xero

Investor briefing

INTERIM RESULTS TO 30 SEPTEMBER, 2016

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(Company number NZ 1830488, AU ARBN 160661183 NZX/ASX:XRO)

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- should be read in conjunction with, and is subject to, Xero's latest and prior annual reports, prior interim reports, interim report for the period ended 30 September 2016, and Xero's market releases on ASX and NZX
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- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance, and
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All information in this presentation is current at the date of this presentation, unless otherwise stated.

All currency amounts are in NZ dollars unless otherwise stated.

Agenda

- Results overview
- Financial results
- CEO update
- Q&A

Results overview

Rod Drury
Chief Executive, Founder

Executing to deliver margin and growth

862,000
SUBSCRIBERS GLOBALLY*
+269,000 YOY

$303m
ANNUALISED COMMITTED MONTHLY REVENUE*
+53% YOY**

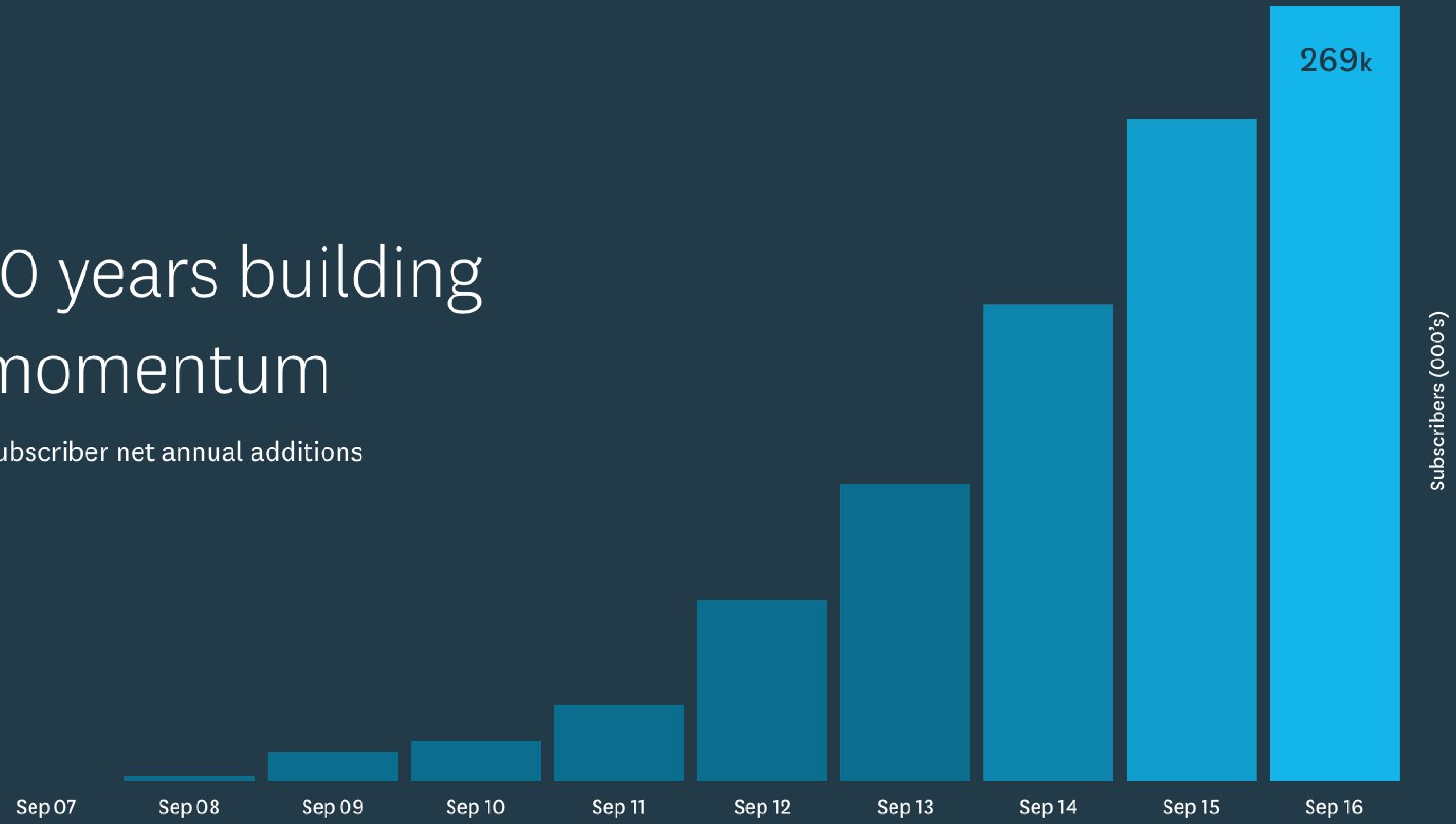
$1.7b
TOTAL LIFETIME VALUE*
+$627M YOY

(13%)
EBITDA MARGIN
EXCL. SBP*
+17pp YOY

*Subscribers globally, Annualised Committed Monthly Revenue, and Total Lifetime Value as at 30 September, 2016
SBP are share based payments that are a non-cash cost to Xero. See following slides for more details on Lifetime Value
