

Investor Briefing

Half year results to 30 September 2020

12 NOVEMBER 2020



Beautiful business



Mentorloop | Australia

Important notice

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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 interim report for the period ended 30 September 2020, 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 30 September 2020, 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 25 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

02

Outlook

03

Q&A

04

Business update



Steve Vamos

CHIEF EXECUTIVE OFFICER



Revenue growth with operational discipline in challenging conditions

Financial and operating performance highlights for the six months ending 30 September 2020

SUBSCRIBERS

2.453m

+ 396,000 YOY

ARPU

\$29.81

- 4% YOY (-3% in constant currency)

AMRR

\$877.6m

+ 15% YOY (15% in constant currency)

TOTAL LIFETIME VALUE

\$6.2b

+ \$0.8b YOY

OPERATING REVENUE

\$409.8m

+ 21% YOY (19% in constant currency)

EBITDA

\$120.8m

+ \$55.9m YOY

NET PROFIT AFTER TAX

\$34.5m

+ \$33.2m YOY

FREE CASH FLOW

\$54.3m

+ \$49.4m YOY

Supporting our customers and partners



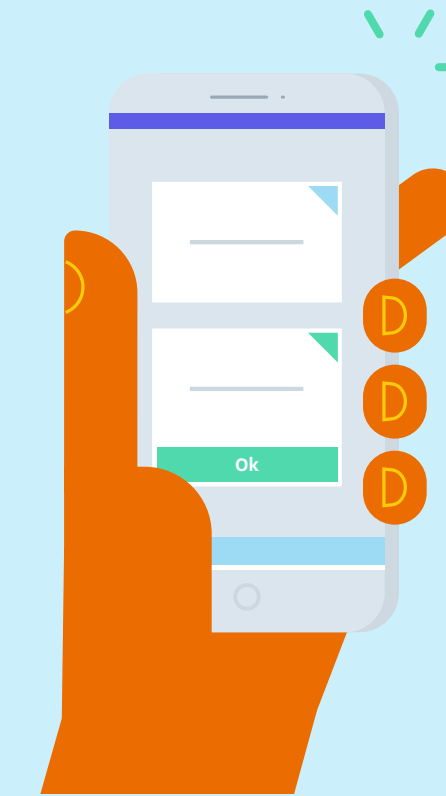
Prioritised product development and delivery

- Enhanced Starter plan better tailored to customer needs
- Streamlining practice management and workflows for partners
- Improving Stripe and GoCardless payment integrations



Continuing to connect and share

- Helping our people do their best work in supporting our customers and partners
- Created Xero On Air to digitally engage with partners and customers
- Providing a lens into the small business economy through Xero Small Business Insights (XSBI) research



Helping to navigate through COVID-19

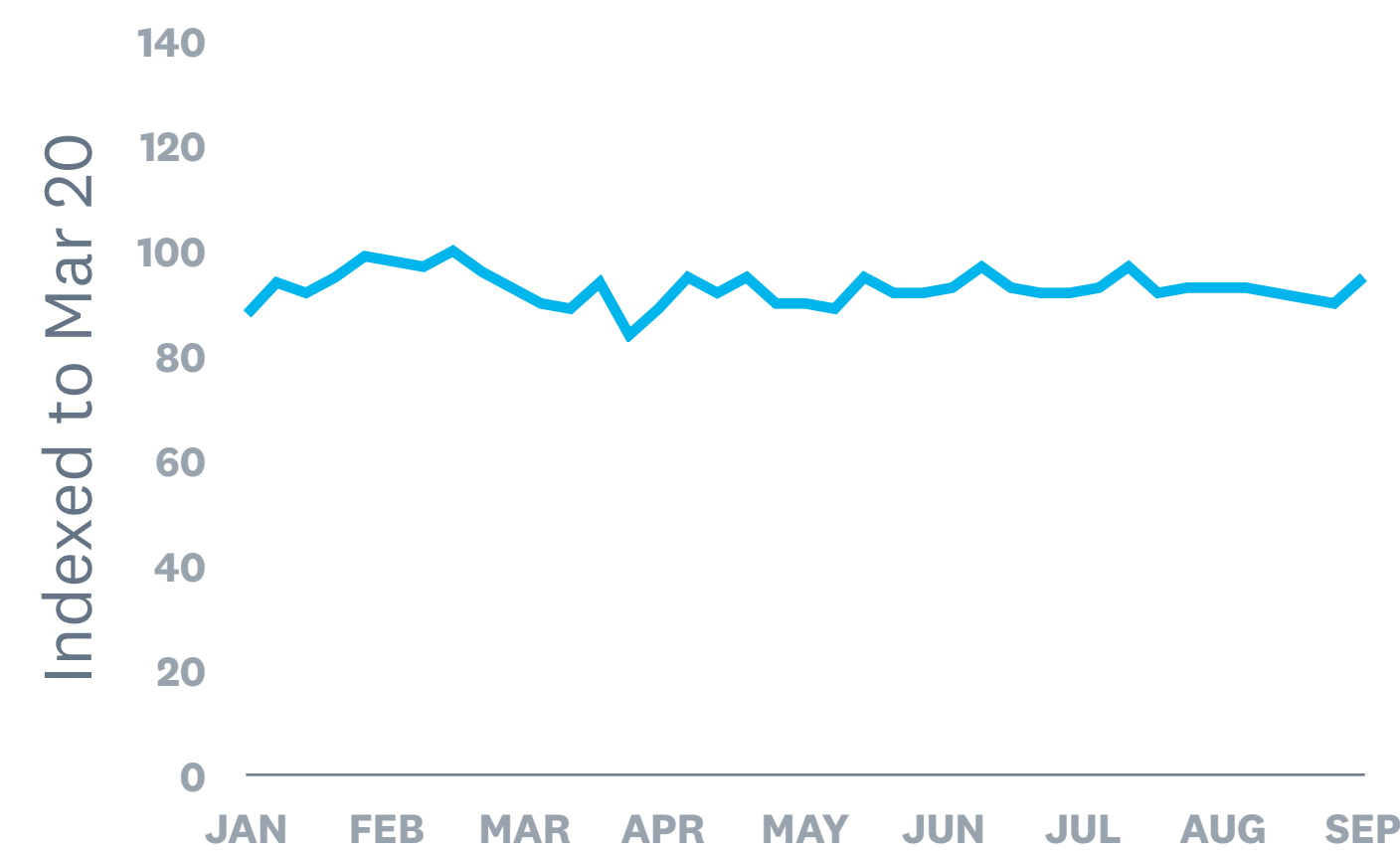
- Payroll enhancements in response to various government initiatives and stimulus benefits, eg furlough leave and Job Retention Scheme in the UK, and JobKeeper payments in Australia
- Supporting customers and their business advisors in managing cash flow and business performance

Customer metrics show value of Xero to subscribers

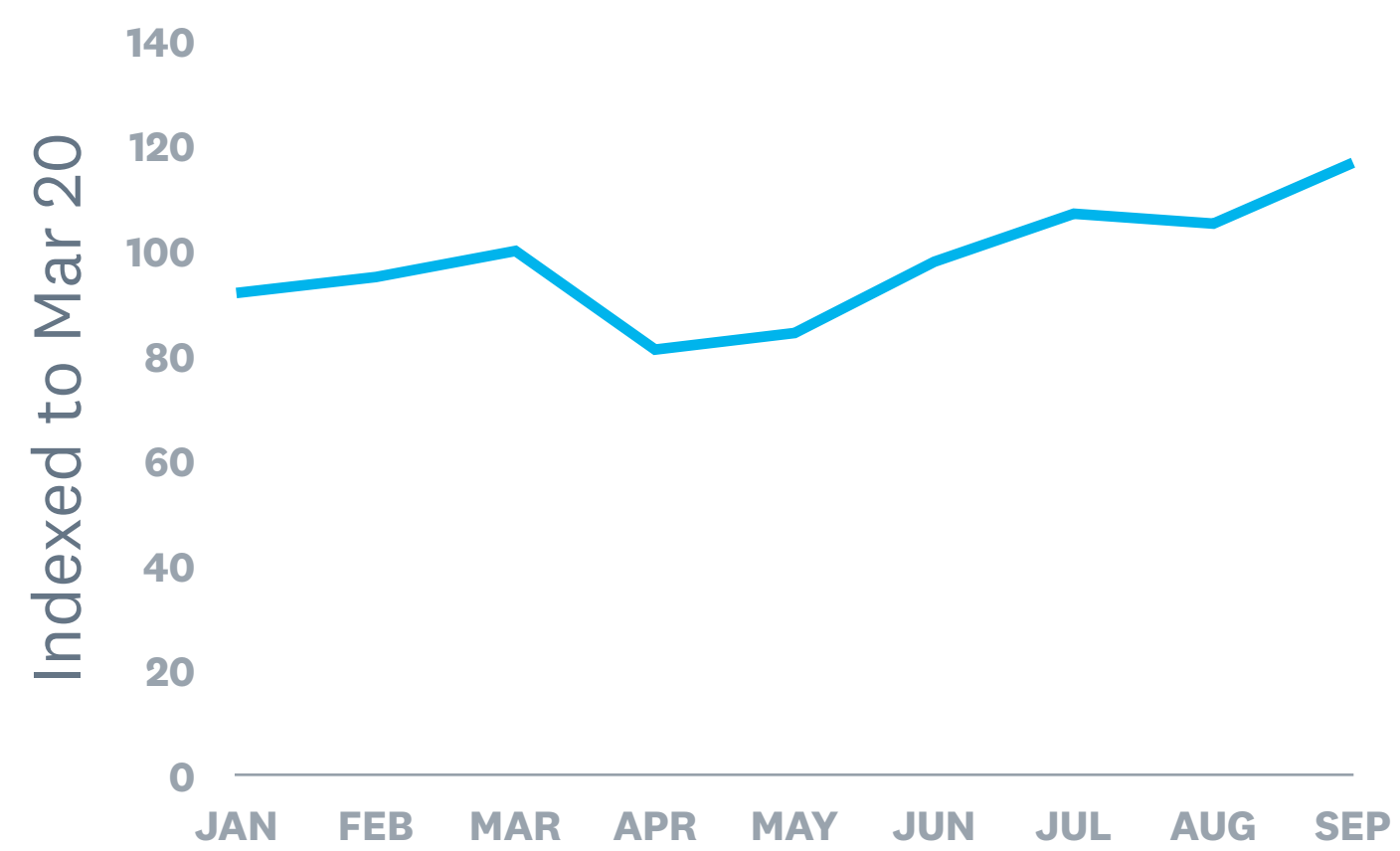
Monthly MRR churn¹

	H1 FY20	H1 FY21	Δ YOY
ANZ	0.82%	0.83%	0.01%
International	1.58%	1.53%	-0.05%
Group	1.10%	1.11%	0.01%

