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MARKET RELEASE

Xero successfully prices zero coupon US\$700m convertible notes due 2025

WELLINGTON, 25 November 2020 - Xero Limited (ASX: XRO) ("Xero") is pleased to announce that it has successfully priced zero coupon US\$700m senior unsecured convertible notes due 2025 (the "Notes") issued by Xero Investments Limited ("the Issuer") and guaranteed by Xero (the "Offering").

The Notes will mature on 2 December 2025, unless earlier redeemed, repurchased or converted in accordance with their terms.

The initial conversion price of the Notes is US\$134.7246 per ordinary share, which represents a conversion premium of 35.00% over the Reference Share Price, based on a Fixed Exchange Rate of A\$1.00 = US\$0.73455.

It is intended that, after deduction of commissions, professional fees, other administrative expenses, the net proceeds of approximately US\$685.3m will be used (i) to fund the costs of the call option transactions (described below), (ii) to repurchase the Existing Notes (described below); (iii) for potential acquisitions and strategic investments; and (iv) for general corporate purposes.

Settlement of the Offering is expected on 2 December 2020.

Xero CEO Steve Vamos said: "We're pleased to be able to again make use of the convertible note structure to repurchase our existing notes and raise additional capital on favourable terms, and with the significant demand we've had for this upsized offer across our global investor base."

A summary of the Notes offering and other transactions that have been confirmed overnight is as follows:

- Issuance of new zero coupon US\$700m convertible notes due 2025
- Buyback of existing convertible notes due 2023 (the “Existing Notes”) with an aggregate principal amount of US\$294.031m (the “Concurrent Repurchase”)
- Unwind of the existing call spread arrangement and initiation of a new call spread arrangement, realising net proceeds of US\$19.6m

The purpose and benefit of these transactions for Xero and Xero’s shareholders are as follows:

- Restructures Xero’s existing convertible note liability and accesses new capital of US\$700m on highly attractive terms, including a lower cash cost with a zero coupon comparing to existing 2023 notes of 2.375%
- Reduces the level of potential dilution of Xero’s existing shareholders from the 2023 notes and defers potential dilution from the Existing Notes to the new convertible notes’ maturity date of 2025
- Realises the fair value of the existing, in-the-money call spread arrangements entered into in 2018
- Reduces potential dilution of existing Xero shareholders due to the new convertible notes, by raising the effective conversion premium to 75% through entry into new call spread arrangements

Goldman Sachs International and Morgan Stanley & Co. International plc are acting as Joint Lead Managers (“JLMs”) on the Offering.

The Issuer and Xero have also been successful in entering into a series of other transactions overnight. These transactions include:

- **Partial buyback of Existing Notes:** a concurrent repurchase of US\$294.031m of the Guaranteed Convertible Notes due 2023 (“Existing Notes”) at a price of US\$448,670 per US\$200,000 of the principal amount of the Existing Notes for a total consideration of approximately US\$659.6m.

As part payment of approximately US\$374.2m of this total buyback consideration, Xero will issue 3,750,005 ordinary shares (based on the Reference Share Price of A\$135.86). The remaining buyback consideration will be settled in cash of approximately US\$285.4m.

The residual Existing Notes on issue, of approximately US\$5.969m notional value, are unaffected by the transaction. Under the terms of the Existing Notes the Issuer now has the ability to redeem all the remaining Existing Notes on issue, which it intends to do.

The buyback of the Existing Notes is expected to result in a loss of around US\$40m in the Group's FY21 income statement, equating to the difference between the Existing Notes' amortised cost and the fair value.

- **Unwind of existing Call Spread transaction:** in relation to the Concurrent Repurchase, the existing call spread arrangements that were entered into at the time of the issue of the Existing Notes ("Existing Call Spread") will be unwound.
- **New Call Spread transaction:** the following call option transactions with the JLMs - and certain other counterparties (the "**Option Counterparties**"):
 - the Option Counterparties granting call options to the Issuer in respect of approximately 5.2m shares in Xero at an average exercise price of US\$134.7246 per share. These call options will be cash settled (or, at the election of the Issuer, physically settled) and expire in 5 years; and
 - the Issuer granting call options to the Option Counterparties in respect of approximately 5.2m shares in Xero at an average exercise price of US\$174.64294 per share. These call options will be physically settled by the issue of Xero ordinary shares and expire in 5 years.

The lower strike call option is expected to reduce potential dilution to existing holders of the ordinary shares upon conversion of the Notes and/or to offset any cash payments Xero is required to make in excess of the principal amount of the Notes upon conversion. The lower strike call option will cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the equivalent number of ordinary shares underlying the Notes.

As part of establishing, maintaining and unwinding their hedges in relation to these transactions, the counterparties to the existing Call Spread transaction, the Option Counterparties and the holders of Existing Notes and Notes are expected to enter into various derivative transactions with respect to, and/ or purchase, and/ or sell, Xero's ordinary shares at their discretion. This activity could affect the market price of Xero's ordinary shares, the

Existing Notes or the Notes otherwise prevailing at that time. If any such transactions fail to complete, the relevant parties may unwind their hedge positions with respect to the ordinary shares. Ordinary shares of Xero acquired through these transactions may, together with any acquisition of the Notes and other shares in Xero acquired by a JLM or its respective affiliates in connection with its ordinary course sales and trading, principal investing and other activities, result in that JLMs or its affiliates having a substantial exposure to Xero.

The transactions are expected to close on 2 December 2020. Settlement remains subject to the completion of typical conditions precedent.

Authorised for release to the ASX by the Chair of the Board

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About Xero

[Xero](#) is a cloud-based accounting software platform for small businesses with 2.45 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 800 third-party apps and 200 plus connections to banks and other financial partners. In 2020, Xero was included in the Bloomberg Gender-Equality Index and recognised by [IDC MarketScape](#) as a leader in its worldwide SaaS and cloud-enabled small business finance and accounting applications vendor assessment.

Key terms of the Notes

Issuer	Xero Investments Limited
Guarantor	Xero Limited
Issue Size	US\$700 million
Ranking	Direct, unsubordinated, unsecured and unconditional
Maturity	On or about December 2, 2025 (5 years)
Coupon / Yield	Zero coupon
Conversion Premium	35.00% over the Reference Share Price
Reference Share Price	A\$135.86
Initial Conversion Price	US\$134.7246 per ordinary share, based on the Fixed Exchange Rate
Fixed Exchange Rate	A\$1.00 = US\$0.73455
Cash Settlement	The conversion of Notes will be cash settled unless the Issuer elects to physically settle the conversion, in which case, Xero will be obliged to deliver ordinary shares to relevant noteholders. The relevant Cash Settlement Amount will be calculated based on the volume weighted average price of the ordinary shares over a 75 trading day period.
Conversion Price Adjustment	Standard anti-dilutive adjustments including Conversion Price adjustment for all dividends paid by the Company
Listing	SGX-ST
Selling Restrictions	Reg S (Cat 1) only

The New Notes, the Guarantee and the Ordinary Shares issuable on conversion of the New Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and, subject to certain exceptions, may not be offered or sold within the United States.

The Concurrent Repurchase is not being made, and will not be made, directly or indirectly in or into, or by use of the mail of, or by any means or instrumentality of interstate or foreign commerce of or of any facilities of a national securities exchange of, the United States. This includes, but is not limited to, facsimile transmission, electronic mail, telex, telephone and the internet. The Existing Notes may not be tendered in the Concurrent Repurchase by any such use, means, instrumentality or facility from or within the United States or by persons located or resident in the United States as defined in Regulation S of the Securities Act. Any purported tender of Existing Notes made by a person located in the United States will not be accepted.