** Constant currency 30 September, 2015

10 years building momentum

Subscriber net annual additions



Strong and diversified global presence

	New Zealand	Australia	United Kingdom	North America	New Markets
Subscribers*	212,000 (163,000 SEPTEMBER 15)	380,000 (262,000 SEPTEMBER 15)	164,000 (102,000 SEPTEMBER 15)	77,000 (47,000 SEPTEMBER 15)	29,000 (19,000 SEPTEMBER 15)
Xero subscribers as % of TAM**	> 30%	c.15%	< 5%	< 5%	< 5%
Bank linkages	Developed	Developed	Developing	Early	Early
Partner channel maturity	Developed	Developing	Developing	Early	Early

Global connected platform > 80% of subscribers are connected to an advisor

More than a platform, Xero has evolved to a global community supporting small business

*As at 30 September, 2016
** Xero estimates

Execution across the Company

Improved key underlying drivers of LTV*

	September 2016	Progress from September 2015	
Subscribers	862,000	+269,000	✓
ARPU	$29.3	+5%**	✓
ACMR churn	14.4%	1.2pp	✓
Gross margin	75%	1pp	✓
LTV per sub	$2,004	+16%**	✓

Total Lifetime Value

*See definition in appendix **Constant currency 30 September, 2015. In actual dollars ARPU declined due to FX
***Added in the twelve months to 30 September, 2016

Financial results

Sankar Narayan
Chief Financial Officer

Financial performance

Significant improvement in EBITDA outcomes (even with duplicated platform costs in the transition to AWS)