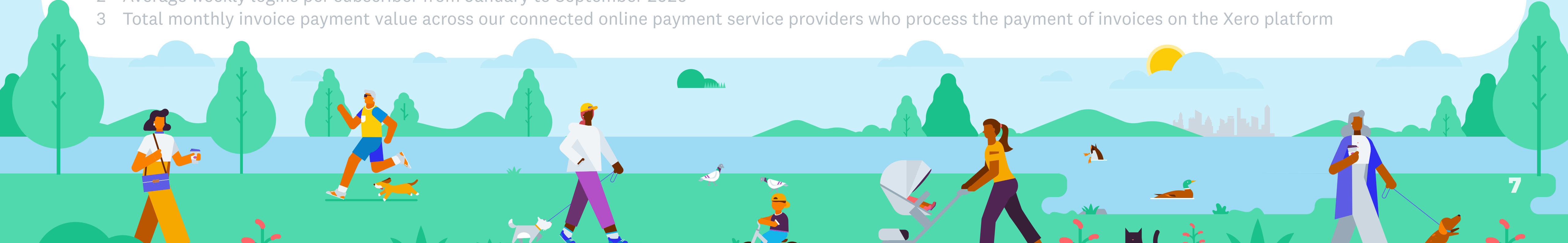
Weekly subscriber login activity² since Jan 20 (indexed)



Total monthly payment value³ since Jan 20 (indexed)



1 See glossary for definition of churn
2 Average weekly logins per subscriber from January to September 2020
3 Total monthly invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

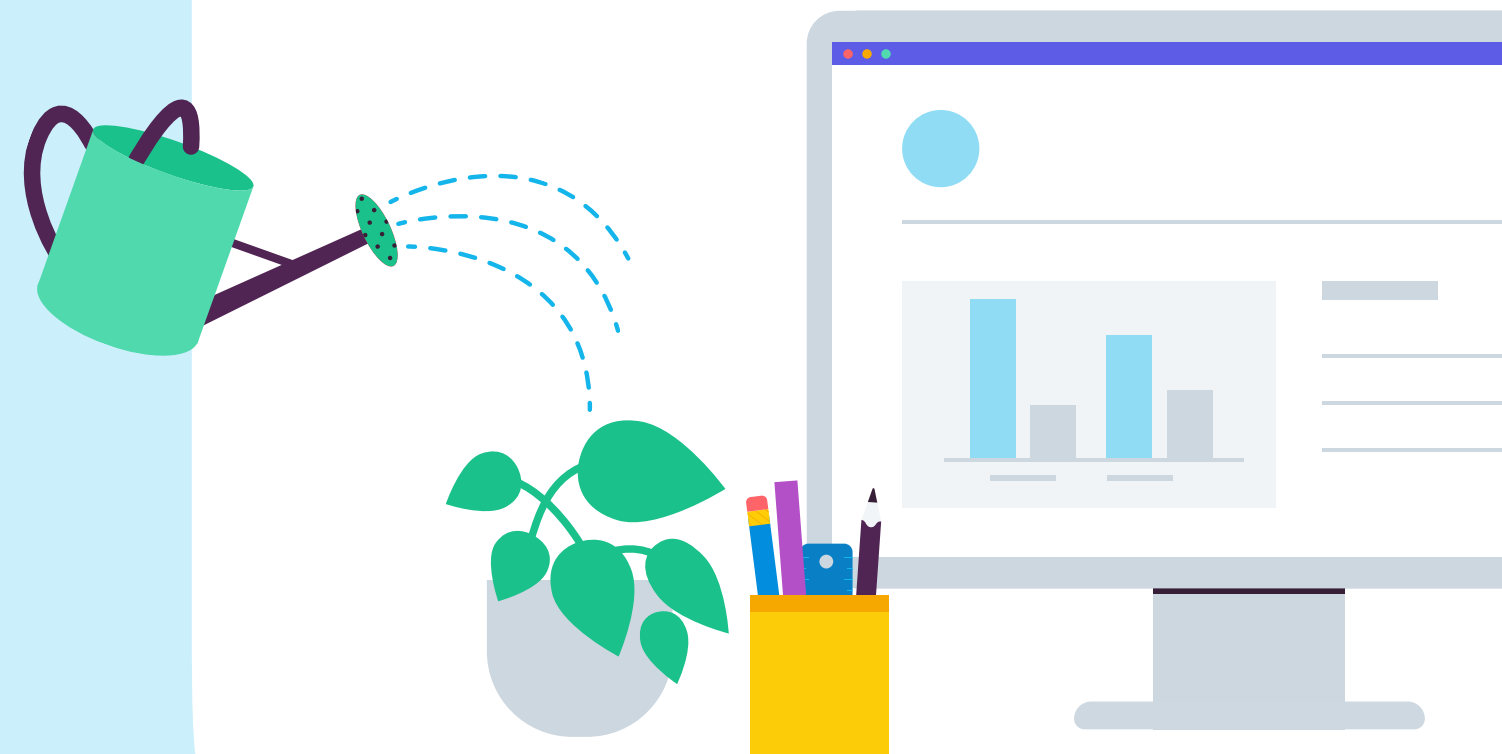


Strategic priorities

**Drive cloud
accounting**

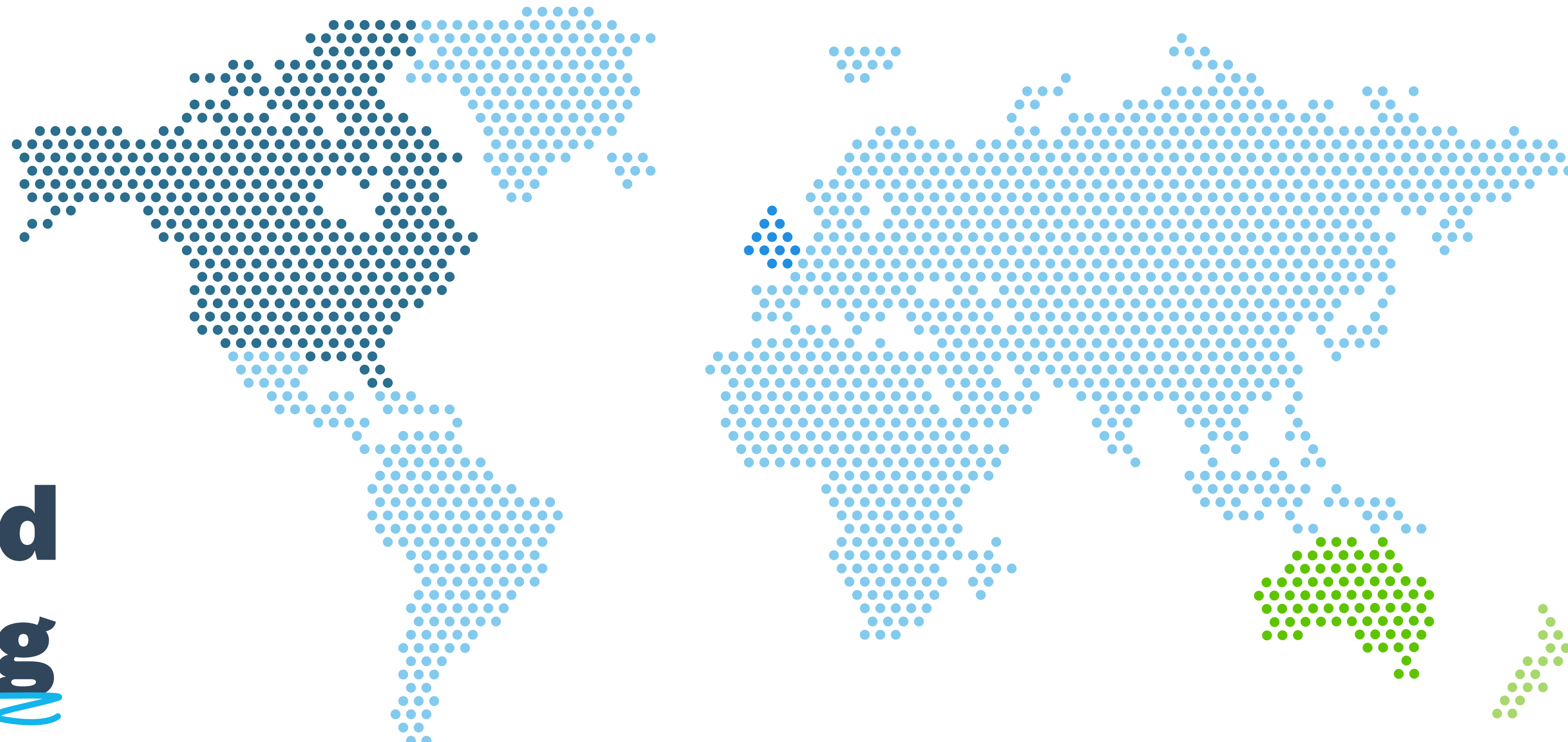


**Grow small
business
platform**



**Build
for global
scale and
innovation**





Drive cloud accounting

SUBSCRIBERS

NET ADDITIONS¹

REVENUE

Australia

H1 FY21	Δ YOY
1.01m	+21%
100k	-12%
\$184m	+18%

New Zealand

H1 FY21	Δ YOY
414k	+13%
22k	+38%
\$64m	+13%

United Kingdom

H1 FY21	Δ YOY
638k	+19%
25k	-66%
\$107m	+33%

North America

H1 FY21	Δ YOY
251k	+17%
10k	-50%
\$29m	+4%

Rest of World

H1 FY21	Δ YOY
136k	+37%
11k	-31%
\$27m	+38%

1.43 MILLION SUBSCRIBERS | >50% CLOUD ADOPTION²

1.03 MILLION SUBSCRIBERS | <20% CLOUD ADOPTION²

1 Net adds over six months, YOY% growth rate
2 Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

Australia and New Zealand highlights



Australia

- Became first Xero geography to pass through one million subscribers milestone
- Worked closely with Australian Taxation Office to assist small business in accessing government stimulus, became JobKeeper enabled
- Single Touch Payroll continued to contribute to subscriber growth with deadline of 1 July for businesses with 1-4 employees

