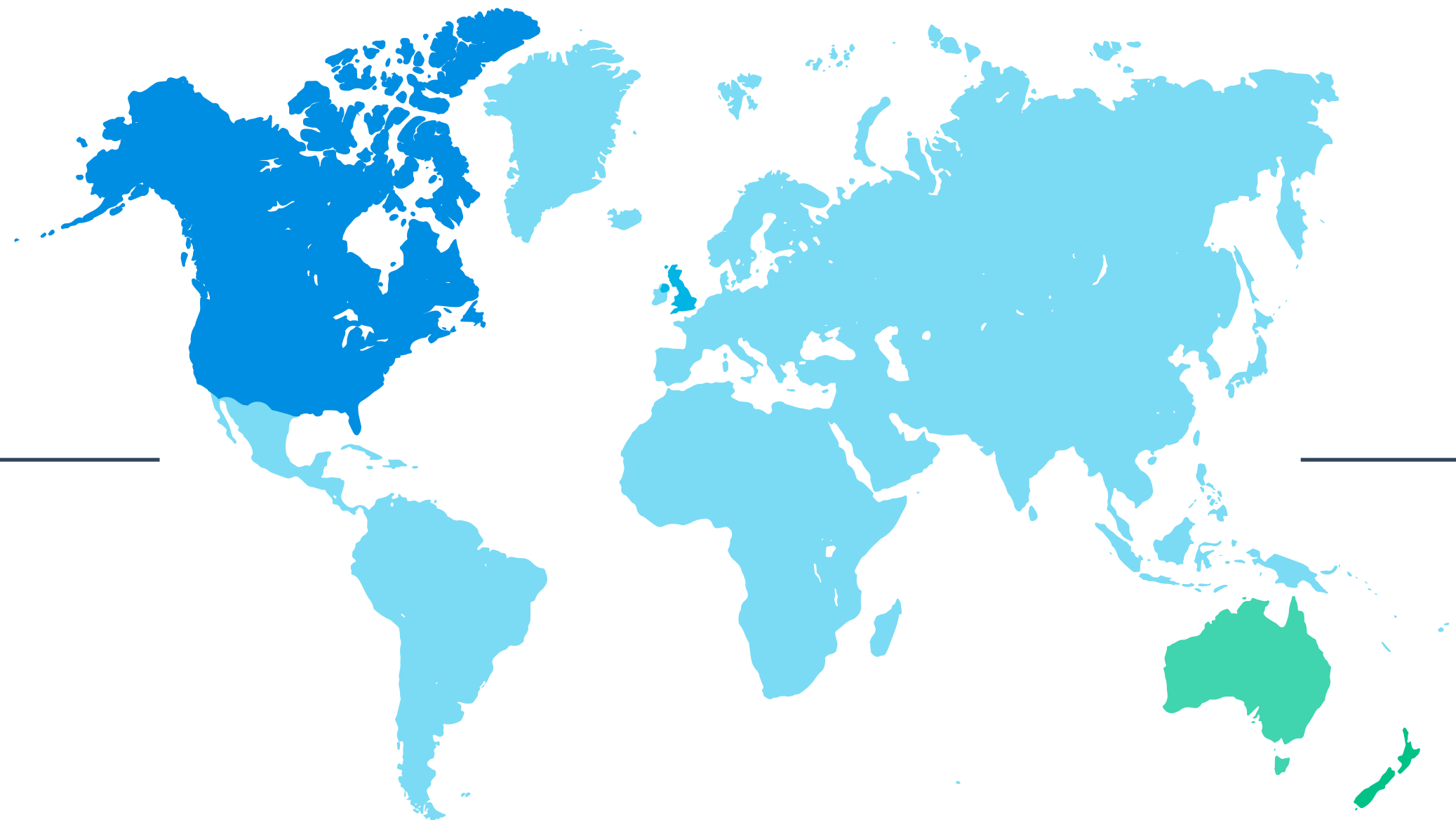


Total payment value³



¹ See glossary on page 28 for definition of churn
² Monthly total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)
³ Total monthly invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

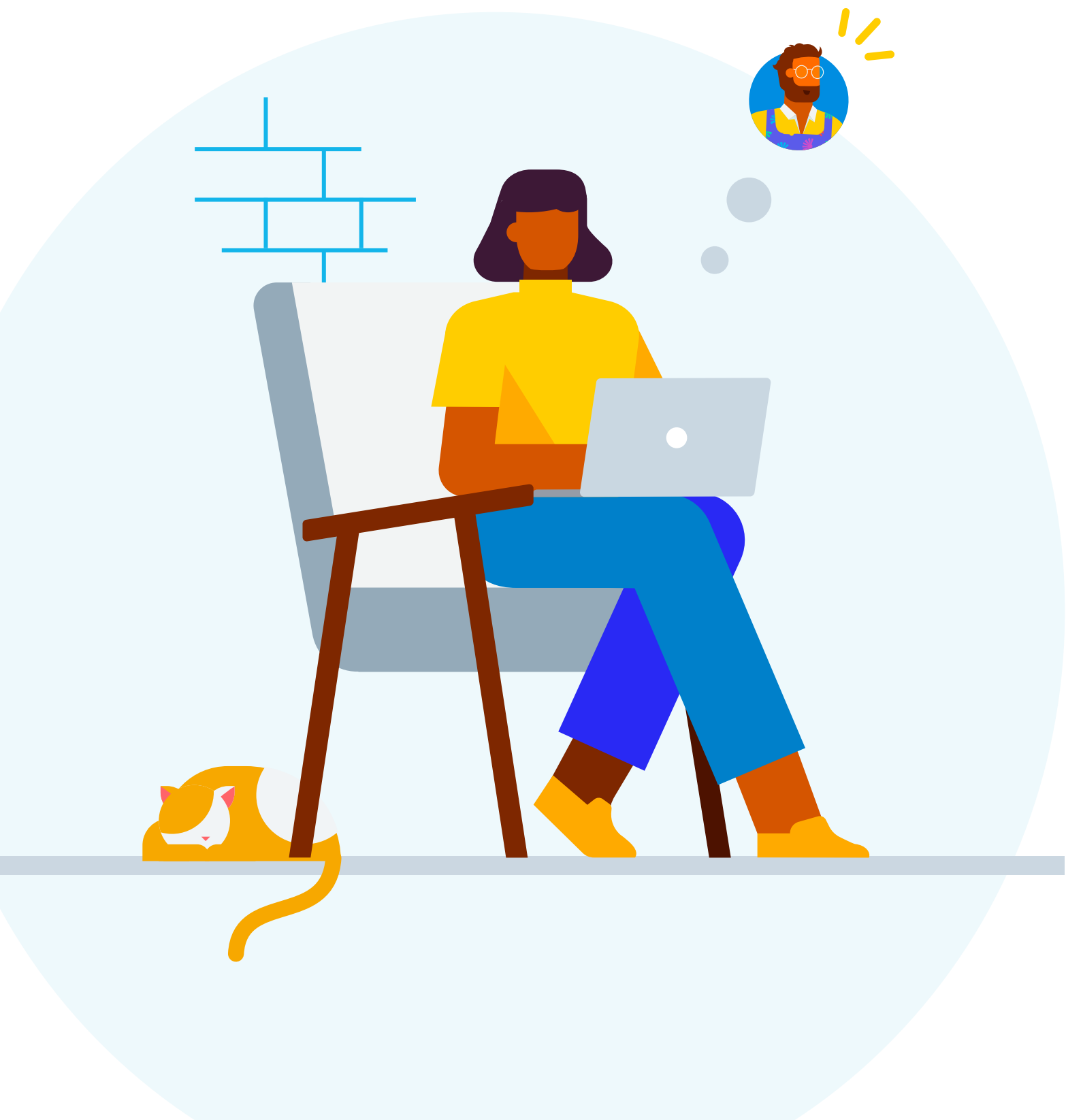
Drive cloud accounting



ANZ					International					
	Australia		New Zealand		United Kingdom		North America		Rest of World	
	FY21	Δ YOY	FY21	Δ YOY	FY21	Δ YOY	FY21	Δ YOY	FY21	Δ YOY
Subscribers	1.12m	+22%	446k	+14%	720k	+17%	285k	+18%	175k	+40%
Net additions	201k	+7%	54k	+32%	107k	-29%	44k	-4%	50k	+19%
Revenue	\$384m	+20%	\$130m	+12%	\$224m	+22%	\$57m	+2%	\$54m	+27%
1.56M SUBSCRIBERS (+20% YOY) 255k NET ADDS					1.18M SUBSCRIBERS (+21% YOY) 201K NET ADDS					
CLOUD ACCOUNTING SUBSCRIBER TAM 45M+ ADOPTION 20% ¹										

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

Australia and New Zealand highlights



Australia

- Record subscriber net additions in FY21
- Increased partner channel cloud adoption
- Launched Online Business Lending app integration with ANZ Bank
- Price change effective 1 March 2021

