

MARKET RELEASE

15 August 2019

XERO LIMITED - ANNUAL MEETING 2019
Auckland, Thursday 15 August 2019

Chair, CFO & CEO Addresses to Shareholders

Please see the attached

- Chair's address to shareholders
- CFO's address to shareholders
- CEO's address to shareholders

XERO LIMITED - ANNUAL MEETING 2019
Thursday 15 August 2019

Address by the Chair, Graham Smith

Good morning and welcome to Xero's Annual Meeting for 2019. My name is Graham Smith and I'm the Chair of Xero's Board of directors. I'm pleased to be here with you today for my fifth Xero Annual Meeting and third as Chair of the Board.

It's great to bring this year's meeting back to Xero's home, New Zealand. Auckland is an important location for Xero and is where a significant proportion of our product development is undertaken, for our customers and partners around the world.

Firstly, I'd like to welcome shareholders who are attending the meeting in person, and those joining us online.

At the outset, I'd like to acknowledge what an amazing company Xero is. At its core, Xero exists to make life better for people in small business, their advisors and communities around the world. Since 2006, when Rod Drury founded the business in a Wellington apartment, we've scaled from a handful of small business subscribers in New Zealand to more than 1.8 million subscribers globally. Many of you here today have been on this journey with us, and your ongoing support has made our success possible.

I am informed by our Company Secretary that, in accordance with the company's constitution, a quorum is present and I now declare the meeting formally open.

Now, I'd like to introduce those with me on stage today.

To my left are non-executive directors; Lee Hatton, David Thodey, Susan Peterson, Rod Drury, Dale Murray and Craig Winkler.

To my right is Xero's Chief Legal Officer and Company Secretary, Chaman Sidhu. Next to Chaman is Steve Vamos, Xero's CEO and Kirsty Godfrey-Billy, Xero's CFO.

We are also joined by members of Xero's leadership team and other Xero colleagues, together with representatives from Xero's auditors, Ernst & Young.

Before we move to the agenda, I'd like to acknowledge Bill Veghte, who is unable to join us today. Bill will be retiring as a director of Xero Limited by rotation, and will not be standing for re-election.

Bill joined Xero's Board more than five years ago in 2014. Since then, the business has expanded globally, and in this time 1.5 million new subscribers have joined Xero, to reach our current total of 1.8 million.

On behalf of the Board, we are extremely grateful for Bill's directorship and contribution, and wish him the very best in the future.

Before we start the formal procedures, there are some brief housekeeping points to cover. Please make sure your phone is switched off or on silent. If there is an emergency, please follow the emergency exit sign and instructions of the venue staff.

The order of events for today's meeting will be as follows:

- I'll say a few words about the past year for Xero
- We'll then turn to the formal business and resolutions of the meeting
- This will be followed by CFO and CEO presentations from Kirsty and Steve
- After these presentations, I will close the meeting and invite those attending here in Auckland to stay for refreshments with the Xero Board and members of the leadership team

There will also be opportunities for shareholders to ask specific questions as we address each resolution in the formal part of the meeting, and there will be an opportunity for shareholders to ask general questions after the CFO and CEO presentations.

I'll move now to my address. Firstly, we would like to thank our shareholders for your ongoing support - this is a key element of Xero's continuing success.

Xero achieved another impressive set of results in the year to 31 March 2019, delivering value to our customers, partners and shareholders. The business made excellent progress against its financial and strategic objectives, and continued to expand our community of small business customers and partners around the world.

For the first time, Xero achieved positive free cash flow. More broadly, we have improved our financial and operating metrics, while prioritising investment in growth. In a moment, Steve and Kirsty will elaborate on Xero's business performance and how we're delivering on our strategic priorities.

The Board is pleased that the benefits we anticipated from consolidating Xero's listing on the ASX have been realized. Liquidity in Xero's stock has more than doubled since announcing the move to a sole ASX listing in November 2017. Combined with Xero's inclusion in a range of additional equity market indices (including the S&P/ASX 100), the increase in liquidity has been accompanied by significantly higher investor and analyst interest, and a range of new investors have accumulated positions on our share register.