	H1 FY21	Δ YOY
SUBSCRIBERS	1.01m	+21%
NET ADDITIONS	100k	-12%
REVENUE	\$184m	+18%¹

¹ Revenue growth 17% YOY constant currency

New Zealand

- Subscriber net additions reaccelerated for the first time against prior year since H2 FY17
- Disruption from COVID-19 contributed to increased partner migration to the cloud
- Launched lending integration with Kiwibank's Fast Capital platform, a working capital and lending offer targeting SMEs in New Zealand

	H1 FY21	Δ YOY
SUBSCRIBERS	414k	+13%
NET ADDITIONS	22k	+38%
REVENUE	\$64m	+13%

International highlights



United Kingdom

- UK Government revised compliance dates for MTD for VAT (second phase) of April 2022, and MTD for Income Tax of April 2023
- Continued to invest in preparation for MTD for Income Tax (personal tax, trusts, partnerships and estates)
- Recognised as 2020 Accountancy Software of the Year at The Accountant & International Accounting Bulletin Awards

	H1 FY21	Δ YOY
SUBSCRIBERS	638k	+19%
NET ADDITIONS	25k	-66%
REVENUE	\$107m	+33% ¹

1 Revenue growth 29% YOY constant currency

North America

- Continued growth in estimated partner channel capacity to over 1.5 million small businesses, despite prolonged US tax filing season due to COVID-19
- Bank feed agreement with Bank of America, completing coverage of top tier US banks

	H1 FY21	Δ YOY
SUBSCRIBERS	251k	+17%
NET ADDITIONS	10k	-50%
REVENUE	\$29m	+4% ²

2 Revenue growth 2% YOY constant currency

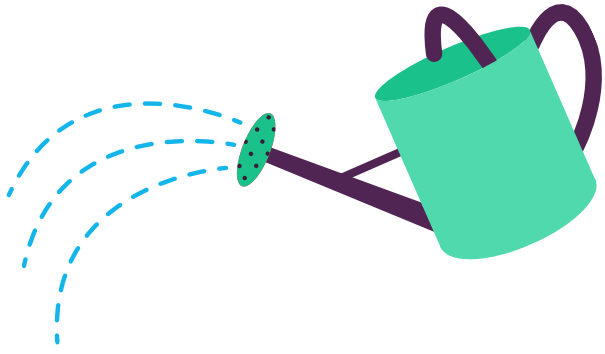
Rest of World

- Range of government initiatives helping to drive SME digitisation in Singapore including the Digital Resilience Bonus
- Enhanced localised VAT filing experience in South Africa
- Bank feeds announced with NedBank in South Africa

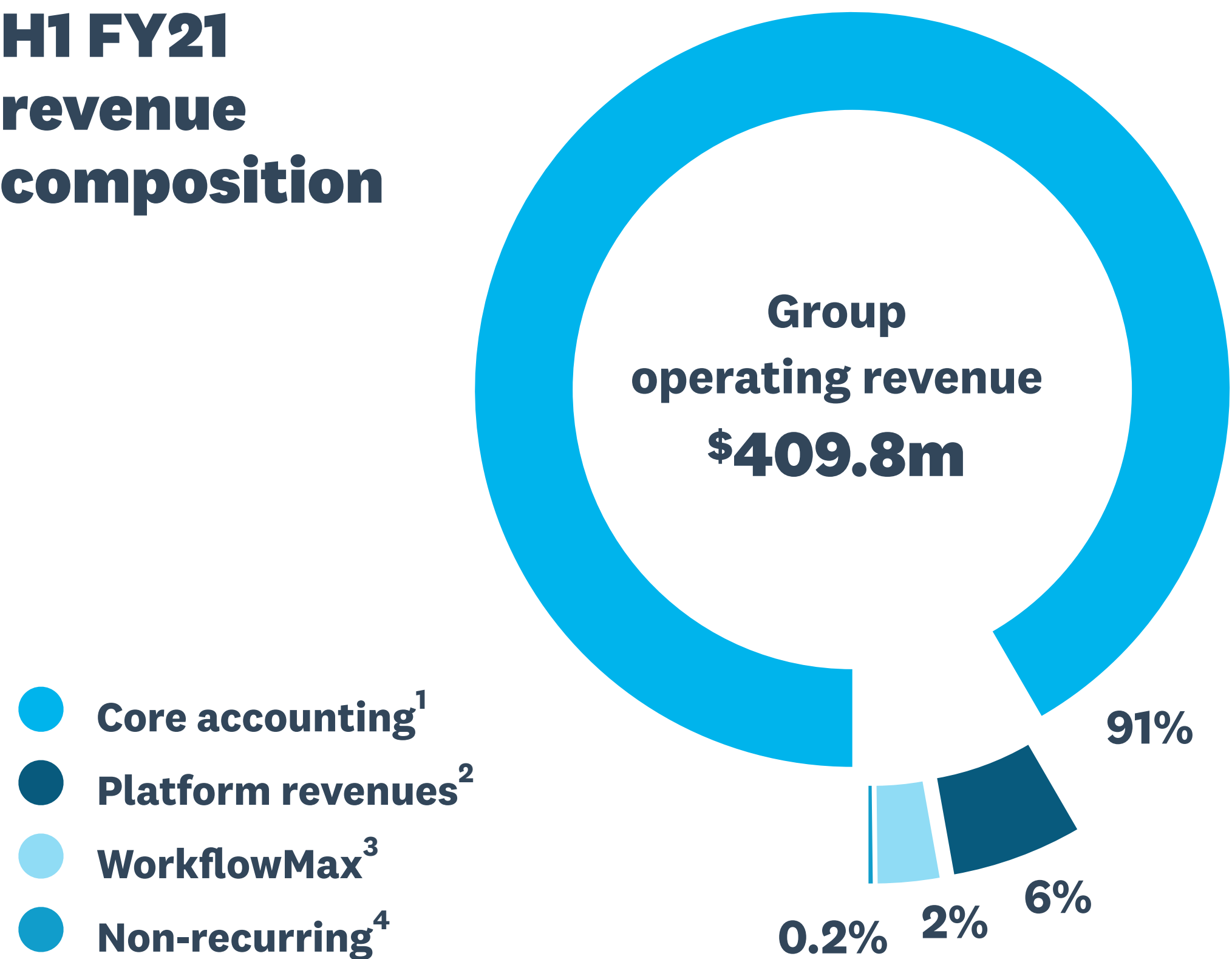
	H1 FY21	Δ YOY
SUBSCRIBERS	136k	+37%
NET ADDITIONS	11k	-31%
REVENUE	\$27m	+38% ³