	FY21	Δ YOY
Subscribers	1.12m	+22%
Net additions	201k	+7%
Revenue	\$384m	+20% ¹

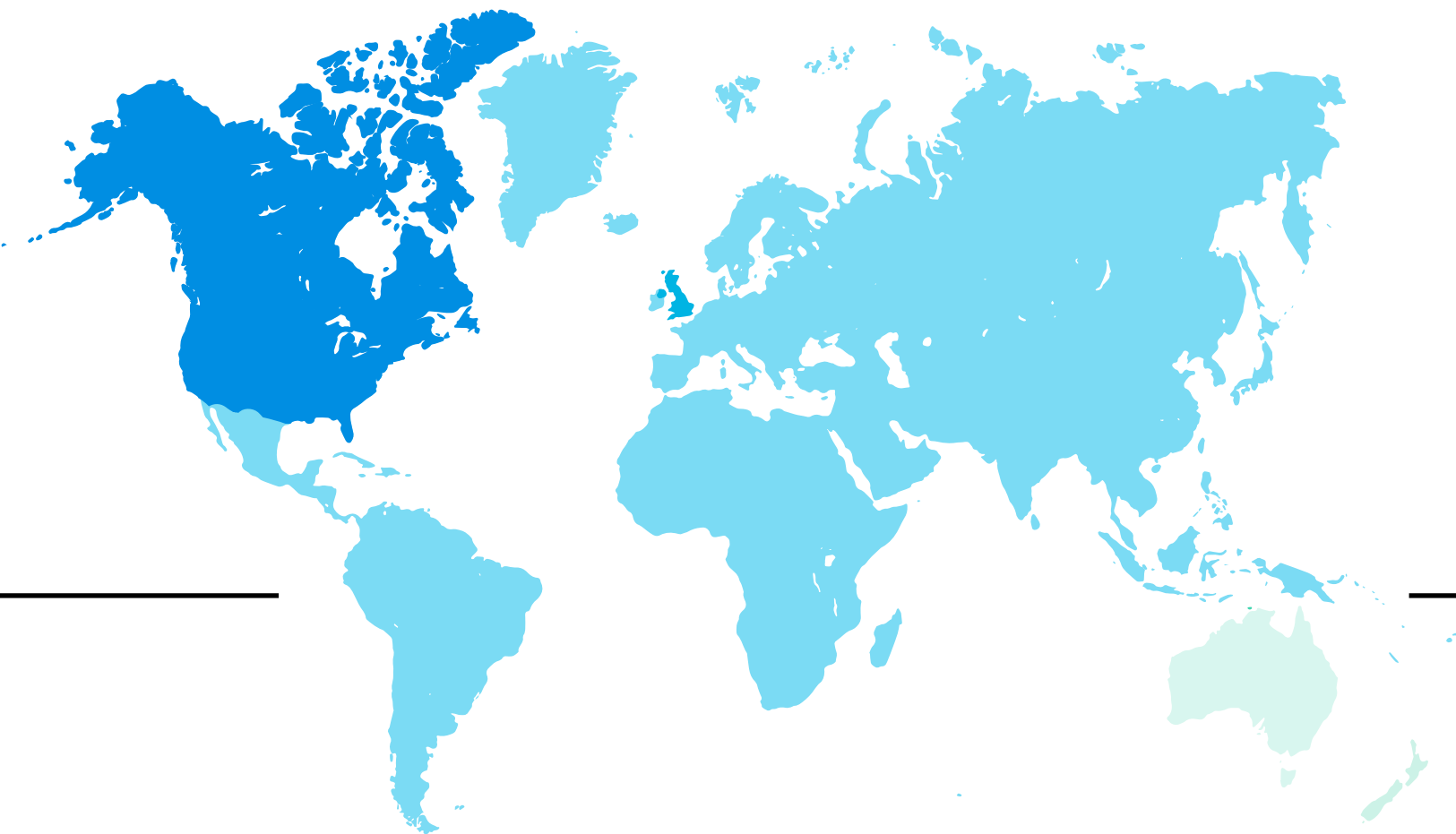
New Zealand

- Strongest subscriber net additions in three years
- Partner cloud adoption remained elevated throughout FY21
- Reflecting a more normal operating environment, resumed in-person events eg Xero Awards

	FY21	Δ YOY
Subscribers	446k	+14%
Net additions	54k	+32%
Revenue	\$130m	+12%

¹ Revenue growth 18% YOY constant currency

International highlights



United Kingdom

- Second best net additions ever in a half year period in H2 FY21
- Investment in readiness for next phases of MTD for VAT and Income Tax
- Continued execution of compliance product strategy including partner testing for Personal Tax

	FY21	Δ YOY
Subscribers	720k	+17%
Net additions	107k	-29%
Revenue	\$224m	+22% ¹

1 Revenue growth 23% YOY constant currency

North America

- Record subscriber net additions² in a half year period in H2 FY21
- Continued growth in partner channel capacity³ in the year with partner channel activation
- Price change in US effective 14 December 2020
- Introduced CAD billing in Canada

	FY21	Δ YOY
Subscribers	285k	+18%
Net additions	44k	-4%
Revenue	\$57m	+2% ⁴

2 Excluding acquisitions

3 Estimated 1.5 million+ small businesses

4 Revenue growth 6% YOY constant currency

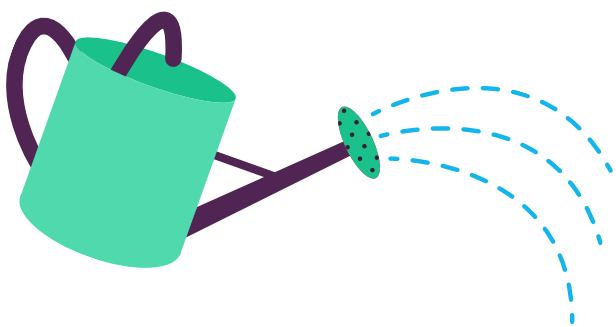
Rest of World

- Bank feed coverage live across major banks in Singapore
- Acquired e-invoicing app Invoici in Singapore
- Bank feed agreements signed with Nedbank and Investec in South Africa
- Announced VAT e-filing trial in South Africa

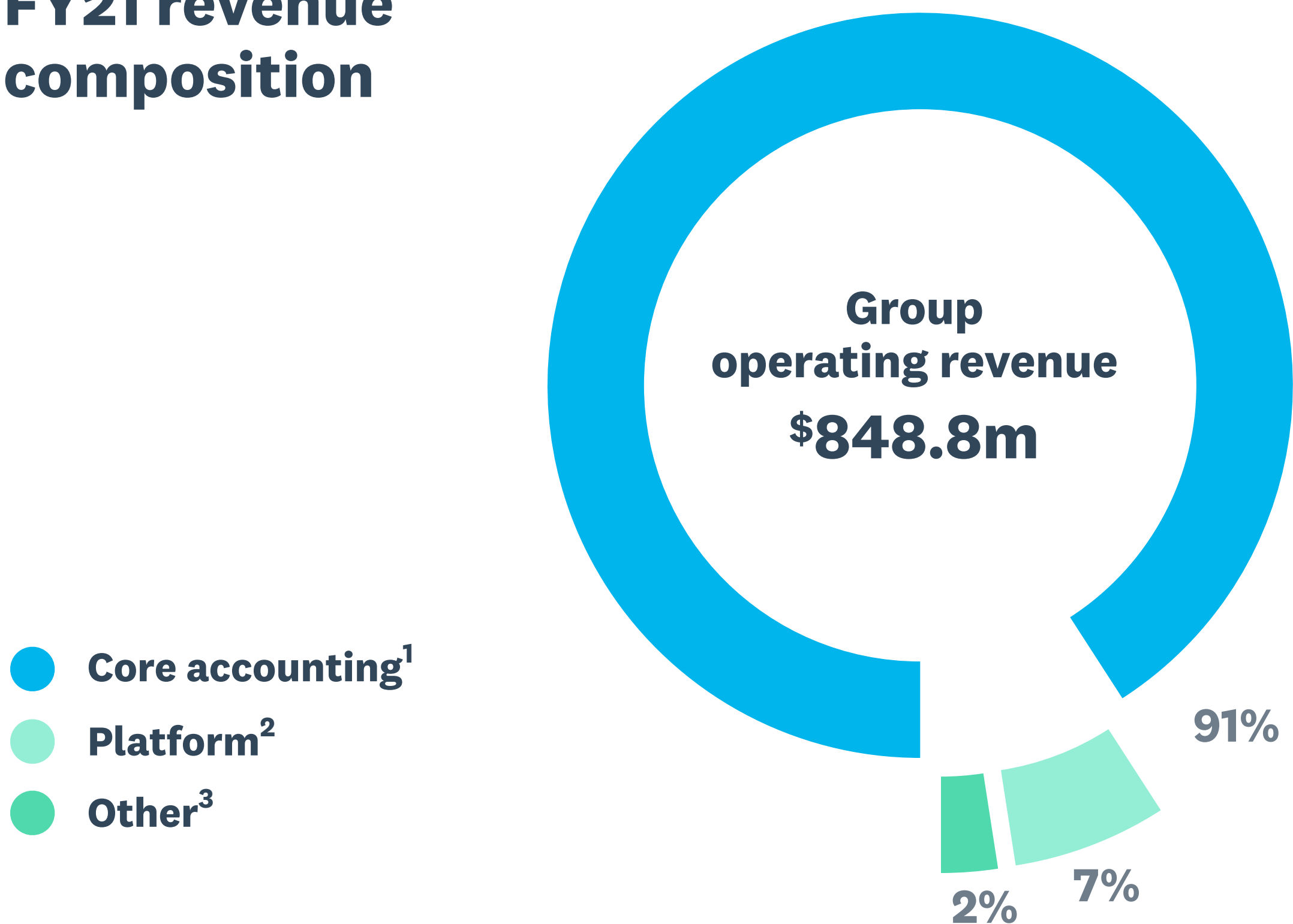
	FY21	Δ YOY
Subscribers	175k	+40%
Net additions	50k	+19%
Revenue	\$54m	+27% ⁵