In addition, during the year, Xero successfully completed a US\$300 million convertible notes issue. These funds provide the business with financial flexibility to enhance and extend Xero's small business platform and ecosystem capabilities, through complementary targeted acquisitions. This debt issue structure has been used in other geographies, particularly the US, but was the first of its kind for an Australian or New Zealand company not listed in the US.

A capital allocation framework is now in place to support the review and pursuit of future organic and inorganic investment opportunities. This is aligned with our strategic priorities, while satisfying our strong focus on financial discipline.

Steve Vamos became Xero's Chief Executive Officer in April last year, replacing founder Rod Drury. The Board is delighted with the progress made by the company in Steve's first year and how the leadership team is performing to achieve these excellent results.

Looking to our Board - David Thodey joined us in June as a non-executive director and a member of the People and Remunerations Committee and Nominations Committee. David brings deep experience and relevant skills to our board with more than 30 years experience in the global technology and telecommunications industries including as CEO and director of ASX100 listed companies. David has a reputation for strong operational performance and a dedication to creating brand and shareholder value. As we previously mentioned, Bill Veghte will retire from Xero's Board today. Welcome David.

I am confident we have a deeply experienced, highly qualified, international board of directors, and I'd like to thank and acknowledge the valuable contribution of my fellow directors during the year.

On behalf of the Board, I would like to thank the entire team of dedicated and talented people at Xero for their commitment and contributions to our business.

That brings me to the end of my address.

--ENDS--

XERO LIMITED - ANNUAL MEETING 2019
Thursday 15 August 2019

Address by the CFO, Kirsty Godfrey-Billy

Thanks Graham, and thanks to all of you in the room and on the webcast for being part of our Annual Meeting today. While Xero's global reach is extending, it's great to be here in New Zealand, where we began, to be discussing our financial and operating performance for the year ended 31st March, 2019.

As the charts on this slide show, there are a number of clear proof points in our FY19 performance that validate Xero's business model.

Firstly, Annualised Monthly Recurring Revenue, or AMRR, is an important indicator of how our business is performing, and the value of our customer relationships. In FY19, AMRR grew by 32% to \$638 million - that's an increase in AMRR of \$154 million over the prior year.

To put the scale of Xero's growth in FY19 into perspective, incremental revenues added in FY19 equate to the entire size of Xero just four years ago. Back in 2015, total AMRR of the business was just \$159 million.

Now looking to the second chart - over recent years, our progress on free cash flow (comprising operating and investing cash flows, excluding M&A) has been, and remains, an important and improving indicator of our ability to fund our own growth.

In the past four years Xero has made significant and positive strides with our first ever positive free cash flow result of \$6.5 million in FY19, equivalent to 1.2% of operating revenues.

The 31% growth seen in our subscriber numbers over FY19 reflects the business's continued strong traction, with particularly strong progress in International markets.

A net 432,000 subscribers joined Xero in FY19, taking overall subscriber numbers to more than 1.8 million. These are strong numbers, but with an eye on our global ambitions, FY19 was more pleasing in that International net subscriber additions were 239,000, and for the first time exceeded those from the ANZ region, of 193,000.

Other financial highlights in FY19 provide further evidence of Xero's continued progress in a number of areas. I'm not going to revisit the metrics already mentioned, but I do want to call out that:

- While we had great subscriber numbers, we also held our average revenue per user trends
- Operating revenue for the year increased 36% to reach \$552.8 million, and
- The EBITDA result – excluding the impact of impairments – increased by \$42.0 million to \$91.8 million, also demonstrating great progress

Lifetime value, or LTV, is a key metric used across our business. LTV guides decision-making on where and how to invest. It also measures the success of the business by quantifying the value created in the period, that is not captured elsewhere in our financial statements.

Overall, LTV per subscriber climbed 3% in FY19 to \$2,398. This was driven by a move up in both ARPU and gross margin, while churn trends were consistent with the prior year.

With the increase in lifetime value per subscriber, and a 31% increase in subscriber numbers over FY19, total lifetime value added in the year was over \$1.1 billion. This took total lifetime value to \$4.4 billion, up 36% on the prior year.

