



Beautiful accounting software

MARKET RELEASE

Xero Limited (NZX: XRO; ASX: XRO) Reports Interim Financial Results for Half Year Ended 30 September 2016

Xero Hits \$303 million Annualised Committed Monthly Revenue, 862,000 Subscribers and \$1.7 billion Lifetime Value

Continued strong growth in ACMR to \$303.2 million

EBITDA loss reduced 23% from \$(33.8) million in H1 FY16 to \$(25.9) million in H1 FY17

Reduction in operating cash outflows from \$23.4 million in H1 FY16 to \$13.4 million in H1 FY17

Performance Highlights

All currency stated in New Zealand Dollars (NZD)

Strong global growth

- Operating revenue of \$137.2 million, an increase of \$44.6 million (48%) over the same period in the previous year. Constant currency revenue growth was higher at 55%
- Continued year-on-year growth to finish with 862,000 subscribers representing a 45% increase from 30 September 2015
- Subscriber momentum increased in the current half with 269,000 subscribers added in the 12 months to September 2016, compared to 242,000 in the 12 months to March 2016
- Annualised committed monthly revenue (ACMR) of \$303.2 million. The strengthening NZD adversely impacted ACMR by \$29.9 million, with constant currency growth rate at 30 September 2016 of 53%

Improving financial results

- Financial performance was impacted by the duplicate platform costs of transitioning from Rackspace to Amazon Web Services (AWS)
- Net loss after tax of \$43.9 million, broadly in line with \$44.3 million in the same period last year

- EBITDA loss reduced from \$33.8 million in the same period last year to \$25.9 million. EBITDA loss excluding share-based payments (SBP) reduced from \$27.4 million to \$18.5 million
- EBITDA loss margin reduced from (36)% to (19)%. EBITDA loss margin excluding SBP more than halved from (30)% to (13)%
- Gross margin at 75%, while an improvement on 74% in the prior period, was impacted by the dual cost of hosting during the six months
- Lifetime value per customer (LTV) increased 8% to \$2,004 despite the strengthened NZD adversely impacting ARPU. Constant currency LTV improving 16%
- Operating cash outflow declined to \$13.4 million from \$23.4 million in the same period last year. Operating and investing cash outflows declined to \$45.8 million from \$49.5 million for the same period in the prior year
- With \$137.9 million cash and short-term deposits on hand, we are well positioned to manage cash usage to break-even

Market leadership

- Further extended cloud accounting market leadership in the established markets of Australia and New Zealand, growing to 592,000 subscribers an increase of 39% since 30 September 2015. The Australian subscriber base grew 45%
- In the United Kingdom, where Xero is the leader in the cloud accounting market, subscribers grew 61% to 164,000 since 30 September 2015
- Growth in North America of 64% to 77,000 subscribers

SYDNEY, 3 November, 2016 - Xero Limited (NZX: XRO; ASX: XRO) today reported its half-yearly earnings to September 30, 2016, executing strongly on diversified global growth while making progress towards EBITDA break-even.

Achieving milestones of annualised committed monthly revenue of \$303.2 million and operating revenue of \$137.2 million, a 48% year-on-year increase, Xero's paying subscriber base reached 862,000, and reached a total lifetime value of \$1.7 billion. Revenue growth rates, while strong, were adversely impacted by the strengthened New Zealand dollar.

Xero remains focused on driving diversified global growth and executing on its business strategy, including building towards a high-margin business.

"Our focus is to build a sustainable global business with high margins, while managing our cash. Our revenue growth has allowed us to continue the significant investment in our

platform, back-office and team to support our global footprint,” said Rod Drury, Xero CEO and Founder.

“We are thrilled to deliver strong results while we build the long term foundations for scale, including a complete re-platforming of the business.”

Recently announced changes to Xero’s organisational structure will support the next growth phase and the company’s strategy of reaching \$1 billion of operating revenue. Leveraging the growing management capability in each of Xero’s operating geographies, the company is implementing a flatter organisational structure with Country Managers reporting directly to the CEO.

Key strategic highlights

- Xero’s transition to AWS is near completion, enabling the company to leverage machine learning technology, and deliver fast-paced innovation, improved margins and increased uptime. While completing our move to AWS, we’ve developed hundreds of product features and continued to drive the innovation agenda in the industry
- Several financial web partnerships formed with – Wells Fargo in the U.S., UOB in Singapore, Commonwealth Bank of Australia, Barclays in the UK and HSBC in Hong Kong launching in 2016
- Xero is gaining traction in the U.S. market with strategic partnerships with top financial institutions and top accounting firms. Future investments in U.S. operations will build scale out of Denver to support the hubs in San Francisco, New York, Austin and Seattle
- Global recognition for customer service, product innovation and business leadership including the Canstar Award for Accounting Software for Small Business for the second consecutive year in Australia, UK Cloud Awards for Financial Product of the Year, and New Zealand Trade and Enterprise International Business Awards finalist

Innovation shifts up a gear

Enabled by a comprehensive transition to AWS, Xero is well positioned to capitalise on machine learning, which we believe will redefine accounting in future years.

"It is a huge achievement to get through this massive transition. We expect all business software vendors to re-platform over the next few years so they too may take advantage of the commoditised innovation services in the larger public cloud platforms,” Drury said.

“With the right tools, capital, and financial services, we have the potential to materially improve productivity of small businesses globally - which make up 55% of the global economy, and are the largest job generators and contributors to GDP.

“The network effect of strategic partnerships with top banks, financial institutions and global technology companies, combined with Xero’s product and platform, has created an opportunity to pull away from the competition and leverage the significant white space in the global small business market.”

In the first half of this year, Xero has continued to lead the market with disciplined investments in product and distribution channels while delivering another period of industry-leading growth in revenue and subscribers.

The adoption of cloud software is in its early stages in most markets but is accelerating. Xero has significant opportunities ahead, with a multi-billion dollar global addressable market, an established product and scalable platform, and a focus on strong execution and cash discipline.

About Xero

Xero is beautiful, easy-to-use online accounting software for small businesses and their advisors. The company has over 860,000 subscribers in more than 180 countries. Xero seamlessly integrates with over 500 apps, and was ranked No. 1 by Forbes as the World's Most Innovative Growth Company in 2014 and 2015.

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