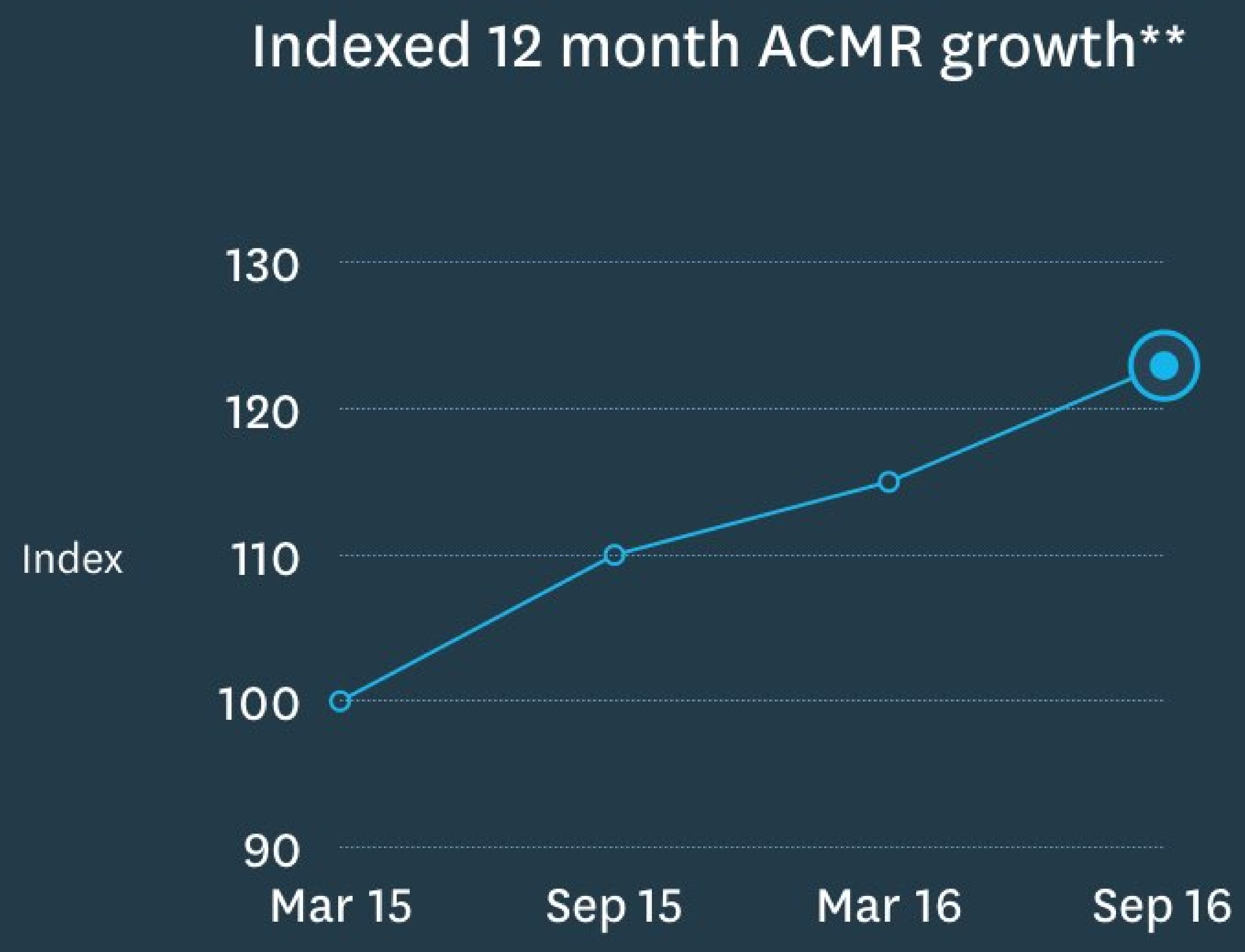
Revenue growth impacted by the strengthened NZD, with a constant currency growth of 55%*

	H1 FY16 ($000s)	H1 FY17 ($000s)	YoY change
Total revenue	92,654	137,247	48%
Gross profit	69,002	103,405	50%
Gross margin	**74%**	**75%**	**+1pp**
EBITDA	(33,804)	(25,897)	(23%)
EBITDA margin	**(36%)**	**(19%)**	**+17pp**
Net loss after tax	(44,327)	(43,920)	(1%)
EBITDA excl share-based payments	(27,426)	(18,507)	(33%)
EBITDA margin excl share-based payments	**(30%)**	**(13%)**	**+17pp**

*Constant currency with H1 FY15

Continuing quality growth

Growth momentum in subscribers **and** ACMR



*Subscriber net additions **Constant Currency based on March 2014 FX rates, see full definition in appendix

High gross margin

Gross margin for the 12 months to September 2016 impacted by the duplicated platform costs in H1 FY17, in the transition to AWS

The AWS transition is expected to be completed early H2 FY17, driving further increases in gross margin

Significant opportunity to improve margin

- Cessation of dual platform costs
- Cost efficiencies on AWS platform
- Economies of scale
- Automation

Gross profit as % of revenue

*Employee share based payments (SBP), depreciation and amortisation (D&A) are non-cash costs to Xero

Improving efficiencies

*Customer acquisition costs
**P&L expense

Focus on EBITDA

EBITDA includes AWS transition costs in H1 FY17

Continued reduction in EBITDA margin loss with H1 FY17 EBITDA excluding SBP of (13%)