Reported EBITDA in FY19 increased by 52% to \$73.2 million, including impairment charges of \$18.6 million and acquisition related costs.

Excluding both share-based payments and impairment charges, EBITDA improved by \$54.0 million to \$120.7 million year on year, an 81% increase.

As you can see from this slide, EBITDA margin excluding share-based payments and impairments improved by five percentage points to 22%.

Underpinning the FY19 financial performance were a number of favourable operating trends that demonstrate Xero's increasing scale:

- Gross margin of 84% improved by 2 percentage points over the prior year. This was driven by the launch of Xero Central, which utilises machine learning to drive lower customer service costs and also efficiencies in our cloud hosting costs
- Customer acquisition costs, or CAC, also improved by 2 percentage points to 45% as a percentage of revenue, despite significant growth investment in both new and existing markets
- Product investment spend (including opex and capex) reduced to 31% of revenues, down from 35% in FY18. This is while we've continued to launch new products and features. Some of these have included:
 - Making Tax Digital features for VAT in the UK
 - Email to bills
 - Profit and Loss at a glance on mobile
 - And a new global bank feeds API

Now, coming back to cash flow - as I've mentioned, we passed an incredibly significant milestone for Xero in the FY19 results by delivering a positive free cash flow result for the first time.

Free cash flow of \$6.5 million was an improvement of \$35.0 million from last year's negative \$28.5 million.

Total operating and investing outflows for the year were \$26.2 million, with operating cash flows up \$53.0 million, or 87%, from the prior year, at \$114.2 million.

We finished FY19 with a capital structure optimising for Xero's future strategic and financial needs. The combination of our US\$300 million convertible note and positive free cash flow will support both organic and inorganic growth opportunities.

Total cash and short term deposits at the 31st March 2019 were \$458 million. Deducting the liability associated with our US\$300 million convertible note, net cash at the end of the period was \$101 million, an increase of \$21 million from FY18.

Alongside these resources, we continue to maintain our existing undrawn \$100 million stand-by debt facility.

The underlying elements of our SaaS business model continue to drive a strong track record of value creation.

We anticipate our focus on the metrics that matter, particularly CAC months, LTV to CAC, ARPU, gross margin and churn will continue to power further significant long-term value in coming periods.

I'd like to explore a couple of these metrics a little further as they provide strong justification for us to continue investing in the growth of our business.

In FY19 CAC months of 13.6, indicate the time it takes for us to recover the cost of acquiring a new subscriber, through monthly subscription payments.

Essentially, the payback on capital deployed is really quick - currently taking just a little over a year.

An LTV to CAC ratio of 6.0, is a very strong indicator of the value created by adding a customer to the platform. Effectively, we add six dollars of lifetime value for every dollar we spend on CAC.

Lastly, as I mentioned at last year's meeting, we adopted three new accounting standards in FY19. We restated our FY18 comparatives to reflect the changes.

On a restated basis, FY18 EBITDA benefited by just over \$22 million. \$11 million of that related to the deferral of commission costs under IFRS 15. The other \$11 million was due to the changes made to operating lease costs under IFRS 16.

IFRS 9 was also adopted, but this didn't have a material impact.

Overall, the introduction of the new standards resulted in a small improvement of \$3 million, to our restated FY18 net loss of \$24.9 million.

With that, I'll hand over to Steve for his update. Thank you.

--ENDS--

XERO LIMITED - ANNUAL MEETING 2019
Thursday 15 August 2019

Address by the CEO, Steve Vamos

Thanks Kirsty and thanks everyone for joining us for Xero's 2019 Annual Meeting today.

It's a pleasure to be here and to have this opportunity to talk more about Xero and our vision for the future.

Xero delivered another strong performance in FY19 as Kirsty covered - with excellent progress on the top line, cash generation, and clear signs of increasing profitability.

It's the kind of result that's only achieved when you have employees, partners and customers who truly believe and appreciate the value we do and can deliver.

So I'd like to start by acknowledging and thanking our team of Xeros around the world for the strong results they delivered in fiscal year 19.

Also thanks to our partners and customers for the trust they place in us, and the commitment they show to our company and the community we are building together.