5 Revenue growth 32% YOY constant currency

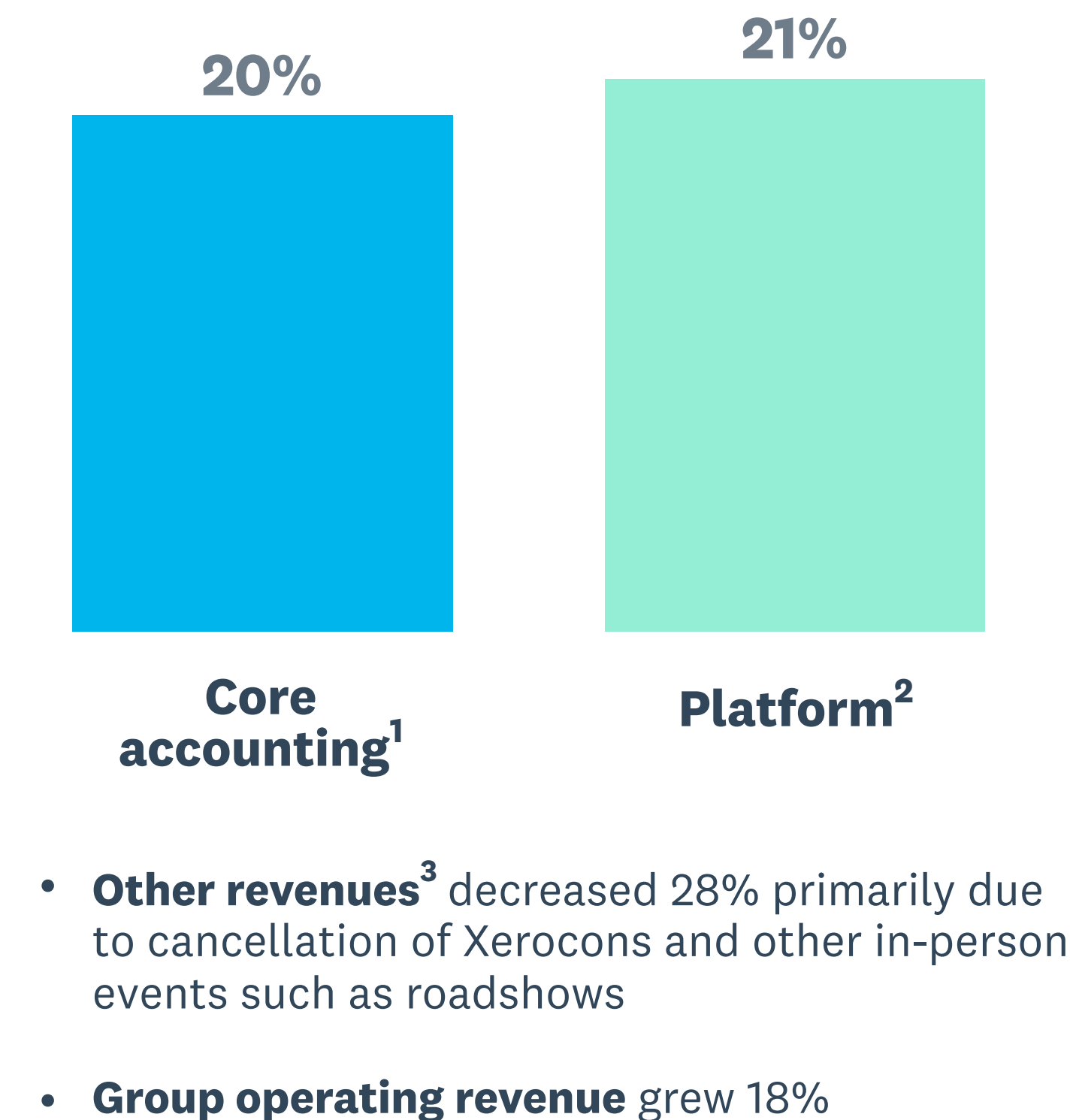
Grow the small business platform



FY21 revenue composition



FY21 revenue growth YOY



¹ Bundled Hubdoc is included in core accounting revenue

² Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc subscriptions on other accounting platforms) and add-ons with incremental revenue (such as payroll, projects and expenses modules), payments and revenue share agreements with partners

³ Other comprises non-recurring revenues and WorkflowMax. Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services. WorkflowMax is online workflow and job management software. Non-recurring revenues decreased 80% YOY and WorkflowMax related revenues increased by 3% YOY

Build for global scale and innovation

Talent acquisition continued throughout the period in line with strategic objectives

- More than 550 new employees¹
- Enhanced capabilities in product, technology, data, strategy, financial services, corporate development, risk
- Named one of the 'Best Places to Work in Australia and New Zealand' in 2021 by AFR BOSS Magazine in the technology category



Optimisation of operational and financial structure to meet strategic needs of the business

- Issued US\$700m in convertible notes and repaid existing notes, with net funds raised US\$408m
- Funds raised supported three acquisitions over the year (Waddle, Planday, Tickstar)
- Enhanced platform security infrastructure and foundations for greater automation and an improved operating model for security
- Customer and go-to-market teams more globally aligned

Building stakeholder trust by embedding social and environmental impact activities across the business to support sustainable long-term growth



¹ Net new full-time equivalent employees

Financial results

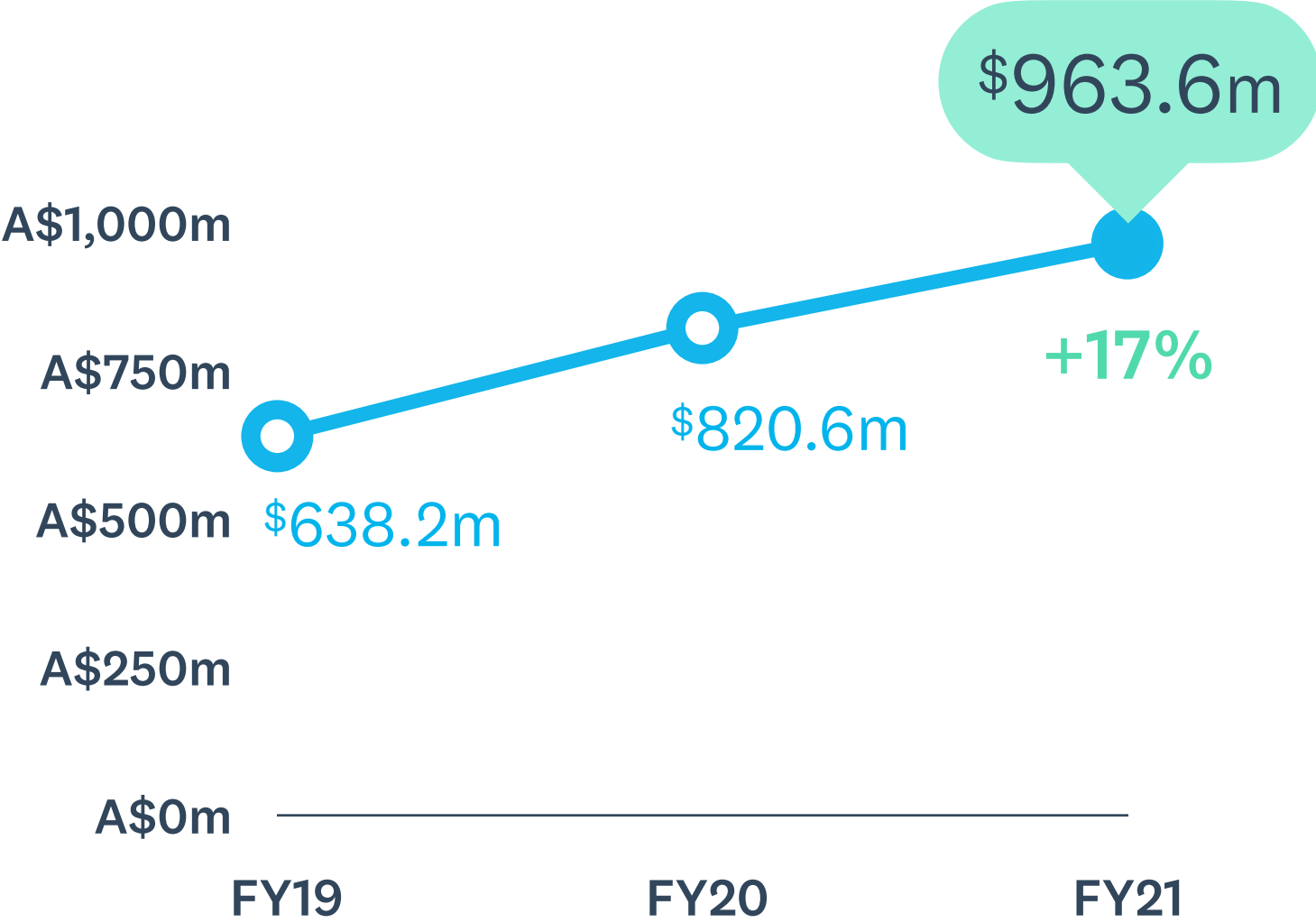


Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



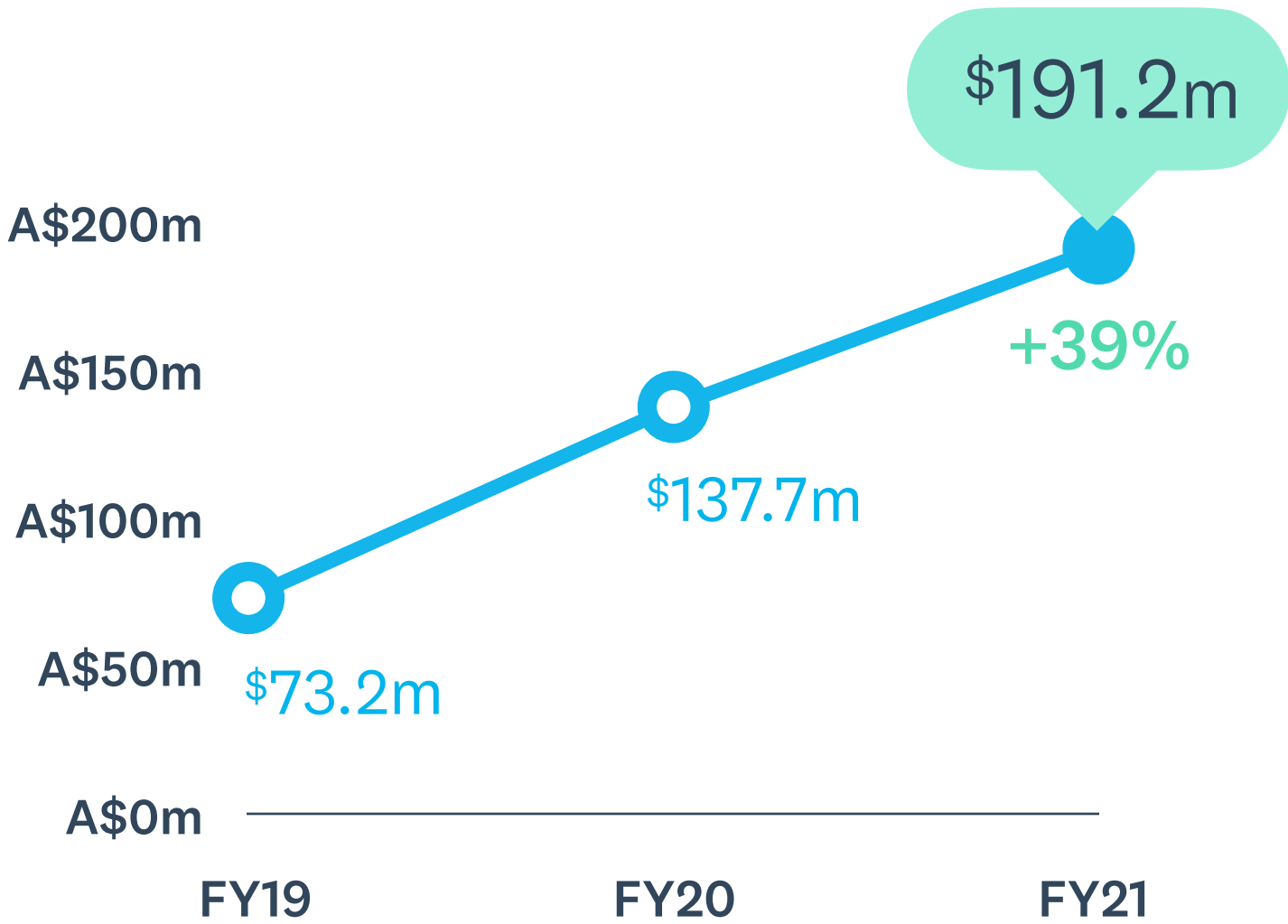
Responsive spending and investment plan to support growth under changing conditions