*Employee share-based payments (SBP) are a non-cash cost to Xero

Reducing cash usage

Operating cash outflow in H1 FY17 reduced to $13.4 million from $23.4 million in H1 FY16

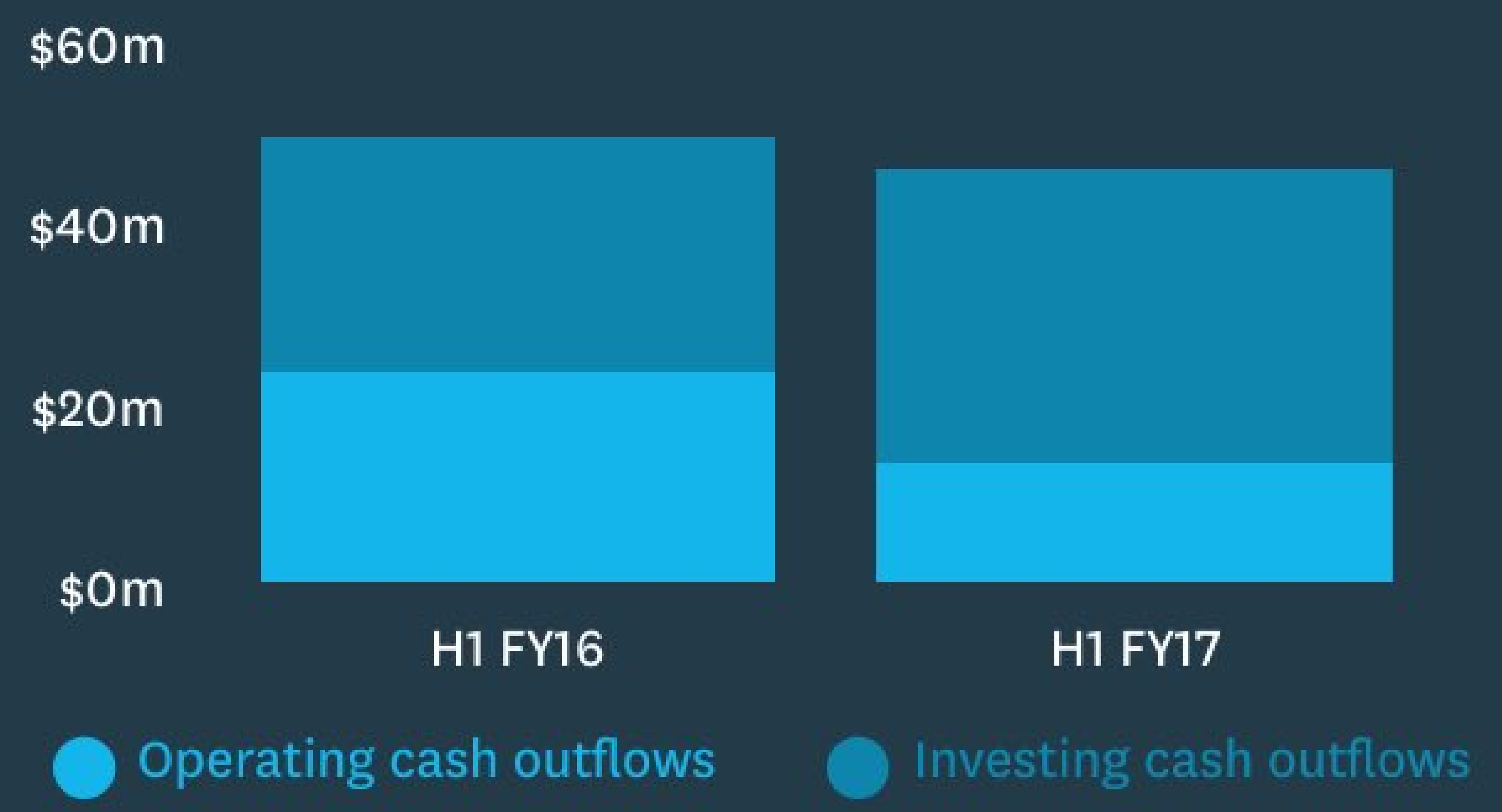
Operating and investing cash outflows in the current period impacted by the one-off transition costs to AWS