I'd also like to thank Graham, the Board and Rod for your support in my first year as Xero's CEO and add my welcome to David, it's great to have you join the Board.

It's been a big year, and with each day, the opportunities for Xero are clear to see.

Over the past year I've had the chance to really get to know what is a rare and special organisation.

That all starts with our purpose which is to make life better for people in small business, their advisors and communities around the world.

That's the feedback our customers and partners give us when they talk about Xero.

Small business is family and small business is community, so our purpose reflects the broader impact we believe we can have.

Given the pace of the business, it's incredibly important we constantly test and retest the value we're bringing to our customers and partners. So recently, we took the opportunity to refine and update Xero's purpose and mission, as part of our annual strategy process.

Our recently updated mission is to ***Rewire the world of small business, making it seamless, simpler and smarter.***

We do this by helping to better connect small businesses to their key stakeholders, to take the friction out of running small businesses and to allow them to focus on what's really important to them - which is obviously delivering to their customers.

Anything we can do to help them save time and to provide insights to make their business more successful is the key to where our current and future value lies.

This represents our repositioning from beautiful accounting software to Beautiful Business.

Beautiful Business also means being a good corporate citizen.

We reached a level of maturity as a company, and recognise and appreciate the responsibility associated with that. It is very important for us to understand and support the expectations of communities in which we operate around the world.

This is why we've increased our focus in the area of social and environmental impact.

We've appointed Anne Ascharsobi as our Head of Social and Environmental Impact to steward our strategy and programs.

And we're handling this important initiative as an important priority of our strategy and operations that flow from that.

Our efforts are focused from the inside-out, recognising the integrated nature of social and environmental impact on why we do what we do, and how we do it. Already in place are programs to improve our carbon footprint with offsets for air travel, along with waste management, recycling and energy use initiatives across our offices.

In talking about Xero's strategic priorities, it's important to reflect on the trends and drivers we see that will impact our business, such as industry, regulatory and technology shifts, including:

- An increased use of cloud technology, particularly in the small business segment
- The digitisation of tax and compliance systems, including the moves in the UK towards Making Tax Digital and similar actions around Open Banking, Single Touch Payroll and Payday Filing in Australia and New Zealand - which are getting a lot of focus
- Disruption of financial services, which could ultimately lead to a cashless society, whether it be through new payment methods or the use of systems such as e-invoicing

Being 'born in the cloud' means these trends are at the heart of our vision and provide a clear context for Xero's strategic priorities, which are:

- To drive cloud accounting
- Grow the small business platform
- And build Xero for global scale and innovation

Starting with the adoption of cloud accounting, I'd like to take the opportunity to briefly discuss the progress we're making on all three priorities.

Our biggest immediate opportunity is to keep driving the growth of our core accounting offering in our existing markets, as well as looking for further opportunities in other geographies.

The opportunity here is significant.

The current level of adoption of small business cloud accounting globally is estimated to be less than 20% of the total potential market in the English-speaking countries in which we operate.

The level of adoption in Australia and New Zealand, where cloud accounting adoption levels are far higher - at above 50% - is testament to the product innovation Xero has pioneered over the last decade, and the fact Xero was born in this part of the world.

In terms of what we delivered in FY19, our progress was strong with a net 432,000 subscribers joining Xero over the year, growing our overall subscriber numbers to more than 1.8 million at the end of March.

That's growth of 31% on the prior year.

As Kirsty mentioned, we're particularly pleased with the progress we made outside the ANZ region, which underscores the increasingly global make-up to our business.

The stand out result for the year was in the UK, where a decade-long period of investment has really started to deliver.

We also see continued opportunity in the UK from HMRC's Making Tax Digital initiative. We added 151,000 subscribers in FY19, with 108,000 subscribers added in the second half.

Alongside this, we see continued compliance driven demand for Xero's cloud accounting products.

Continuing to grow Xero's small business platform is central to our future and core to our strategy.

Xero's birth in the cloud established us as a platform for collaboration between advisors and their small business clients.

It is from these origins that we're able to extend the platform beyond bank feed connections that provided even better data and information regarding the financial performance and health of small business customers to many other applications and services.