3 Revenue growth 35% YOY constant currency

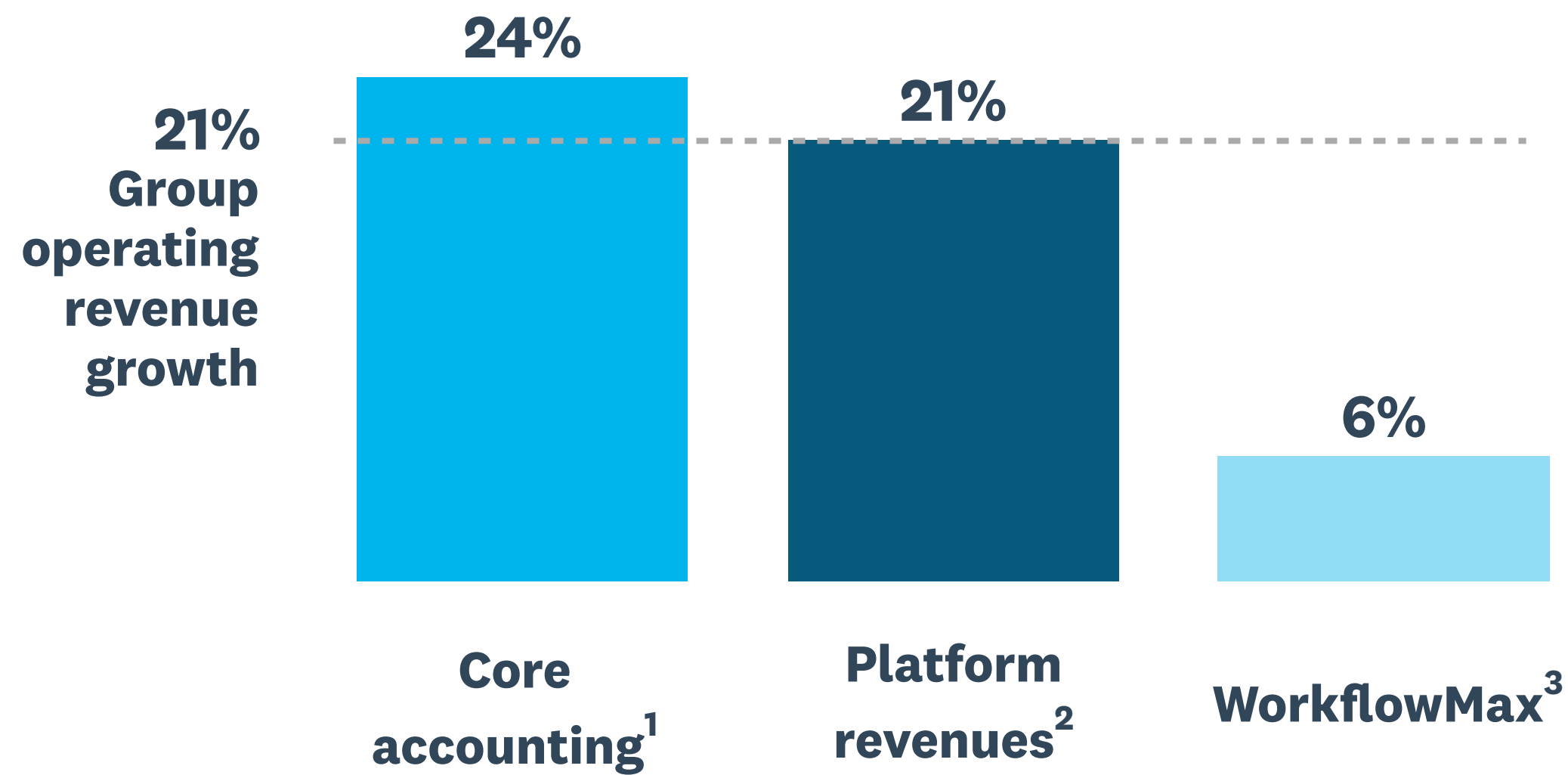
Grow the small business platform



H1 FY21 revenue composition



H1 FY21 revenue growth YOY



Non-recurring revenues decreased 87% primarily due to cancellation of Xerocon and other in-person events such as roadshows

1 Core accounting includes bundled Hubdoc revenues

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 and expenses modules), payments and revenue share agreements with partners

3 Revenues relating to WorkflowMax, online workflow and job management software

4 Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services

Build for global scale and innovation

Talent acquisition continued throughout the period in line with strategic objectives



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



Embedding SEI activities across the business to deliver sustainable long-term growth



Financial results

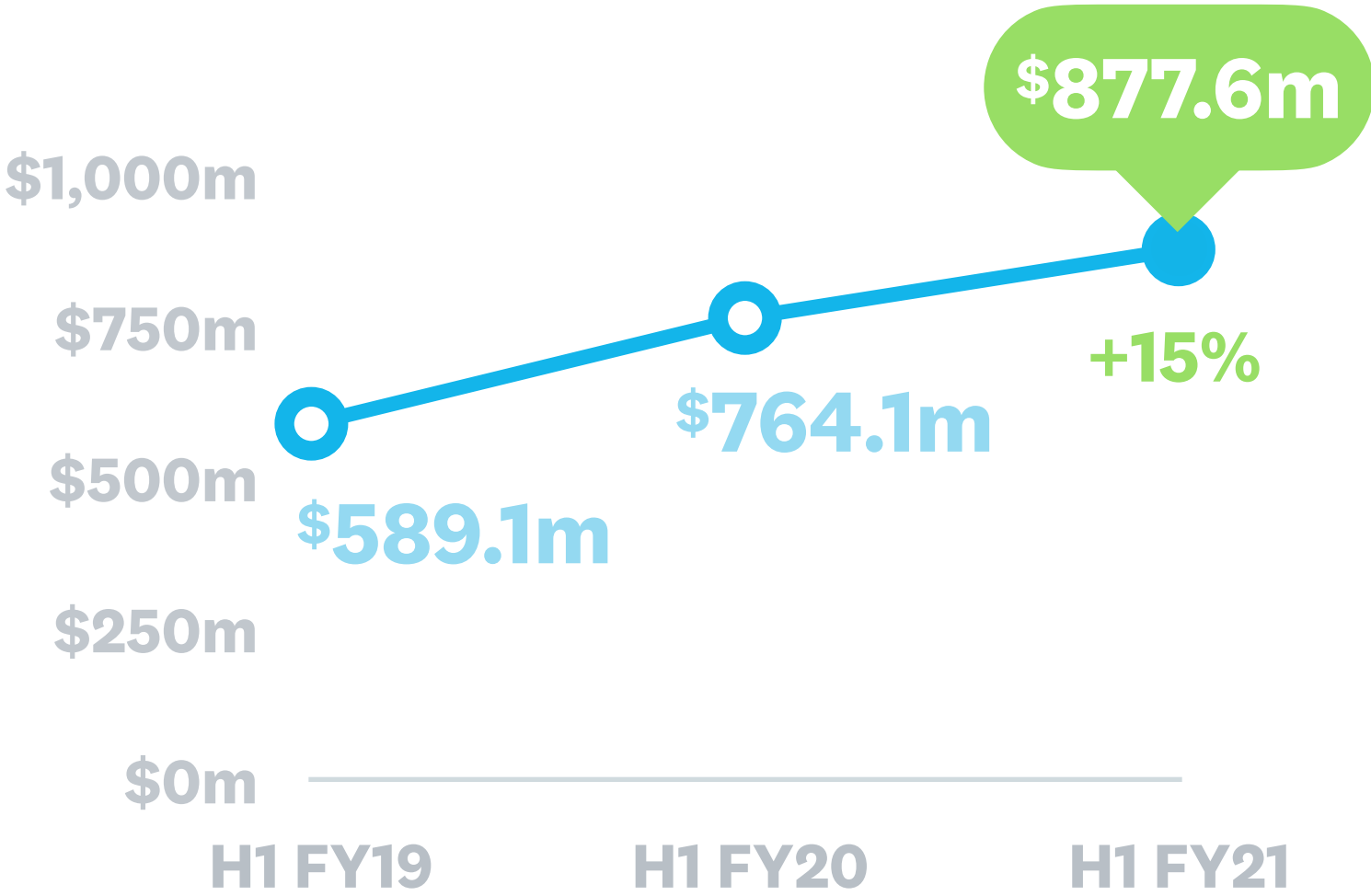


Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



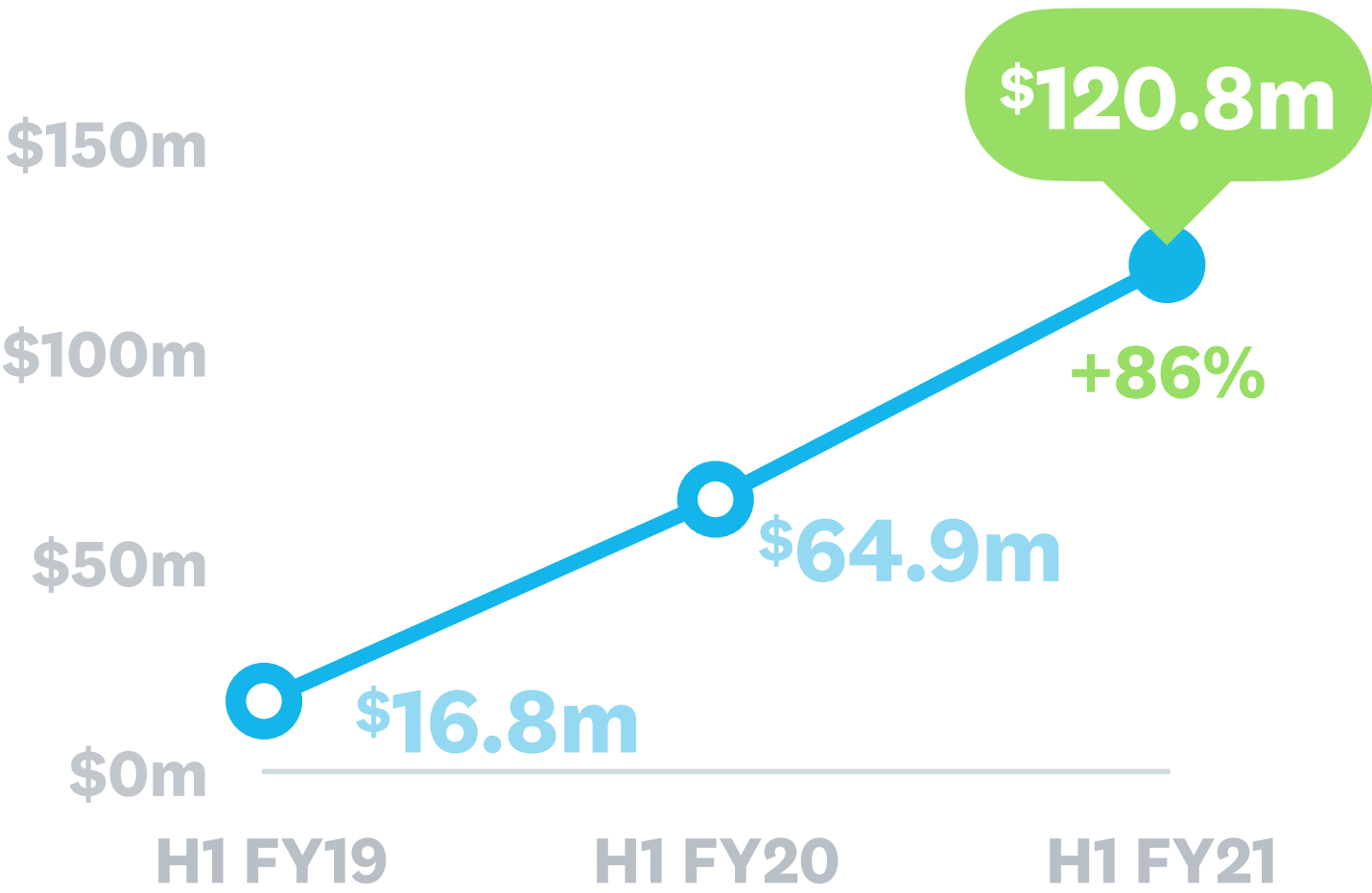
Resilient business model, responsive spending and investment plan