AMRR



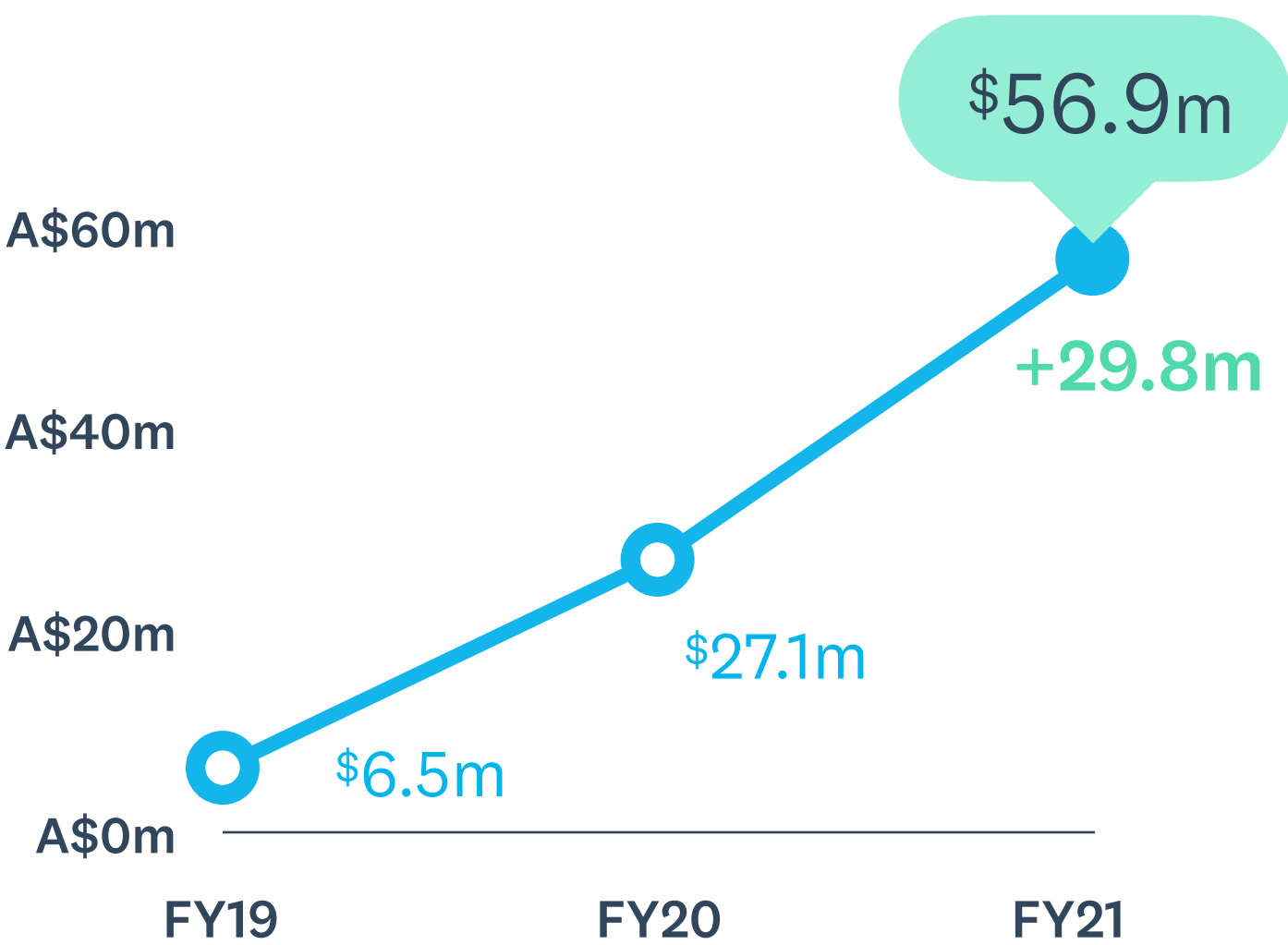
Growth in AMRR of \$143m or 17% YOY (18% in constant currency) was driven by subscriber growth of 20%, offset by a decrease in ARPU of 2% YOY (-1% YOY in constant currency)

EBITDA



EBITDA increased by \$53.5m or 39% YOY, reflecting strong revenue growth and a decision to reduce sales and marketing spend during the H1 FY21, against a backdrop of COVID-19 uncertainty

Free cash flow



Free cash flow increased by \$29.8m to \$56.9m. Free cash flow as a percentage of revenue increased 2.9pp from 3.8% to 6.7% YOY. H1 free cash flow benefitted from responsive expense management while higher investment levels returned in H2 to support growth

Unit economics and track record of value creation

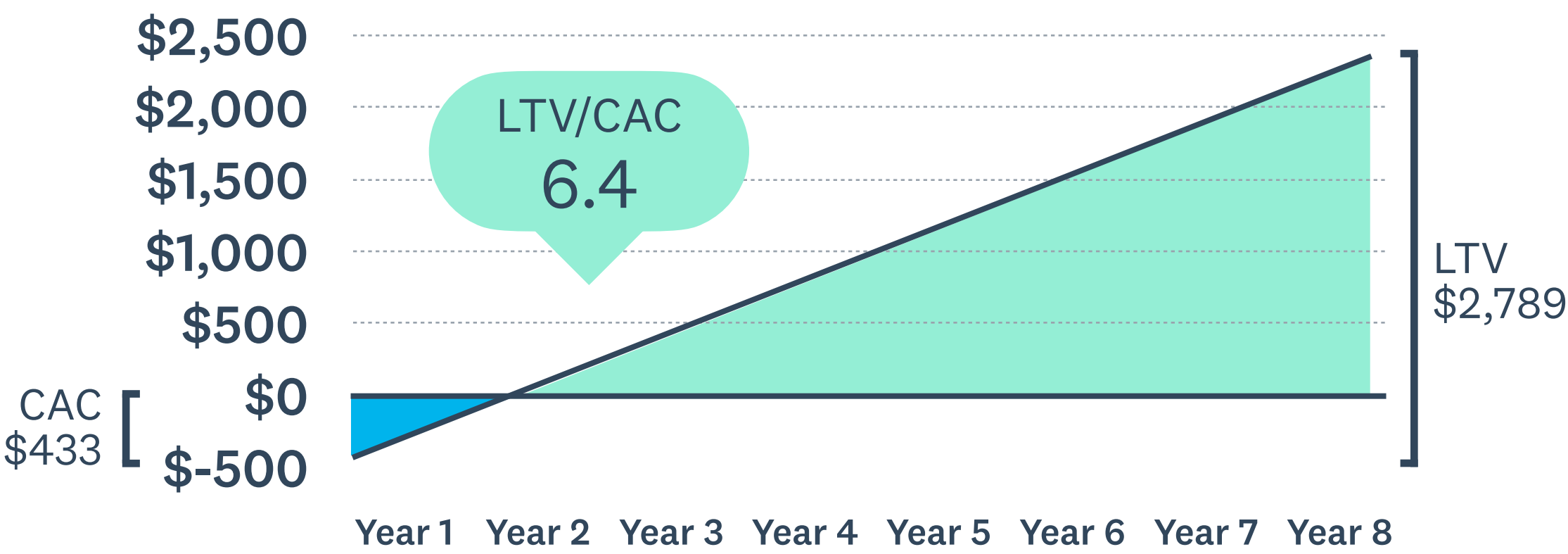
	March 2021	Δ YOY
ARPU	\$29.3	↓
MRR churn	1.01%	↓
Gross margin	86.0%	↑
LTV per subscriber	A\$2,789	15% ¹
LTV/CAC	6.4	↑
CAC months	14.8	↑

LTV CAGR FY16 to FY21 was 36% for ANZ and 46% for International

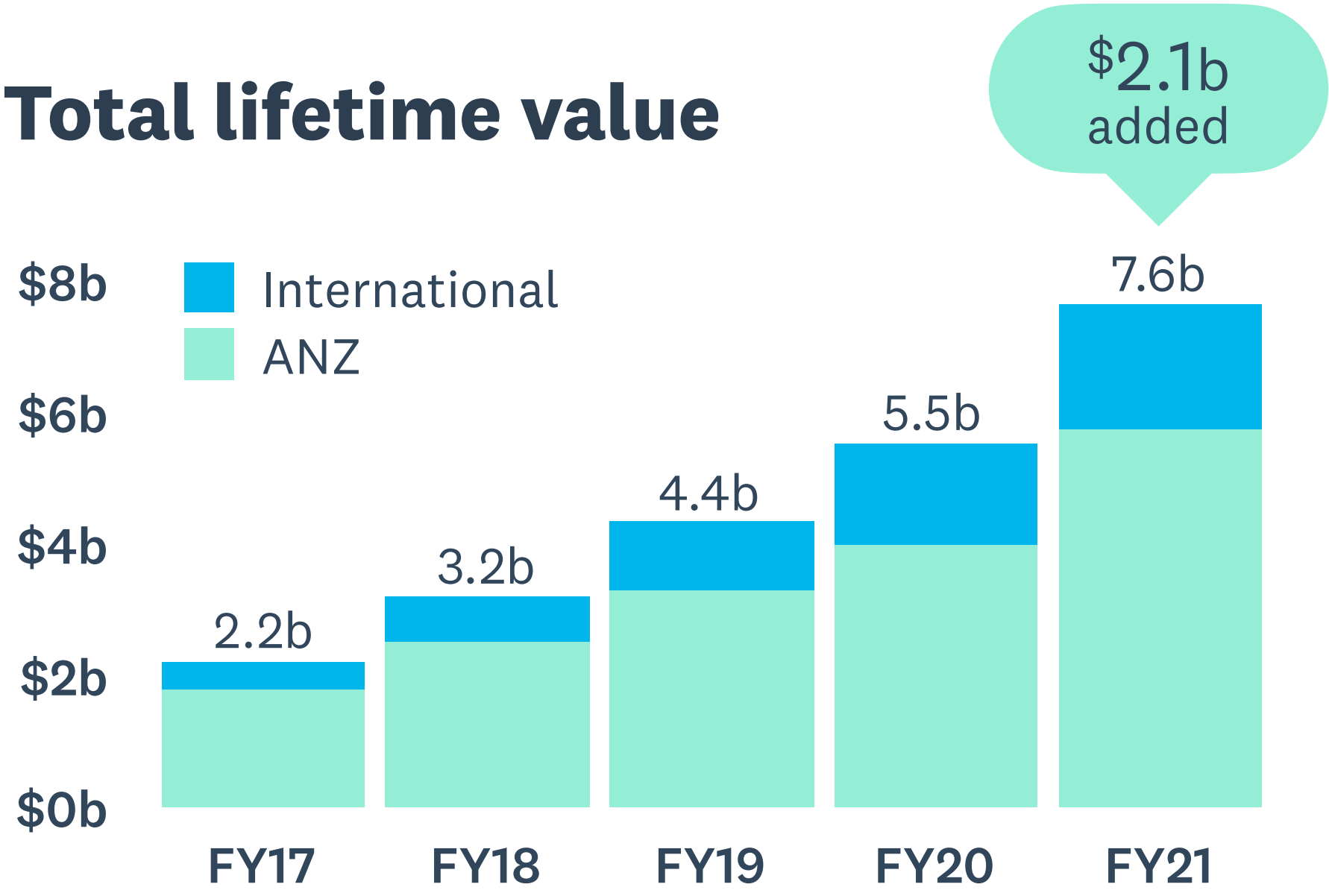
¹ LTV per subscriber growth in nominal terms. 14% increase in constant currency terms based on exchange rates at 31 March 2020