Xero now has more than 200 connections to banks and financial services partners around the world.

Our near term focus on continued platform growth is about driving workflows and deeper partnerships with financial service providers and banks - especially in the area of payments where we've extended our partnership with Stripe, a leading payment provider, to deliver a seamless payment service integration into Xero's core invoicing workflow.

We are also pursuing opportunities to better leverage our ecosystem of more than 700 app-solution partners.

Supporting Xero's platform strategy, the acquisition of Hubdoc fast-tracked our code-free accounting vision, and we entered a partnership with Gusto in the US to improve our payroll offering.

As we've increased our focus on the growth opportunities, it has become clear that our platform strategy is embedded in every aspect of what Xero does in our core technology, product, partner and corporate strategy functions.

In terms of the performance of Xero as a small business platform, we've made continued progress in commercialising this opportunity for our business in financial year 2019.

Platform and other non-core accounting revenues grew 63% year on year and from 7% to 9% of total revenues.

Platform revenues, in the form of add-ons, such as expenses, payroll, and adjacent products, such as Hubdoc, and Finweb transaction revenues collectively grew by 128%.

Our third strategic priority is building Xero for global scale and innovation.

In FY19 we took a number of strategic steps to build the foundations of a business that in three or four years will be significantly bigger than Xero today.

During FY19 these steps included our acquisition of Hubdoc back in August of 2018, as an important step towards our vision of code free accounting.

We're very pleased with the performance of Hubdoc since we acquired the business, and we're excited about how we can further leverage this technology to better serve our customers and partners.

While smaller by comparison, the acquisition of Instafile helps us accelerate the adoption of cloud accounting in the UK. By building the acquired capability into our UK Xero Tax offer, we expect to see an acceleration in the adoption of cloud accounting that similar initiatives have enabled in Australia and New Zealand.

The convertible notes issued last October, where we raised US 300 million dollars in capital, have given us financial flexibility to support our platform strategy.

We're evaluating a range of potential M&A opportunities that we screen based on how they support our strategic priorities.

Also, as Xero continues to grow, investing to build capabilities that support global scale and innovation include significant focus on growing our talent, and improving all our business processes for operational excellence.

During the year we focused on continuing to develop our capabilities across technology, product management, strategy and M&A. We have also brought a number of senior people into Xero to strengthen our leadership team.

In the first few months of FY20 we made two further key appointments to our team.

Tony Ward joined us as President of the Americas.

Tony brings tremendous technology industry sales, marketing and product management skills to Xero, having held senior positions at Microsoft, LinkedIn and most recently DropBox.

Tony is Canadian born and bred and has also lived for many years in New Zealand and Australia.

We appointed Damien Tampling as Chief Strategy and Corporate Development Officer in May.

Damien joined us from Deloitte and brings deep technology and digital experience from a consulting, business management and investment perspective across many industries including financial services.

How we partner and what we acquire are critical to realising the long-term value of our small business platform strategy. Damien leads these strategically significant areas of the business.

We are also announcing this week, that Keri Gohman has decided to leave Xero after three years with us to take up another career opportunity.

We're extremely grateful to Keri for her contribution to Xero in her roles, leading the re-alignment of our business in the Americas and more recently in leading our small business platform team.

As I mentioned earlier, our platform is core to everything we do, so going forward we're building on Keri's work by aligning everything deeply into the core technology, product and corporate development functions, whilst maintaining specific focus on payments and development of our ecosystem under the specialist executive leadership and business units we have in place.

We wish Keri well in her new endeavours.

Lastly, our Outlook for FY20, which is unchanged.

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 flow 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.

I started today by saying how excited I am by the opportunities we have, and the value Xero can bring to small businesses and their advisors across the world.

We have a unique opportunity to bring greater value to a segment of industry and our community that has, for far too long, been underserved.

So on behalf of our whole team here today, we are proud and privileged to be in a position to make life better for people in small businesses and their advisors, and will continue to seek and deliver value to them and to you, our shareholders.

And, on that note, I'd like to thank all of you for listening and attending today. I'll hand back to Graham before he opens the floor to questions.

--ENDS--