Operating and investing cash flows declined from $49.5 million in H1 FY16 to $45.8 million in H1 FY17

Cash balance at 30 September, 2016 was $137.9 million

Driving towards cash flow break-even within the current cash balance

Operating and investing cash outflows



Cash outflows* as % of revenues

*Operating and investing cash outflows

Key segment achievements

		September 2016	Net change	Net change (constant currency**)
Subscribers Growth across segments	Group	**862k**	+269k	
	ANZ	**592k**	+167k	
	Int	**270k**	+102k	
Operating revenue Operating revenue impacted by foreign exchange	Group	**$137.2m**	48%	55%
	ANZ	**$96.5m**	49%	52%
	Int	**$40.7m**	45%	61%
Segment contribution Expansion of ANZ contribution margins. Group contribution increased by $17.6 million	Group	**$17.8m**	n/m***	
	ANZ	**$37.9m**	118%	
	Int	**-$20.1m**	17%	
LTV* International LTV growth of $164.7 million in constant currency**	Group	**$1,727m**	57%	69%
	ANZ	**$1,414m**	62%	68%
	Int	**$313m**	37%	72%

*See definition in appendix

**Constant currency as at 30 September, 2015 for LTV; and for 6 months ending 30 September, 2015 for operating revenue

***Not meaningful

Delivering on Guidance

	FY 17 Guidance	H1 FY17 Outcomes
Cash	Cash usage in FY17 (based on FX rates at 1 April 2016) is forecast to reduce from FY16 Xero is managing the business to cash flow break-even within its current cash balance	Cash usage lower in H1 FY17 compared to H1 FY16, even with duplicated platform costs during AWS transition
Operating efficiencies	Operating metrics to continue improvement in FY17 as the Company continues to drive efficiencies through automation and economies of scale	Improvement in EBITDA margins and other cost ratios, even with continued growth investment and AWS transition