Value of a Xero subscriber

AT 31 MARCH 2021

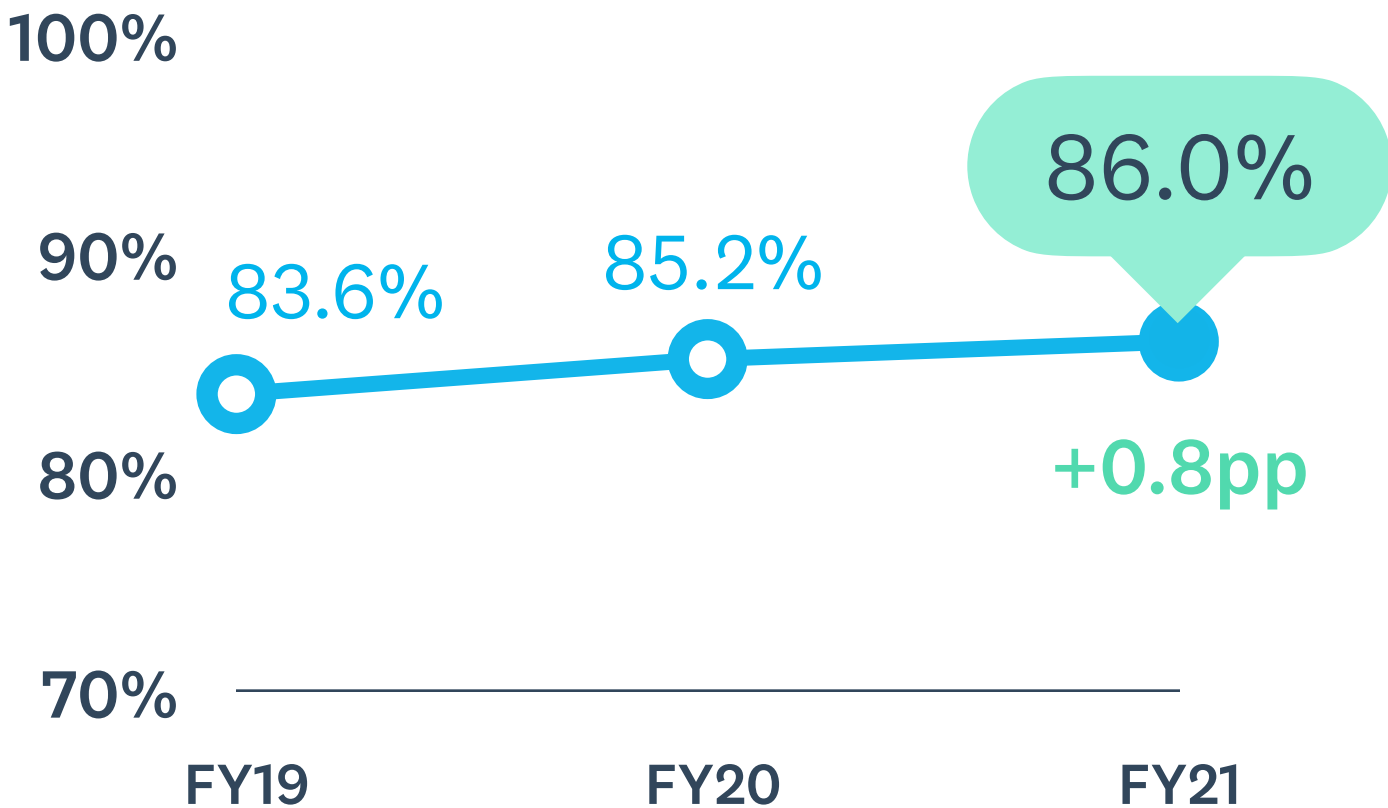


Total lifetime value



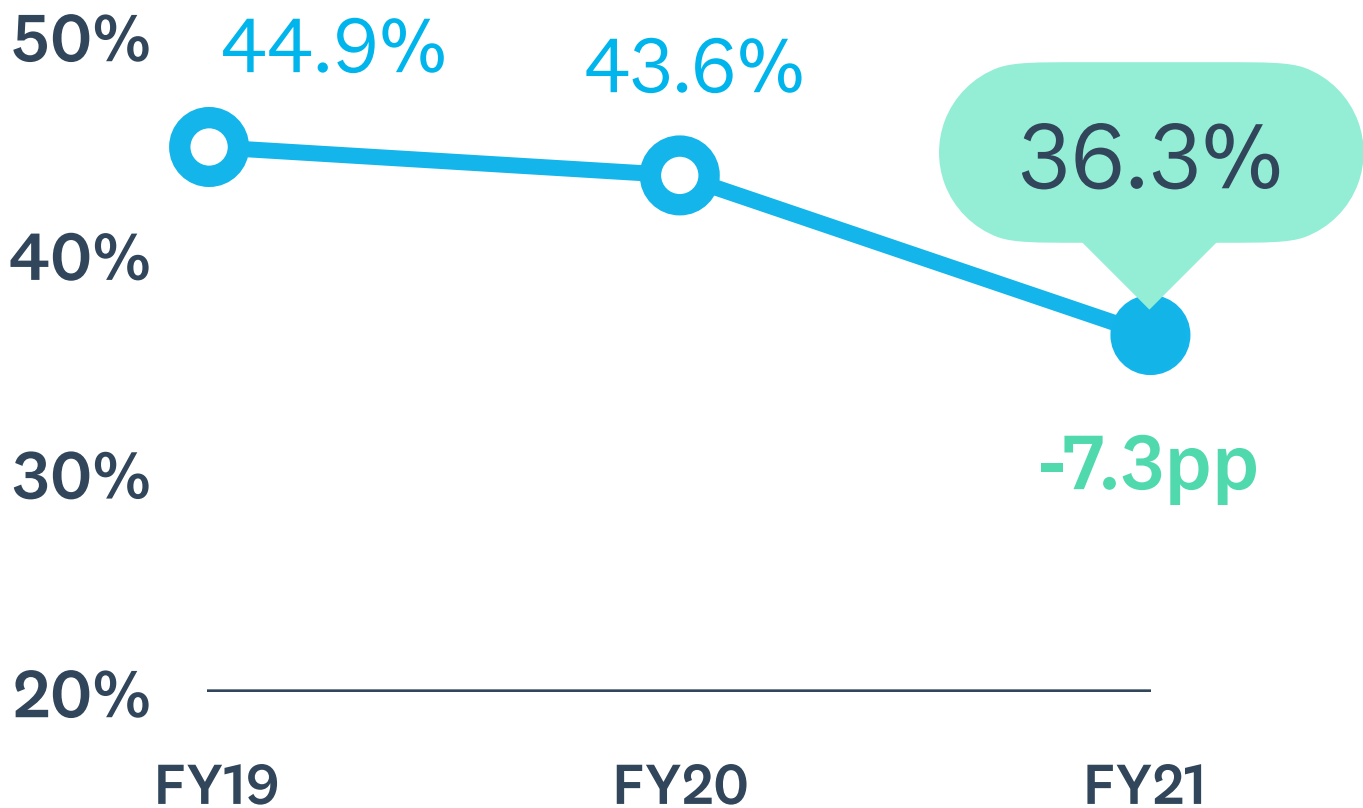
Steady gross margin, dynamic CAC settings and continued growth in product investment