AMRR



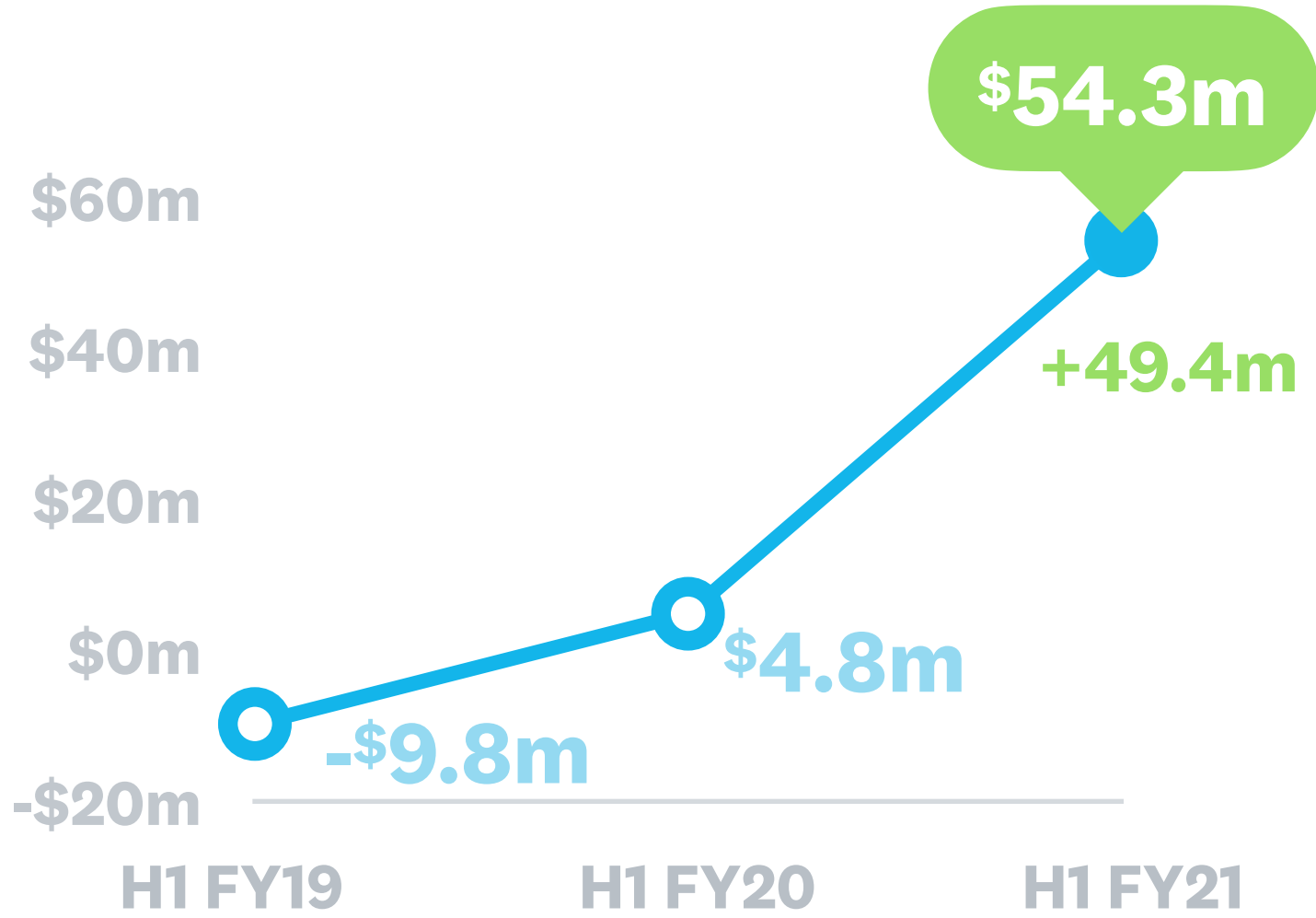
Growth in AMRR of \$113.5m or 14.8% YOY (15.1% in constant currency) was driven by subscriber growth across all markets, offset by movements in ARPU

EBITDA



EBITDA increased by \$55.9m or 86% YOY, as a result of a responsive spending and investment plan in H1 FY21 combined with the resilience of Xero's business model

Free cash flow



Free cash flow increased \$49.4m, also benefitting from responsive expense management in H1 FY21

Free cash flow margin increased 11.8pp from 1.4% to 13.2% YOY

Unit economics and track record of value creation

	September 2020	Δ YOY
ARPU	\$29.81	↓
MRR churn	1.11%	↑
Gross margin	86%	↑
LTV per subscriber	\$2,516	-3.9% ¹
LTV/CAC	5.7	↓
CAC months	14.9	↑