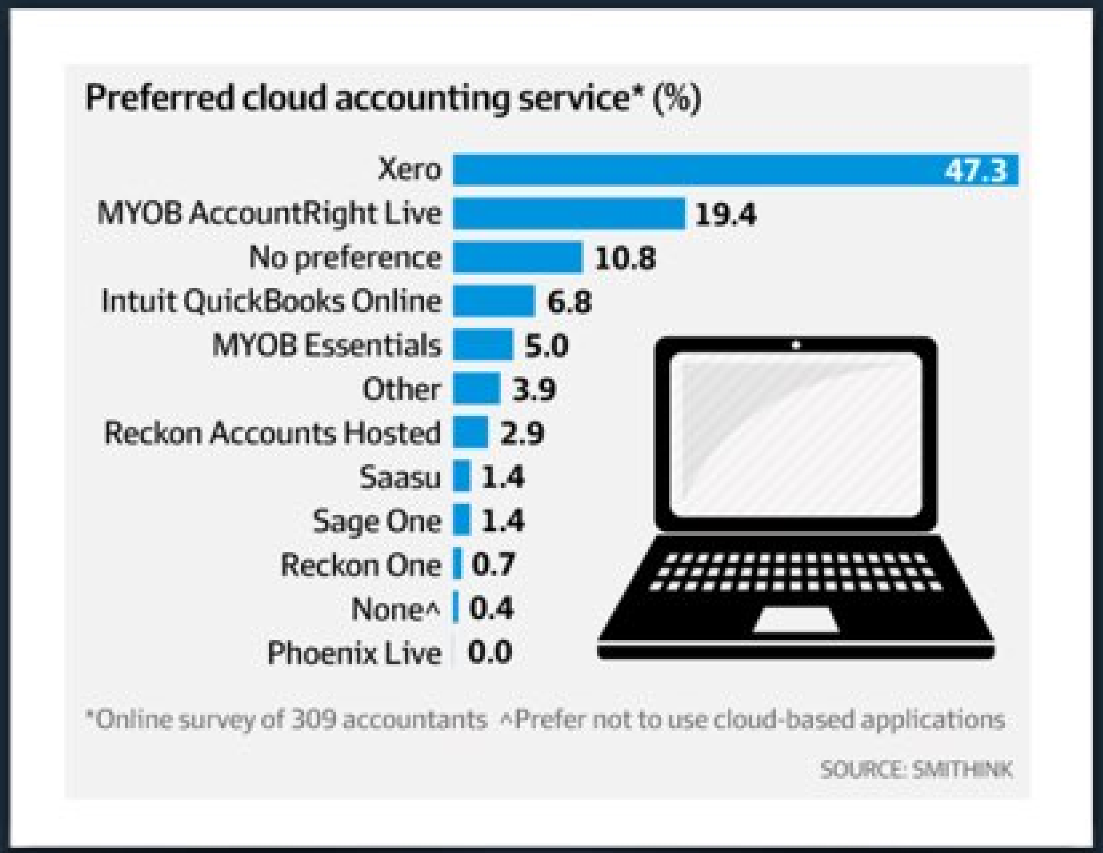
Australia & New Zealand

Market leader

Widening cloud leadership and continuing to win share from incumbents, with over 590,000 subscribers

Churn of <0.7% per month in New Zealand for subscribers on Xero for more than a year

Strengthening our accounting channel with >90% of Xero subscriptions attached to a partner



Preferred cloud accounting service* (%)

Xero	47.3
MYOB AccountRight Live	19.4
No preference	10.8
Intuit QuickBooks Online	6.8
MYOB Essentials	5.0
Other	3.9
Reckon Accounts Hosted	2.9
Saasu	1.4
Sage One	1.4
Reckon One	0.7
None^	0.4
Phoenix Live	0.0

*Online survey of 309 accountants ^Prefer not to use cloud-based applications

SOURCE: SMITHINK

592,000 subscribers*

RAEAWARDS

Business to Business Platinum Award 2016

MOST SATISFIED CUSTOMERS 2015-2016 CANSTAR BLUE SMALL BUSINESS ACCOUNTING SOFTWARE

Source: Australian Financial Review , 11 October, 2016

*As at 30 September, 2016

INTERNATIONAL

United Kingdom

The United Kingdom's leading small business accounting solution*

>25,000 active UK accountants and bookkeepers

Xero very well positioned:

- Most directly engaged with UK banks
- Largest and most engaged partner channel
- Strong connections with vibrant UK fintech sector

Positive traction with early market entry in South Africa

164,000 subscribers**

2016 Technology Provider of the Year

Cloud industry forum awards 2016

5 star rating from industry publication 2016

Software Vendor of the Year 2016
Real Business Magazine FD Excellence Awards

Accounting Bulletin Awards 2016

*Xero estimates
**As at 30 September, 2016

INTERNATIONAL

United Kingdom

The next growth engine

Regulatory environment is driving financial services innovation

- Automatic Enrolment: Small businesses must introduce a company pension scheme by 2018
- HMRC Making Tax Digital: UK tax system goal to be fully digital by 2020
- Revised Payments Services Directive (PSD2): Driving transformation in banking, payments and bank data accessibility by 2020

Xero with its ecosystem is well placed to take advantage of UK digitisation

Significant lead in direct bank partnerships

	XERO DIRECT CONNECTION
BARCLAYS	✓
NatWest	✓
HSBC	✓
RBS	✓
Santander	✓
METRO BANK	✓

INTERNATIONAL

North America

Gaining traction

Subscribers grew to 3.5x from two years ago

Accounting partner channel

- Significantly grown accounting channel
- Selected as accounting platform within top 100 accounting firms – providing confidence in Xero as market challenger