Gross margin



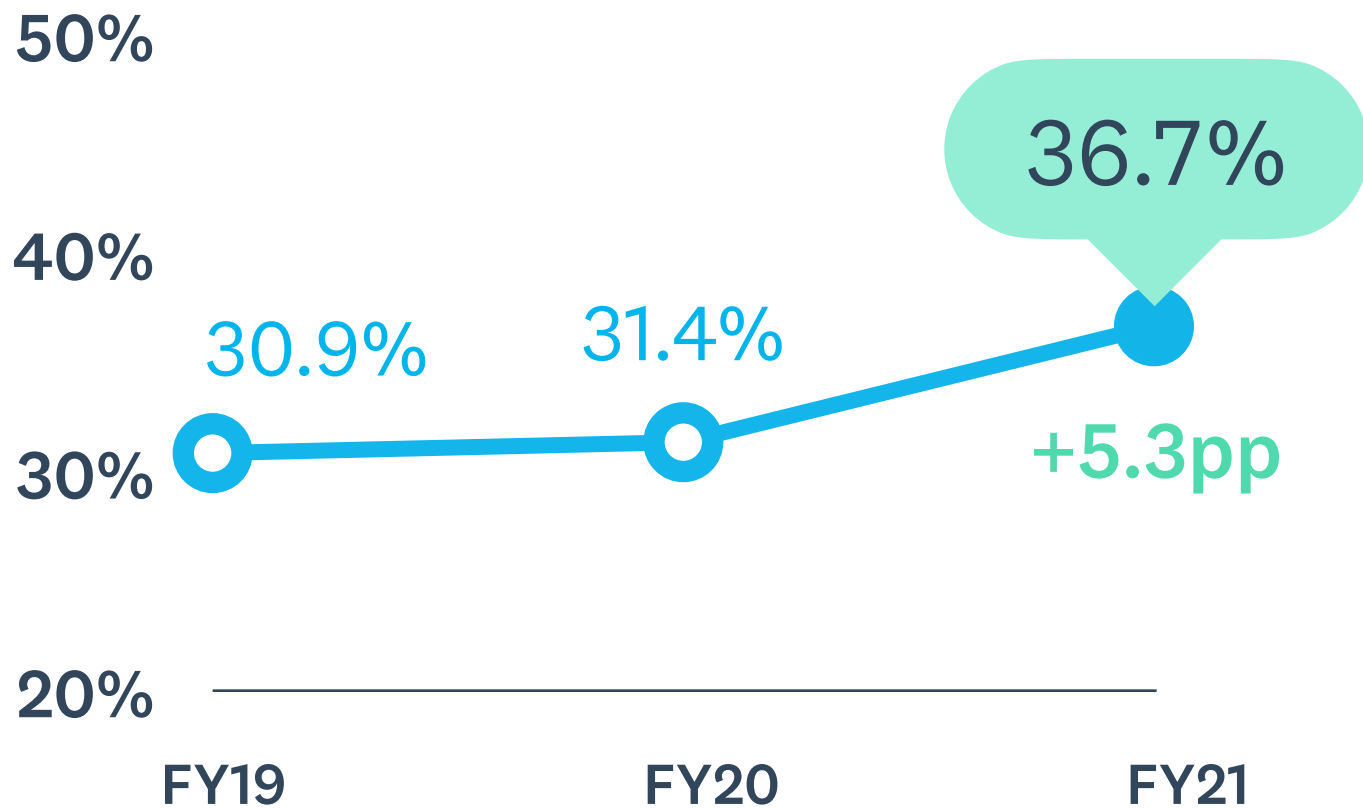
Gross margin improvement driven by continuing efficiencies in cost to serve including customer support, and cloud hosting services

CAC as % of revenue



Sales and marketing costs decreased 2% year on year. As a proportion of revenue, sales and marketing costs decreased 7pp to 36%. This reflected a deliberate reduction in H1 spend that returned to higher levels to support higher growth in H2

Product costs including opex and capex, as % of revenue¹



Product investment increased in FY21 by 38% YOY to support longer-term strategic priorities and related technological and customer needs

Financial performance

Operating revenue growth of 18% YOY (18% constant currency), driven primarily by subscriber growth across all markets

EBITDA improved \$53.5m YOY, resulting in a 3.3pp increase in EBITDA margin over the period due to revenue growth and responsive expense management

Full year net profit of \$19.8m was impacted by two one-offs that had a net negative impact of \$7.8m, comprising

- Recognition of a deferred tax asset: +\$65.0m
- Losses and transaction costs related to convertible notes¹: -\$72.8m

¹ Losses and transaction costs related to Xero's concurrent issuance of 2025 convertible notes and buy back of 2023 convertible notes

	FY20 (\$000s)	FY21 (\$000s)	Δ YOY (%)
Total operating revenue	718,231	848,782	18%
Gross profit	611,649	729,889	19%
Gross margin	85.2%	86.0%	+0.8pp
Sales & marketing costs	(312,852)	(307,948)	-2%
Product design & development	(178,258)	(249,532)	40%
General & administration	(88,980)	(106,345)	20%
Total operating expenses	(580,090)	(663,825)	14%
Asset impairments and other income & expenses	(1,123)	(4,377)	NM
Operating profit	32,682	61,687	89%
EBITDA	137,743	191,228	39%
EBITDA margin	19.2%	22.5%	+3.3pp
Net profit	3,336	19,774	NM

Total liquid resources of \$1.3 billion

Net cash position more than doubled to \$256.6m at 31 March 2021

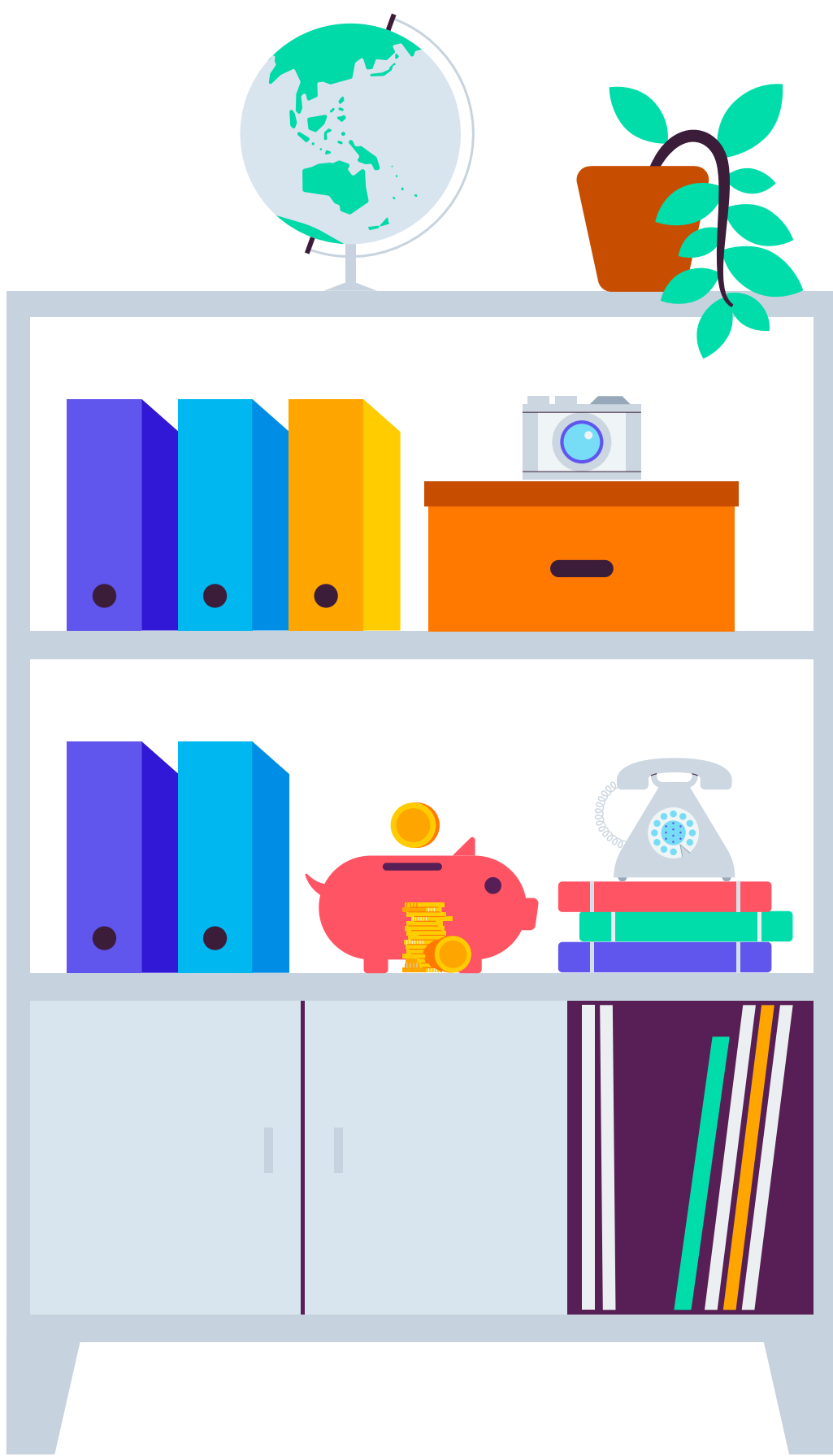
Total available liquid resources at 31 March 2021 of \$1.3b, inclusive of \$150m of undrawn committed debt facilities

Net US\$408m (\$577m) additional capital raised in November through new US\$700m zero-coupon convertible notes issue, offset by early repayment of existing 2023 convertible notes

Initial payments of \$150m on completion of Planday and Tickstar acquisitions occurred post balance date, on 1 April 2021

Movement in net cash position

	FY20 (\$000s)	FY21 (\$000s)	Δ YOY (\$000s)
Cash and cash equivalents	108,027	657,849	549,822
Short-term deposits	428,052	452,814	24,762
Total cash and short-term deposits	536,079	1,110,663	574,584
Convertible notes – term debt liability	(424,587)	(854,078)	(429,491)
Net cash	111,492	256,585	145,093



Strategy update



Steve Vamos

CHIEF EXECUTIVE OFFICER



Strategic priorities

**Drive cloud
accounting**



**Grow small
business
platform**



**Build
for global
scale and
innovation**



Progress on acquisitions in FY21

ACQUISITION



Invoice lending platform leveraging customers' accounting data

Completed 1 October 2020



Workforce management platform for employers and employees

Completed 1 April 2021



E-invoicing technology providing connections to the Peppol global e-invoicing network

Completed 1 April 2021

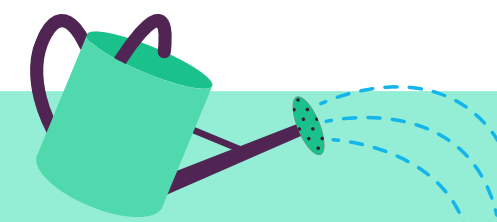
CONSIDERATION¹

A\$80 million (\$87m)

€183.5 million (\$305m)

SEK150 million (\$25m)

STRATEGIC PRIORITIES



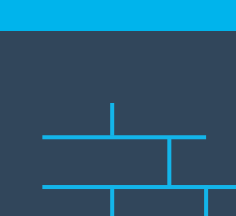
Grow small business platform



Drive cloud accounting



Build for global scale and innovation



ALIGNMENT WITH CUSTOMER NEEDS

Provides access to capital through invoice financing

Makes worker scheduling, payroll compliance and communicating with employees easier

Provides access to well-established e-invoicing capability and network for faster, more secure transactions