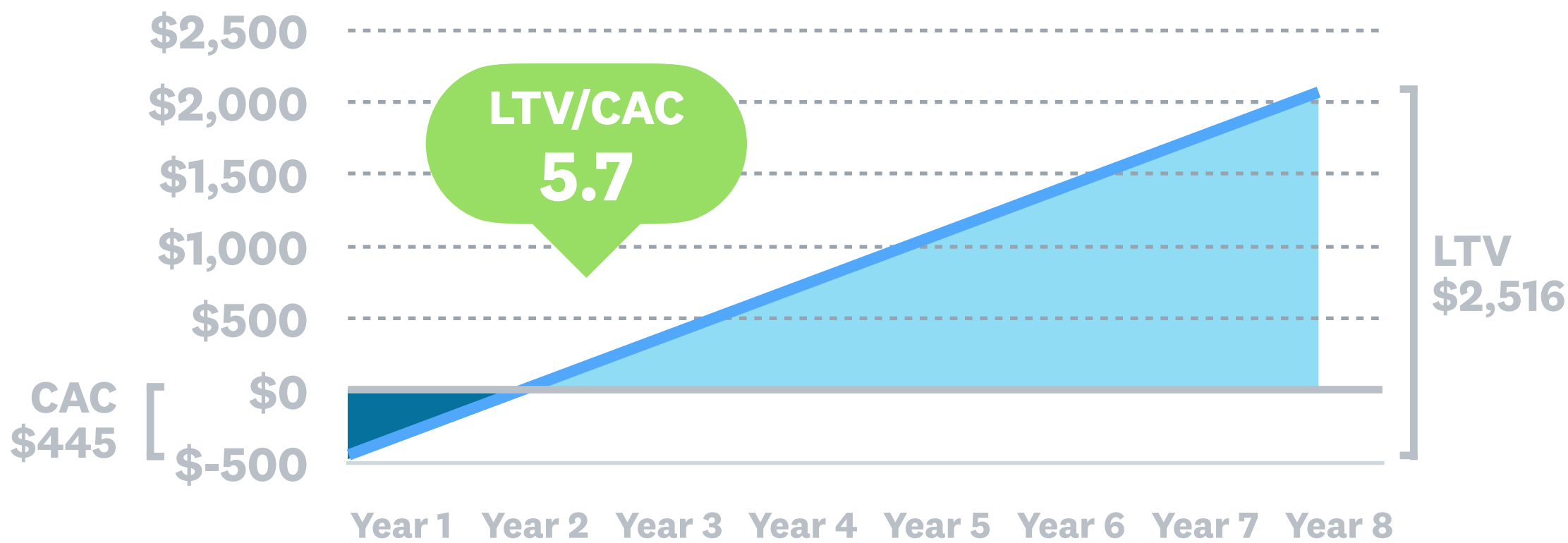
LTV grew 1.6x in the last 2 years

LTV CAGR H1 FY16 to H1 FY21 was 39% for ANZ and 48% for International

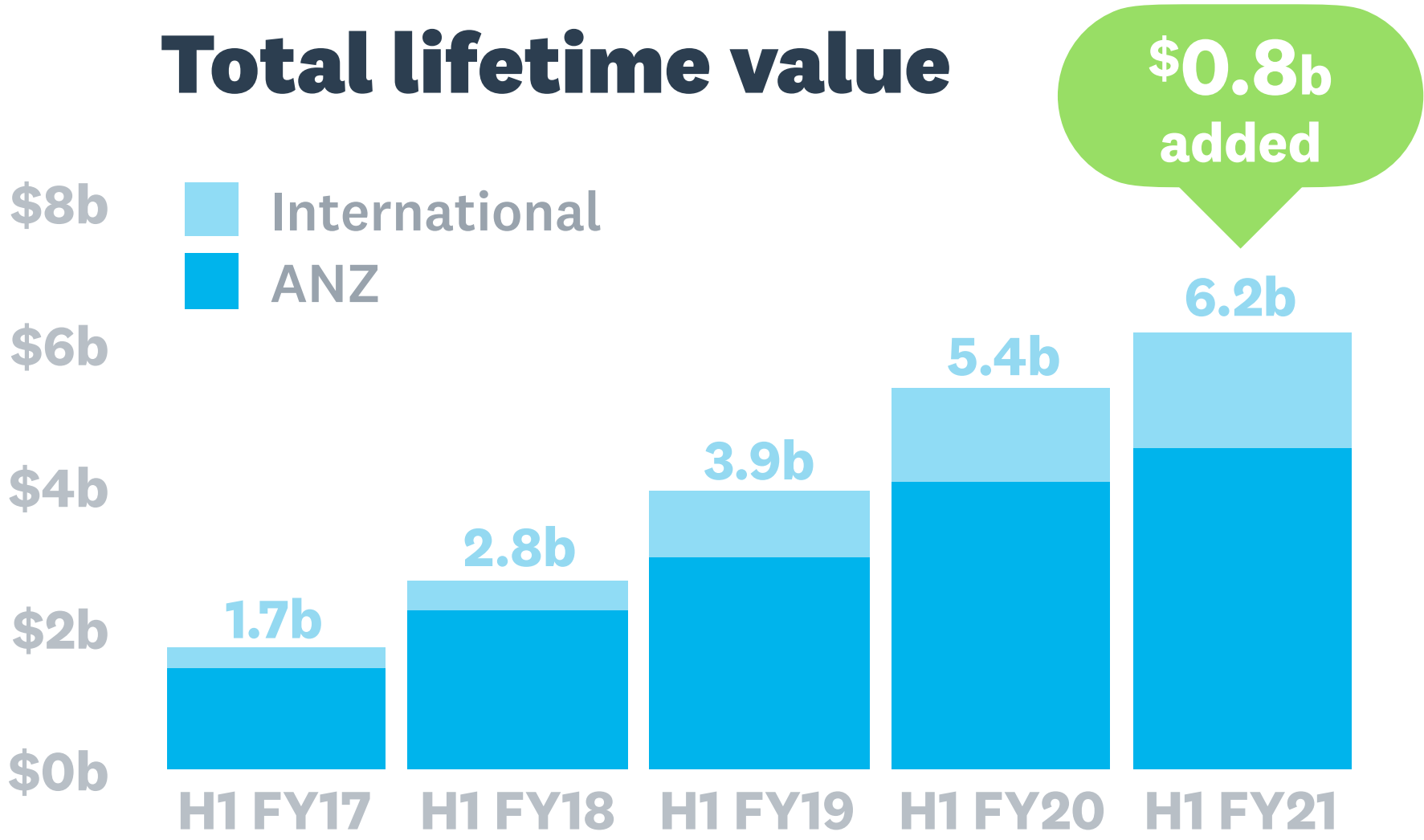
¹ LTV per subscriber growth in nominal terms. 4.0% decrease in constant currency terms based on exchange rates at 30 September 2019

Value of a Xero subscriber

AT 30 SEPTEMBER 2020

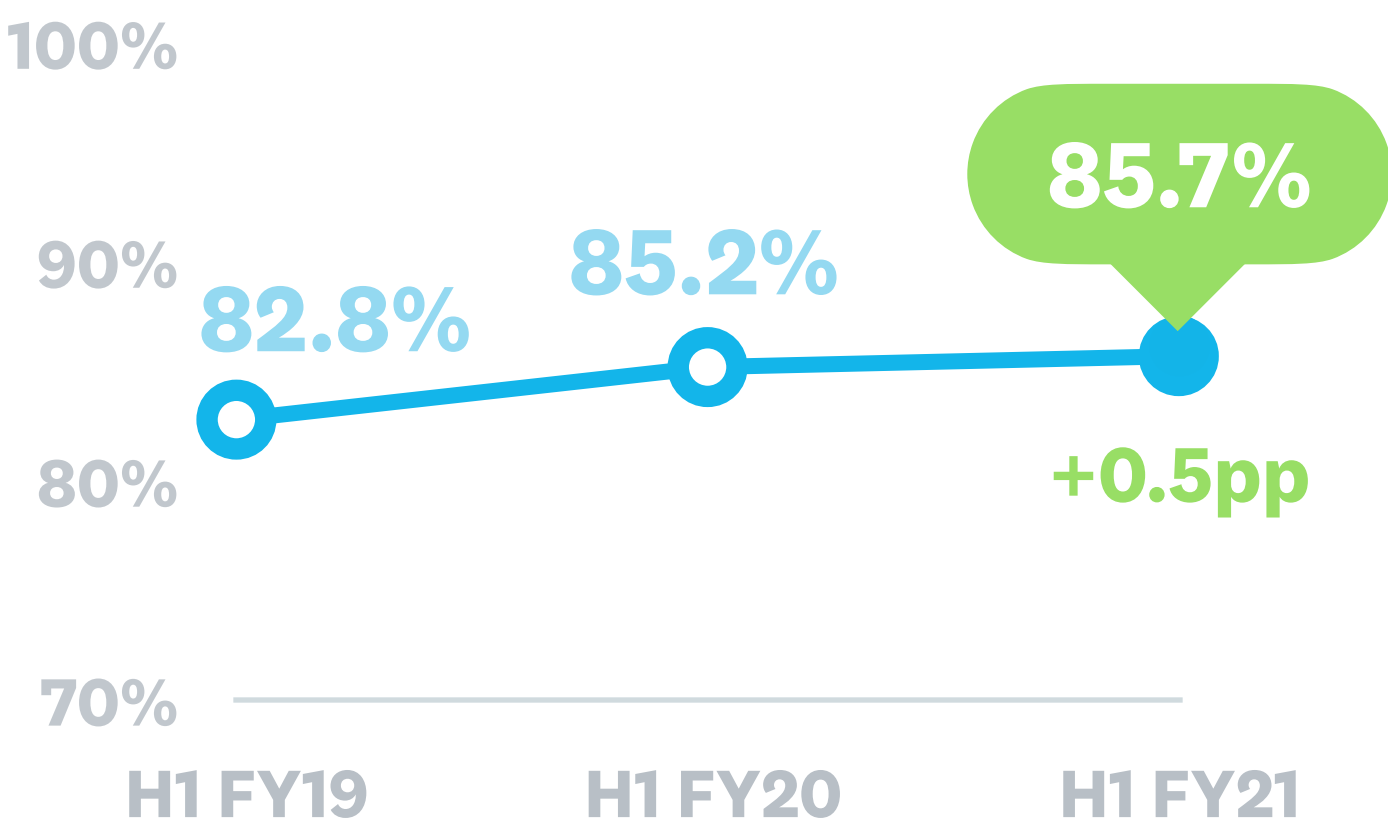


Total lifetime value



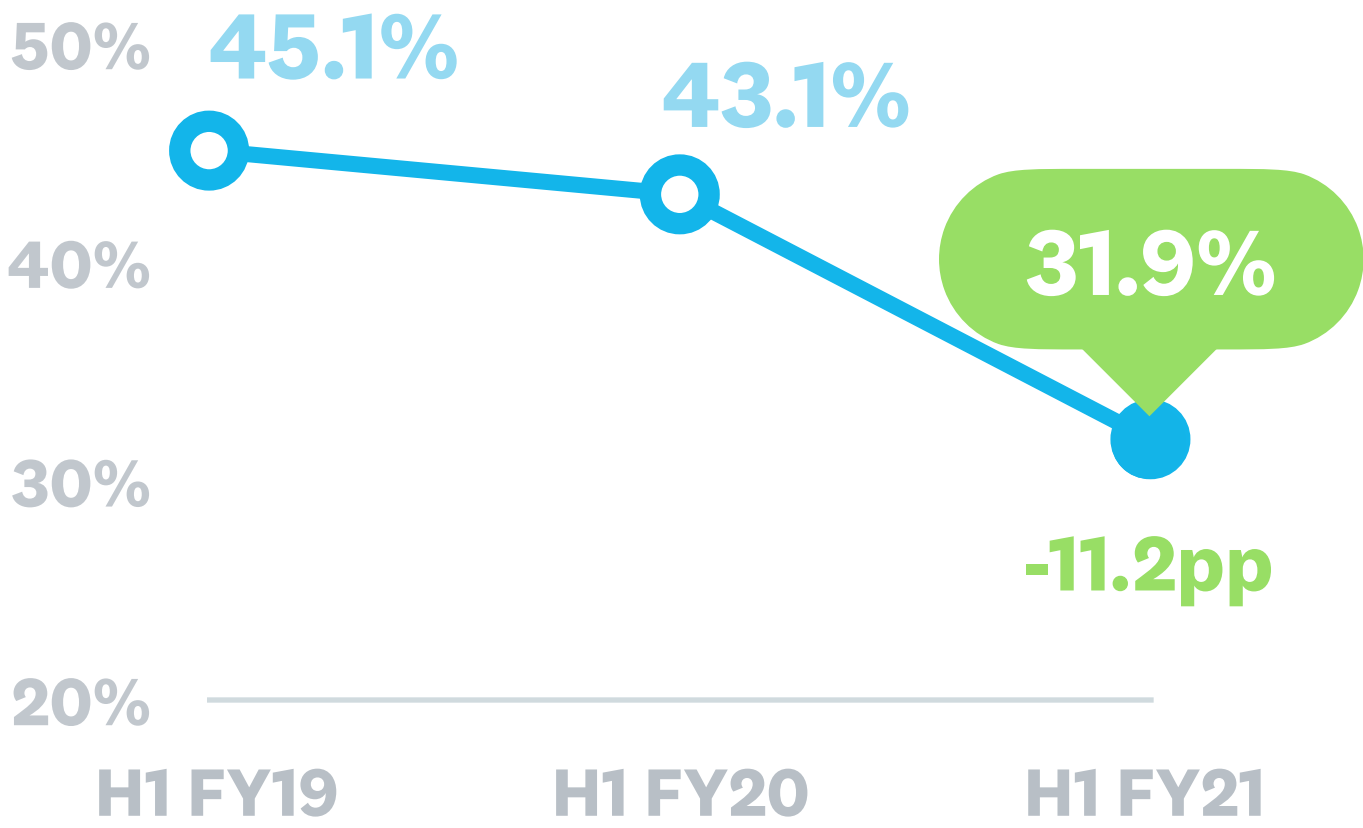
Steady gross margin, reduced CAC spend and continued product investment prioritisation