Bank connectivity

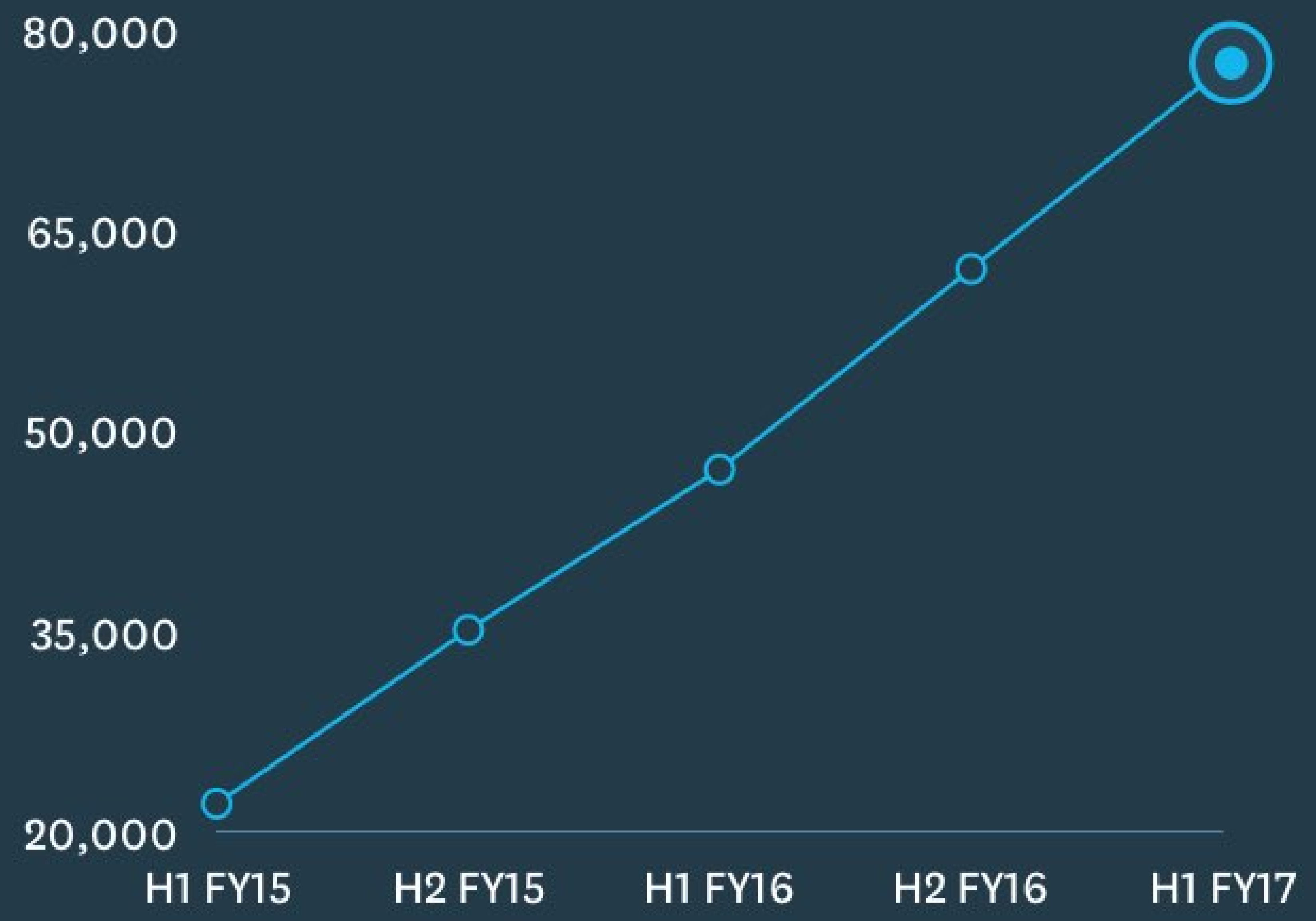
- Major integration with Wells Fargo
- Industry leading implementation of OAuth enabled API based data sharing to drive secure bank integration

Product market fit

- Product delivery resulting in winning reviews

Building operational scale in Denver

77,000 subscribers*



#1 Most innovative growth company 2014 & 2015

*As at 30 September, 2016

South East Asia

Strong opportunity in large TAM

Growing accounting channel in key Asia markets:

- 200+ new accounting partners on-boarded in H1 FY17 across the region
- 20+ gold and platinum partners
- Increasing partner attendance at Xero-run partner events

Building out key strategic bank partnerships and integrations:

- UOB Singapore launched July 2016
- HSBC launching 2016

CEO update

Rod Drury
Chief Executive, Founder

Globally diverse leadership

glassdoor

Top 15 best public cloud companies to work for

Top 5 CEO of public cloud companies – approval rating 98%

Sankar Narayan
Chief Financial Officer

Duncan Ritchie
Chief Platform Officer

Rachael Powell
Chief People Officer

Kirsty Godfrey–Billy
Chief Accounting Officer

Tony Stewart
Chief Data Officer

Trent Innes
MD, Australia

Anna Curzon
MD, New Zealand

Gary Turner
MD, United Kingdom, EMEA

Keri Gohman
President, Americas*

Alex Campbell
MD, Asia

*Starting December 2016

Management focus

	PRIOR YEARS	CURRENT FOCUS
Subscribers	Grow	Quality growth
Revenue	Grow	Grow
ARPU	Maintain	Grow
Cash	Manage	Break-even
Gross margin	-	Expand
Operating margin	-	Be profitable
Goal	Pass 1m subscribers	Pass $1 billion revenue*

*Aspirational goal as stated at AGM 2016

Significance of AWS transition

Xero first major cloud accounting provider to re-platform on AWS

AWS unlocks automation of small business processes to fundamentally change how small business operates

We expect the definition of accounting software to fundamentally change over the next three years

Cloud accounting has become a platform for a multi-vendor ecosystem, and network of advisors, addressing key aspects of small business computing

Well positioned for revenue expansion:

- New geographies
- New connected services
- Servicing larger small businesses
- Facilitating financial services

AWS delivers

Superior customer artificial intelligence and machine learning experiences

Faster launch of new services

Predictive analytics and automation at scale

Efficiencies and margin

Commodity big data innovations

Continued product leadership

Bank processing

"… I will declare Xero the winner when it comes to working within the Banking page. Xero's system is more usable, customizeable and accurate."

accountingWEB

Reporting engine

"This change is set to transform the way that accounting related reports are prepared and utilized by users, consultants, accountants and parties with whom financial information is shared."

Intuitive Accountant

Multi-currency

"The only online accounting software that I've received that has a fully functional multi-currency implementation is Xero."

Sleeter Group
THE ACCOUNTEX NETWORK
Greg Lam

2016 CANSTAR BLUE

Only accounting software for small business to achieve a 5-star functionality rating*

*Canstar Blue research, published in August 2016

Accounting software people love

@Xero Thanks! So nice to be dealing with actual caring, competent, human beings.

Amazing support by Robert at the @Xero Colorado office. Xero support are caring, smart, and go the extra mile. Thanks!

@Xero so many of my clients go with Xero because my other clients tell them how much they “Love” it!


Q&A

Appendix

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.
ACMR	Annualised committed monthly revenue represents monthly recurring revenue at 30 September multiplied by 12. Accordingly, it provides a 12 month forward view of revenue, assuming that any promotions have ended and other factors such as subscribers, pricing and foreign exchange remain unchanged during the year.
Indexed 12 month ACMR growth	Indexed 12 month ACMR growth represents the annualised ACMR growth globally converted to New Zealand Dollars based on 30 September, 2014 exchange rates, divided by the growth achieved in the first 12 month period presented.
ARPU	ARPU is calculated as annualised committed monthly revenue at 30 September divided by subscribers at that time (and divided by 12 to get a monthly view).
Subscriber retention / CMR churn	CMR churn is the value of committed monthly revenue (CMR) from subscribers who leave Xero in a month as a percentage of the total CMR at the start of that month. The percentage provided is the average of the monthly churn for prior twelve months.
Lifetime value	Lifetime value 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 CMR churn) multiplied by ARPU multiplied by the gross margin percentage. Group LTV is calculated as the sum total of the ANZ and International LTV.

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Beautiful accounting software

www.xero.com