¹ Total consideration subject to performance and/or product development milestones

Planday a key step into workforce management

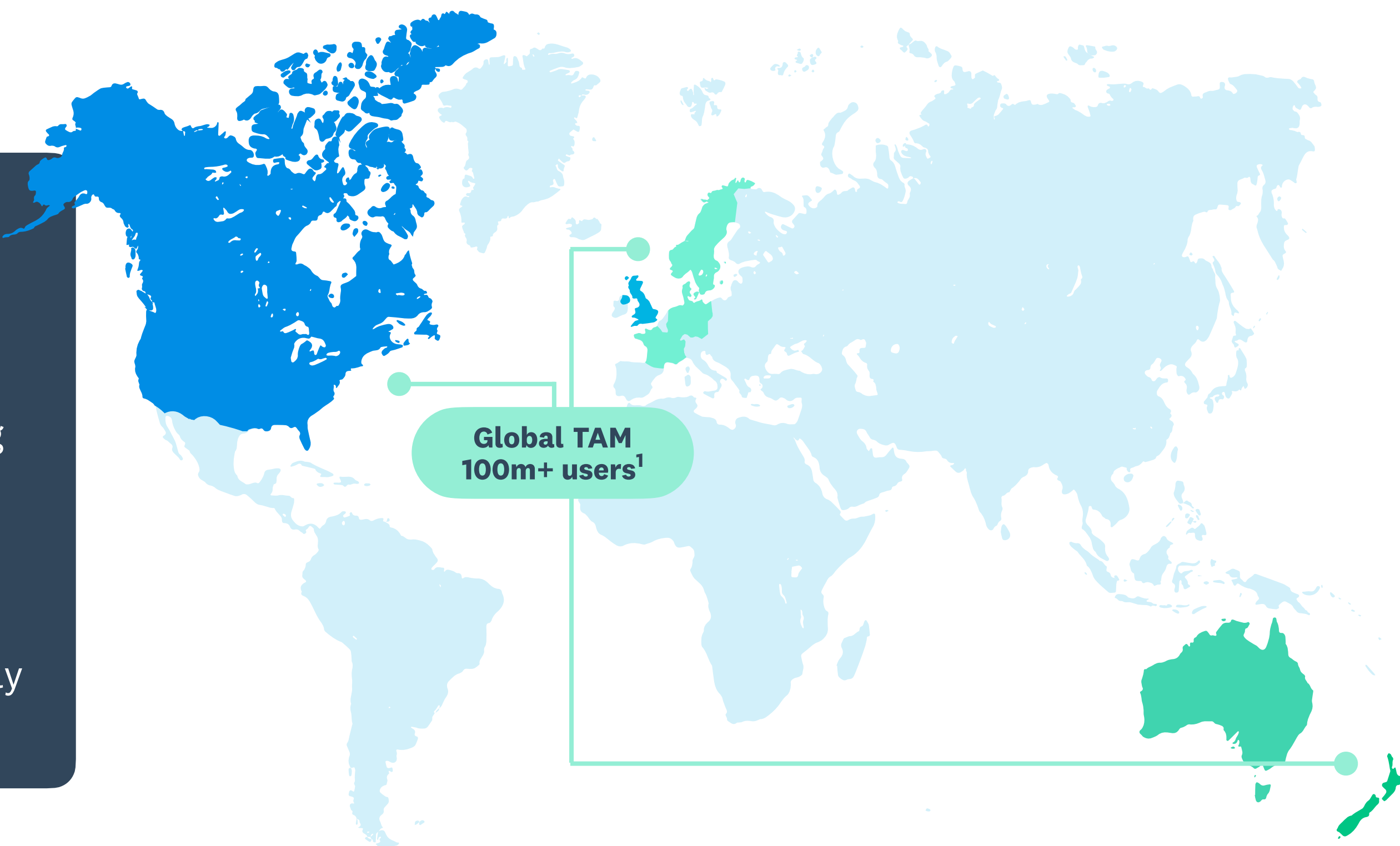
CUSTOMER NEEDS

Makes running businesses easier

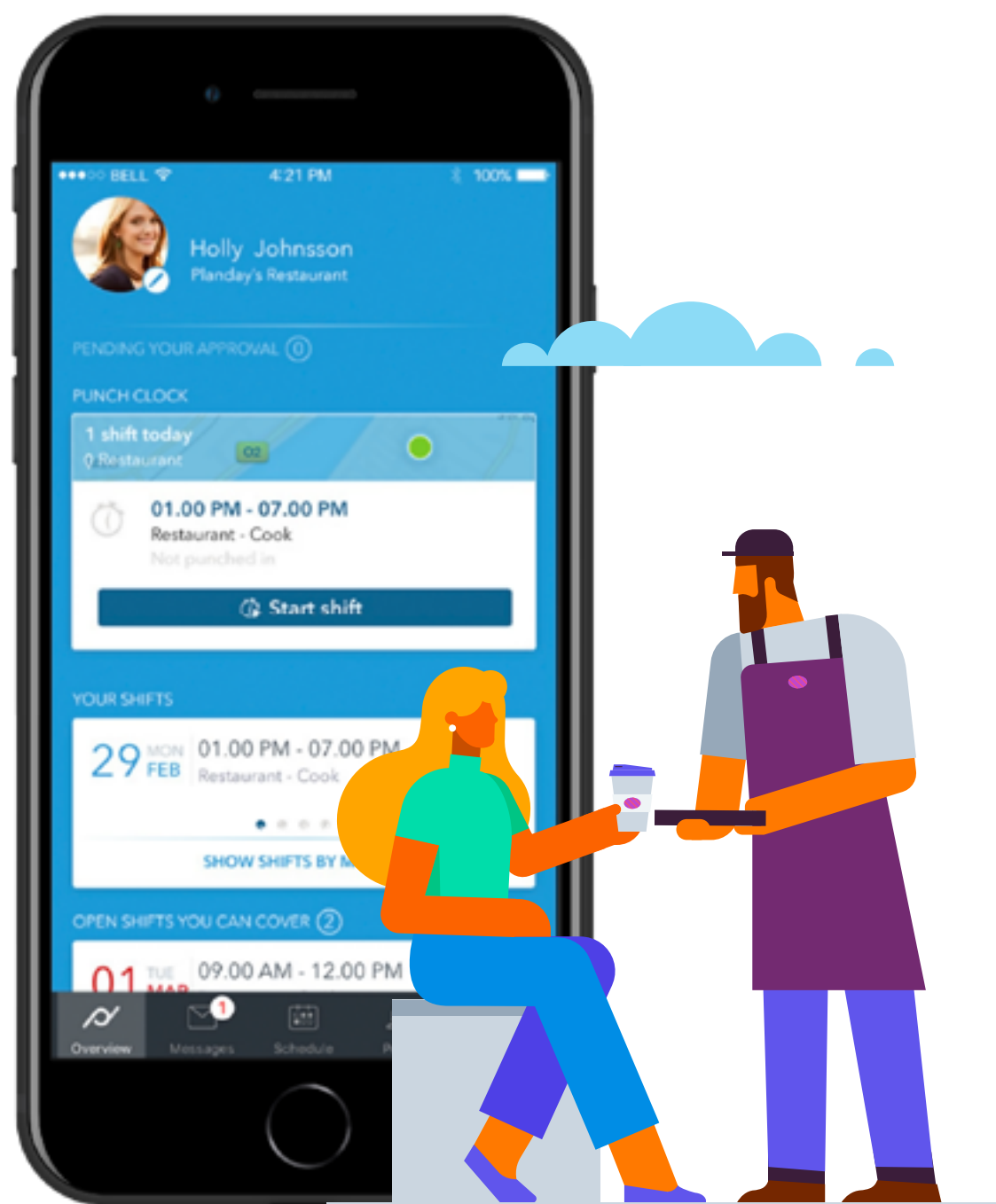
Employee scheduling, time tracking and attendance, payroll compliance, reporting

Integrated employee communications

Managers can contact employees quickly and securely through the shift worker app



Global TAM
100m+ users¹



CURRENT MARKETS

Denmark, Norway, Sweden,
UK, Germany, France, US

SUPPORTED LANGUAGES

English, Danish, Norwegian,
Swedish, German, French,
Spanish, Italian

Extra mobile app languages:
Polish, Portuguese, Greek,
Czech, Dutch, Finnish

PLAN PRICING²

(PER EMPLOYEE USER, PER MONTH)

Starter
€2.49

Plus
€4.49

Pro
€6.49

¹ Estimated time, attendance & scheduling TAM across Planday and Xero's current markets, based on publicly available data and expressed in terms of total employee users