Gross margin



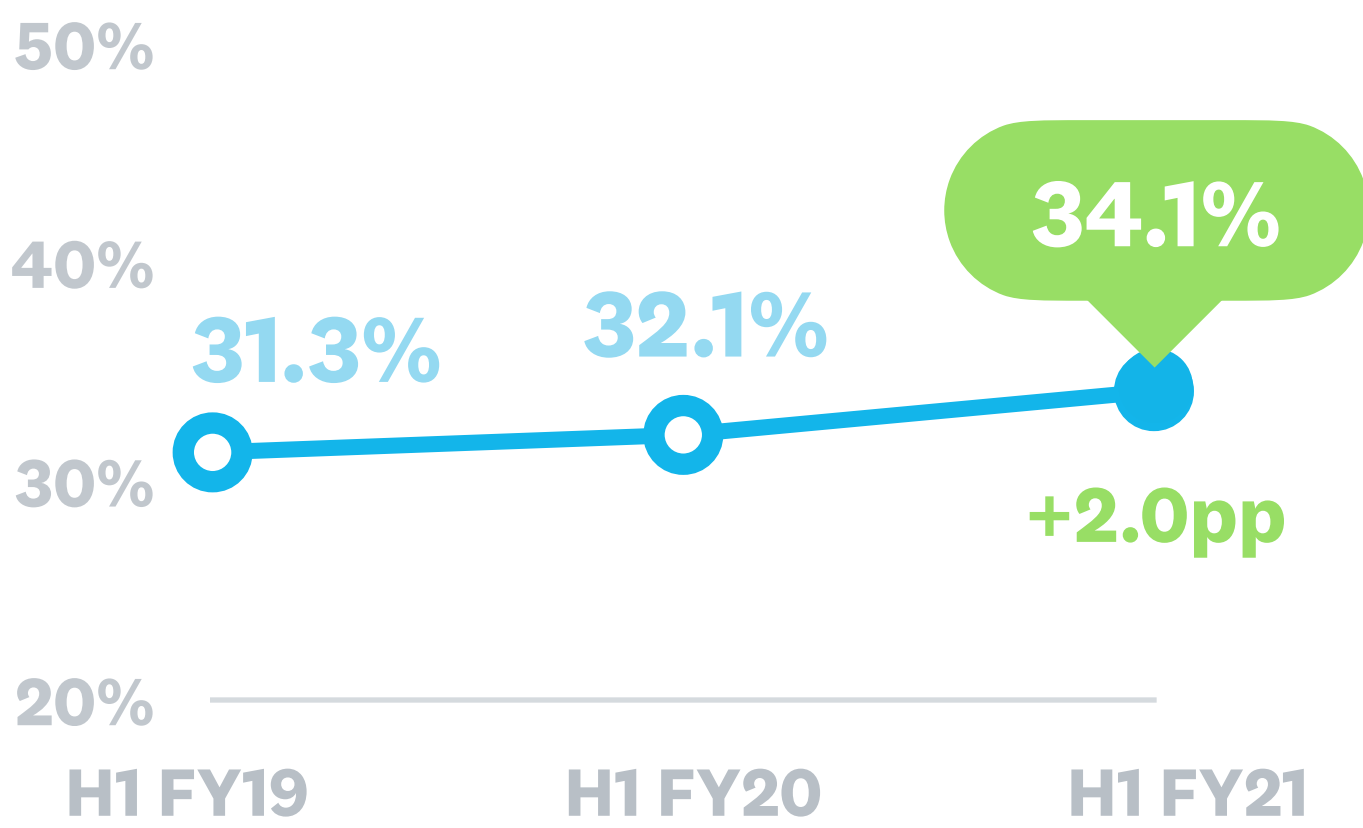
Gross margin improvement driven by continuing efficiencies in cost to serve including customer support, and minor improvements in security and bank feed costs

CAC as % of revenue



Sales and marketing costs decreased by 10% YOY, while operating revenue grew 21%. Management of the variable cost base contributed to a 11.2pp decrease YOY in CAC as a percentage of revenue

Product costs including opex and capex, as % of revenue¹



Product investment increased in H1 FY21 by 29% YOY to support longer-term strategic priorities and related technological and customer needs