² Illustrative plan pricing, see planday.com/pricing for further details

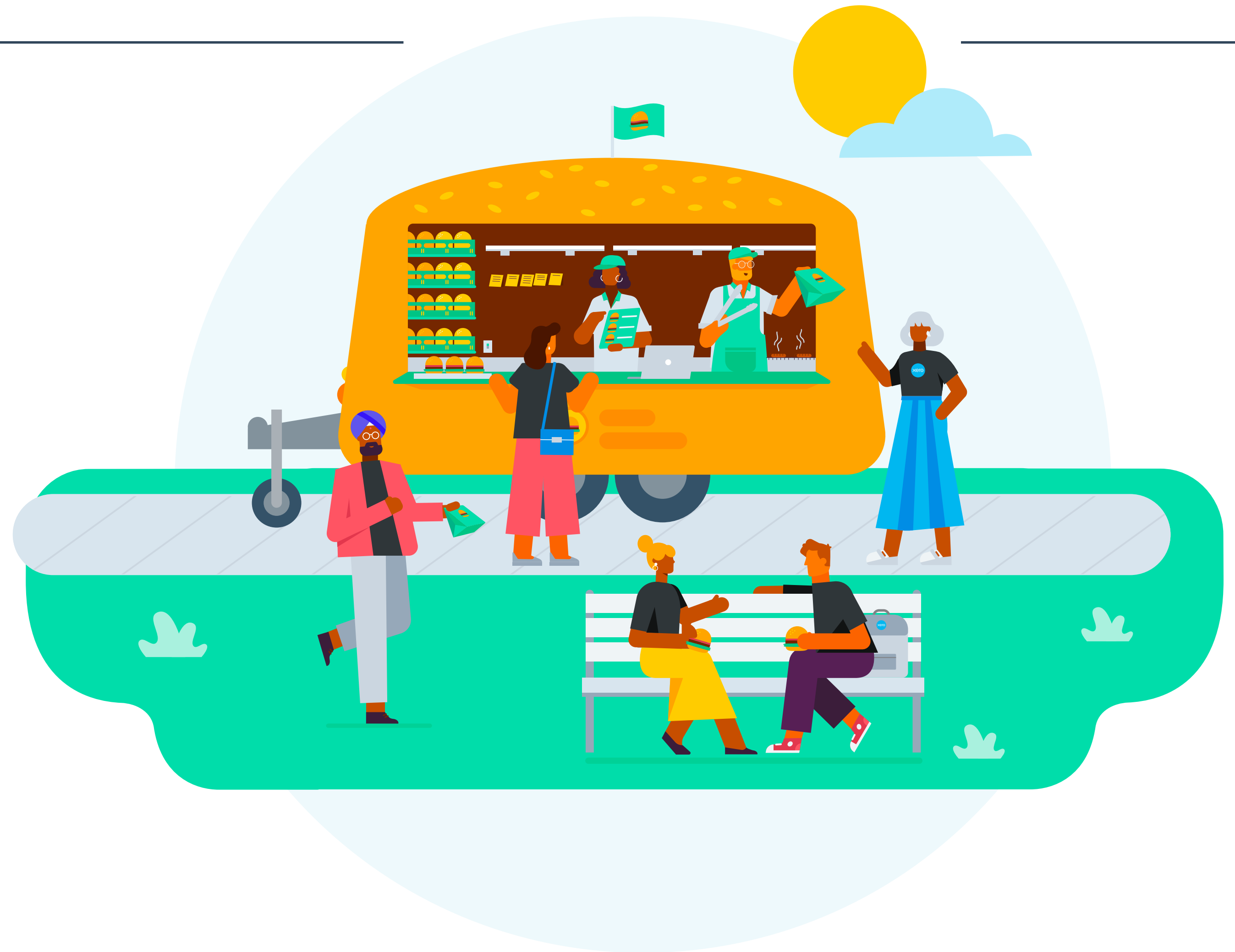
Outlook

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.

Total operating expenses (excluding acquisition integration costs) as a percentage of operating revenue for FY22 are expected to be in a range of 80-85% which is consistent with levels seen in the second half of FY21 and the pre-pandemic period.

Integration costs, relating to the three acquisitions announced during FY21, are expected to increase total operating expenses as a percentage of operating revenue by up to 2% for FY22.

As previously stated, the acquisition of Planday is expected to contribute approximately three percentage points of additional operating revenue growth in FY22.



Q&A



Steve Vamos

CHIEF EXECUTIVE OFFICER



Kirsty Godfrey-Billy

CHIEF FINANCIAL OFFICER



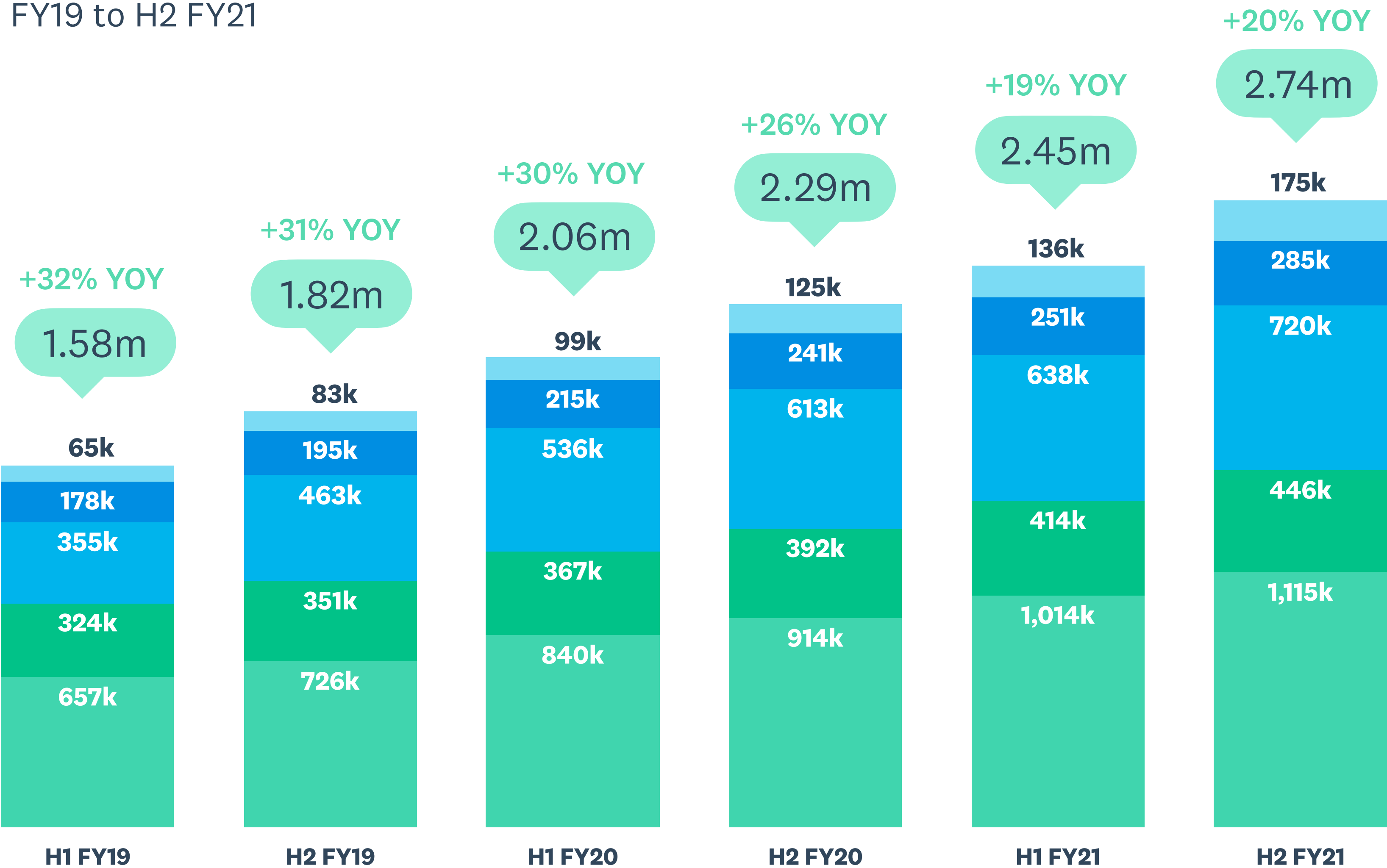
Appendix



Subscriber growth trend

Closing subscribers from H1 FY19 to H2 FY21

- Australia
- New Zealand
- United Kingdom
- North America
- Rest of World



Financial performance

Overview of financial performance from H1 FY19 to H2 FY21

	H1 FY19 (\$000s)	H2 FY19 (\$000s)	H1 FY20 (\$000s)	H2 FY20 (\$000s)	H1 FY21 (\$000s)	H2 FY21 (\$000s)
Total operating revenue	256,527	296,292	338,658	379,573	409,837	438,945
Gross profit	212,277	249,627	288,517	323,132	351,161	378,728
Gross margin	82.8%	84.3%	85.2%	85.1%	85.7%	86.3%
Sales & marketing costs	(115,747)	(132,267)	(146,072)	(166,780)	(130,750)	(177,198)
Percentage of operating revenue	45.1%	44.6%	43.1%	43.9%	31.9%	40.4%
Product design & development	(68,866)	(68,929)	(85,297)	(92,961)	(110,654)	(138,878)
Percentage of operating revenue	26.8%	23.3%	25.2%	24.5%	27.0%	31.6%
General & administration	(31,093)	(34,979)	(41,138)	(47,842)	(46,917)	(59,428)
Percentage of operating revenue	12.1%	11.8%	12.1%	12.6%	11.4%	13.5%
Total operating expenses	(215,706)	(236,175)	(272,507)	(307,583)	(288,321)	(375,504)
Percentage of operating revenue	84.1%	79.7%	80.5%	81.0%	70.4%	85.5%
Asset impairments and other income & expenses	(18,994)	294	(1,270)	2,393	(3,151)	(1,226)
Operating profit/(loss)	(22,423)	13,746	14,740	17,942	59,689	1,998
EBITDA	16,759	56,412	64,850	72,893	120,765	70,463
EBITDA margin	6.5%	19.0%	19.1%	19.2%	29.5%	16.1%
Net profit/(loss)	(28,565)	1,422	1,336	2,000	34,486	(14,712)

SaaS metrics summary

	ANZ				International				Group			
	H1 FY20	FY20	H1 FY21	FY21	H1 FY20	FY20	H1 FY21	FY21	H1 FY20	FY20	H1 FY21	FY21
ARPU	\$31.64	\$29.83	\$30.79	\$31.23	\$29.98	\$30.05	\$28.44	\$26.74	\$30.96	\$29.93	\$29.81	\$29.3
CAC months	8.6	9.7	9.1	8.9	16.0	18.1	22.0	22.4	12.3	14.0	14.9	14.8
MRR churn	0.82%	0.84%	0.83%	0.73%	1.58%	1.59%	1.53%	1.43%	1.10%	1.13%	1.11%	1.01%
Subscribers	1,207,000	1,306,000	1,428,000	1,561,000	850,000	979,000	1,025,000	1,180,000	2,057,000	2,285,000	2,453,000	2,741,000
Net additions (6 months)	130,000	99,000	122,000	133,000	109,000	129,000	46,000	155,000	239,000	228,000	168,000	288,000
LTV per sub	\$3,362	\$3,058	\$3,182	\$3,682	\$1,563	\$1,573	\$1,587	\$1,608	\$2,619	\$2,422	\$2,516	\$2,789
LTV/CAC	12.3	10.6	11.4	13.2	3.3	2.9	2.5	2.7	6.9	5.8	5.7	6.4
Total LTV	\$4.06b	\$3.99b	\$4.54b	\$5.75b	\$1.33b	\$1.54b	\$1.63b	\$1.90b	\$5.39b	\$5.53b	\$6.17b	\$7.65b

Glossary

Subscribers

Subscriber means each unique subscription to a Xero-offered product that is purchased by a user (eg a small business or accounting partner) 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 average exchange rates for the 12 months ended 31 March 2020. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2020

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

GAAP

Generally accepted accounting principles

TAM

Total addressable market

CAGR

Compound annual growth rate

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Beautiful business

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