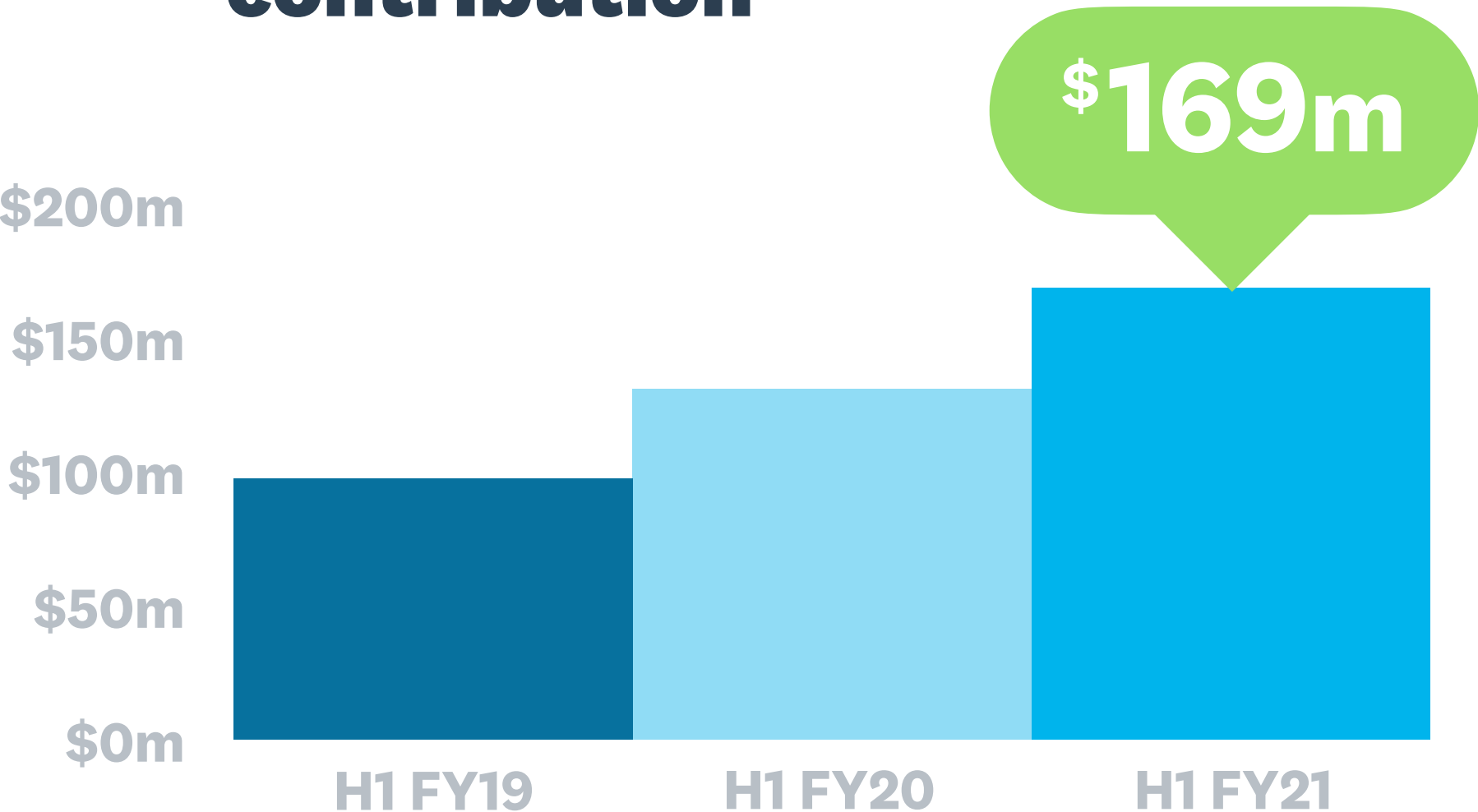
¹ Net of government grants

Contribution margins uplift across segments

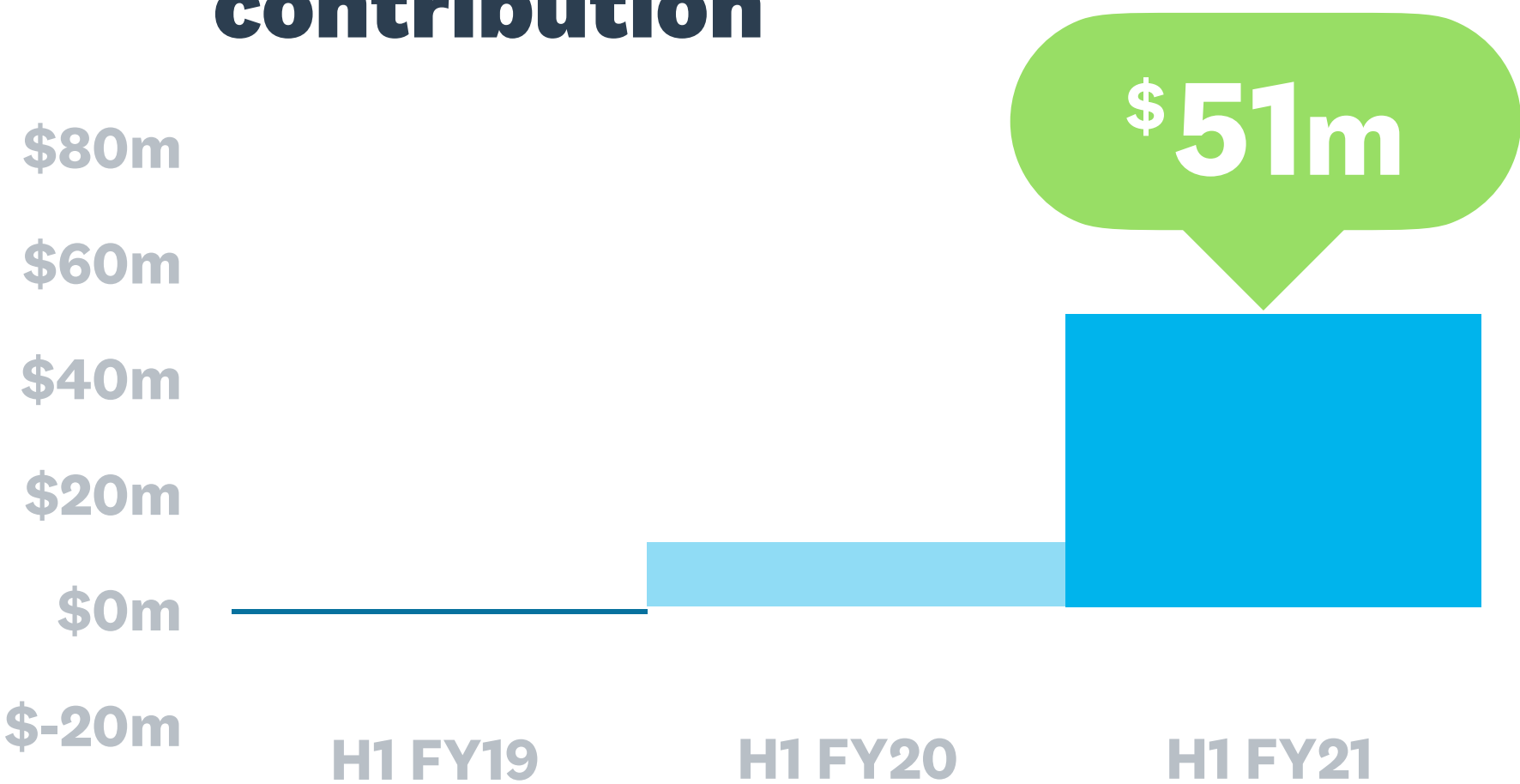
Australia and New Zealand contribution improved 29% YOY, exceeding revenue growth of 17% YOY due to continued operating discipline and scale benefits combined with robust subscriber growth

International full year contribution improved \$40m YOY, after becoming positive for the first time in H1 FY20. The impact of lower CAC spend combined with further scaling in the period more than offset the continued investment to drive long-term subscriber growth

Australia and New Zealand contribution



International segment contribution



Financial performance

Operating revenue growth of 21% YOY (19% constant currency), driven primarily by subscriber growth across all markets

EBITDA improved \$55.9m YOY, resulting in a 10.4pp increase in EBITDA margin over the period as a result of responsive expense management

There were no impairments recorded in the period

Fourth consecutive half year period with positive net profit (\$34.5m)

	H1 FY20 (\$000s)	H1 FY21 (\$000s)	YOY change (%)
Total operating revenue	338,658	409,837	21%
Gross profit	288,517	351,161	22%
Gross margin	85.2%	85.7%	+0.5pp
Sales & marketing costs	(146,072)	(130,750)	-10%
Product design & development	(85,297)	(110,654)	30%
General & administration	(41,138)	(46,917)	14%
Total operating expenses	(272,507)	(288,321)	6%
Asset impairments and other income & expenses	(1,270)	(3,151)	NM
Operating profit	14,740	59,689	NM
EBITDA	64,850	120,765	86%
EBITDA margin	19.1%	29.5%	+10.4pp
Net profit after tax	1,336	34,486	NM

Total available liquid resources of \$723 million

Positive free cash flow result in H1 FY21 of \$54.3m, equivalent to 13.2% of operating revenue

Operating cash flow increased 77% to \$126.8m, an improvement of \$55.2m from \$71.5m in H1 FY20

Net cash position at 30 September 2020 was \$177.7m (comprising cash and short-term deposits less term debt) compared to \$101.4m at 30 September 2019

Total available liquid resources of \$722.5m inclusive of \$150m of undrawn committed debt facilities

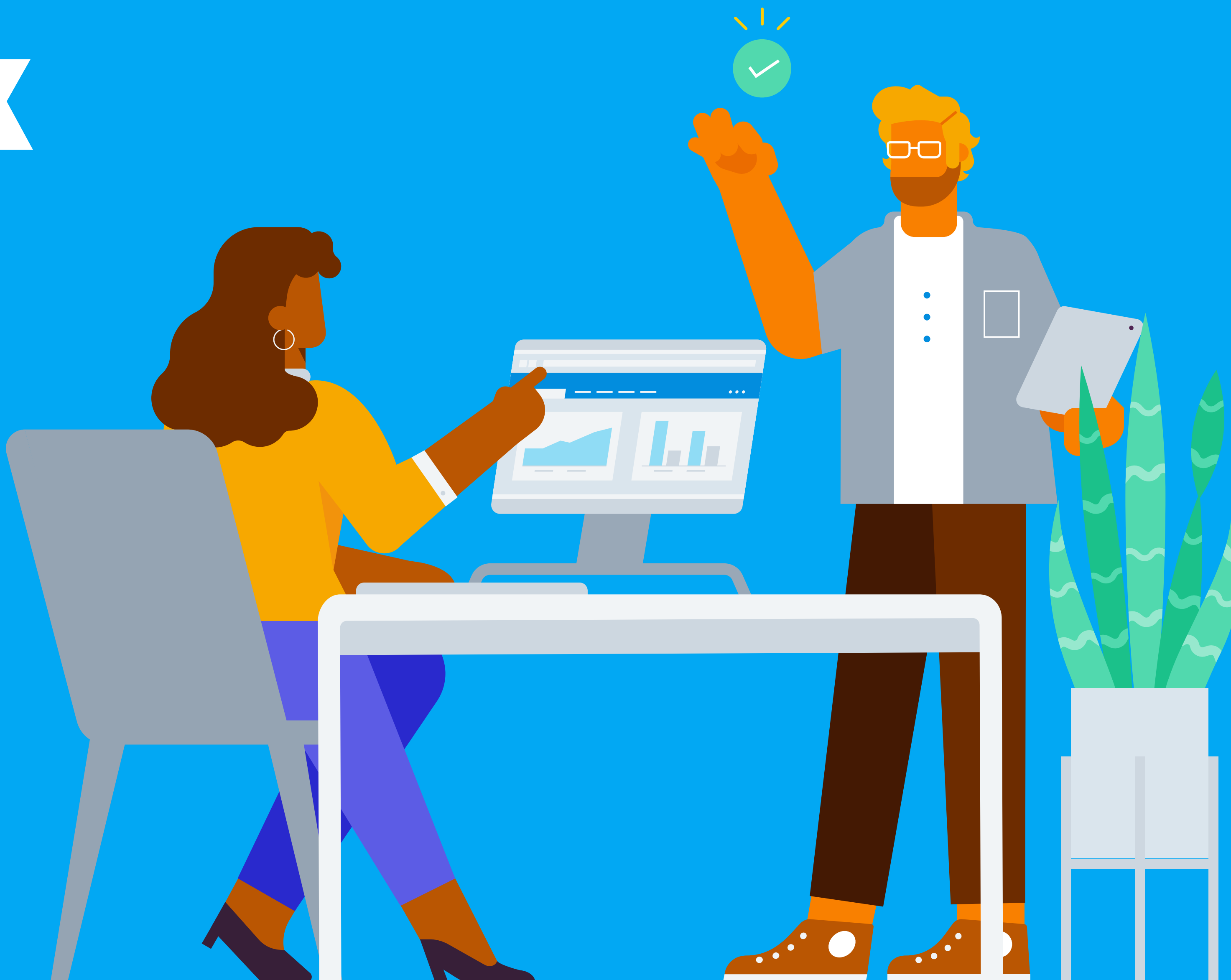
Movement in net cash position

	H1 FY20 (\$000s)	H1 FY21 (\$000s)	YOY change (\$000s)
Cash and cash equivalents	110,898	222,016	111,118
Short-term deposits	385,130	350,516	(34,614)
Total cash and short-term deposits	496,028	572,532	76,504
Convertible notes – term debt liability	(394,631)	(394,873)	(242)
Net cash	101,397	177,659	76,262

Outlook

Xero is a long-term oriented business with ambitions for high-growth. We continue to operate with disciplined cost management and targeted allocation of capital. This allows us to remain agile so we can continue to innovate, invest in new products and customer growth, and respond to opportunities and changes in our operating environment.

The continued uncertainty created by COVID-19 means it remains speculative to provide further commentary on our expected FY21 performance at this time.



Q&A



Steve Vamos

CHIEF EXECUTIVE OFFICER



Kirsty Godfrey-Billy

CHIEF FINANCIAL OFFICER



Appendix



SaaS metrics summary



		ANZ		International		Group	
		H1 FY20	H1 FY21	H1 FY20	H1 FY21	H1 FY20	H1 FY21
	ARPU	\$31.64	\$30.79	\$29.98	\$28.44	\$30.96	\$29.81
	CAC months	8.6	9.1	16.0	22.0	12.3	14.9
	MRR churn	0.82%	0.83%	1.58%	1.53%	1.10%	1.11%
	Subscribers	1,207,000	1,428,000	850,000	1,025,000	2,057,000	2,453,000
	LTV per sub	\$3,362	\$3,182	\$1,563	\$1,587	\$2,619	\$2,516
	LTV/CAC	12.3	11.4	3.3	2.5	6.9	5.7
	Total LTV	\$4.06b	\$4.54b	\$1.33b	\$1.63b	\$5.39b	\$6.17b

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 30 September, 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 30 September 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 6 months ended 30 September 2019. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 30 September 2019

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

CAGR

Compound annual growth rate

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