

# Xero Limited Annual Meeting

13 AUGUST 2020



Beautiful business



From top: KLAS Business + Accounting | AU  
CV Ledger | US, Evansdale Cheese | NZ



# Important notice

**This presentation is given on 13 August 2020 on behalf of Xero Limited (Xero) (ASX:XRO) (Company number NZ 183 0488, AU ARBN 160 661 183)**

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 annual report for the period ended 31 March 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 31 March 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 26 for a glossary of the key terms used in this presentation.

# Board of Directors



**David Thodey, AO**  
CHAIR OF THE BOARD  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*People and Remuneration Committee*  
*Nominations Committee (Chair)*



**Mark Cross**  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*Audit and Risk Management Committee*



**Rod Drury**  
XERO FOUNDER  
NON-EXECUTIVE DIRECTOR



**Lee Hatton**  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*Audit and Risk Management Committee (Chair)*



**Dale Murray, CBE**  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*Audit and Risk Management Committee*  
*Nominations Committee*



**Susan Peterson**  
INDEPENDENT NON-EXECUTIVE DIRECTOR  
*People and Remuneration Committee (Chair)*  
*Nominations Committee*



**Craig Winkler**  
NON-EXECUTIVE DIRECTOR  
*People and Remuneration Committee*  
*Nominations Committee*

# Agenda

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**Chair's  
address**



**David Thodey**  
CHAIR OF THE BOARD

02

**CEO  
update**



**Steve Vamos**  
CHIEF EXECUTIVE OFFICER

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overview**



**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER

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# Using the online platform

Download the  
Online Portal Guide at  
[xero.com/about/investors](https://xero.com/about/investors)



## Questions

Ask a Question



Ask a Question

## Voting

Get a Voting Card



Get a Voting Card

## Help number

**1 800 990 363**

if you are calling from Australia

**+61 1800 990 363**

if you are calling from outside Australia



# Chair's address



**David Thodey**  
CHAIR OF THE BOARD





# CEO update



**Steve Vamos**  
CHIEF EXECUTIVE OFFICER



# Working under COVID-19



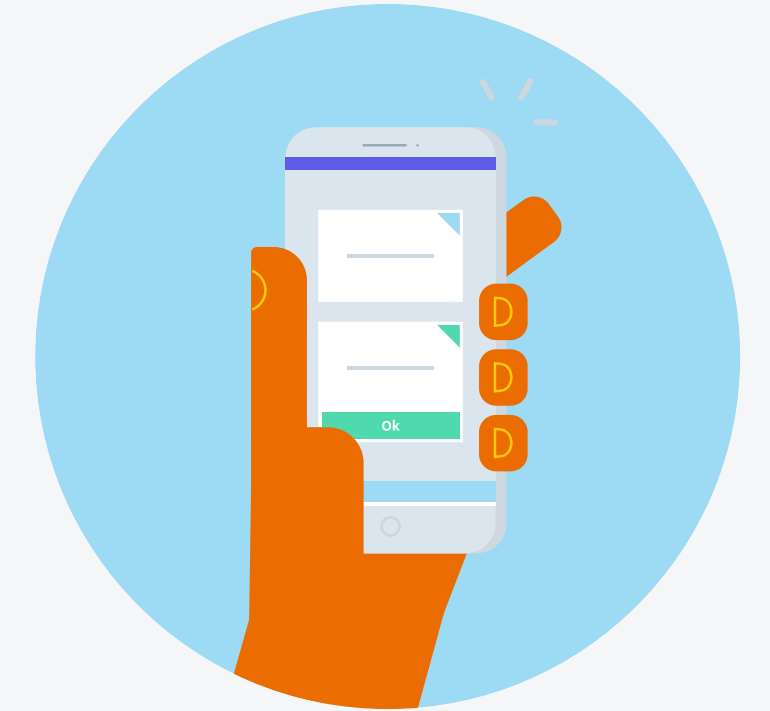
## Supporting our people and maintaining productivity

- Adapting to new ways of working
- Staying productive and engaged
- Xero On Air digital content series in September 2020



## Continuing to help customers and partners

- Targeted support on topics such as:
  - Accessing small business loans
  - Online sales and marketing
  - Returning safely to the workplace
- Deferral of price rise



## Prioritised product development

- Responding to changes in leave entitlements, wage subsidies, tax and other government initiatives
- Financial dashboard and short term cash flow features rolled out to all Business Edition customers



# COVID-19 subscriber update

**Operating conditions remain uncertain** and we continue to anticipate an impact from COVID-19 on Xero's FY21 results

**96,000**

net subscriber additions in the first four months of FY21

Net subscriber additions were **stronger** in Xero's **Australia and New Zealand segment** compared to the **International segment**

**2.38 m**

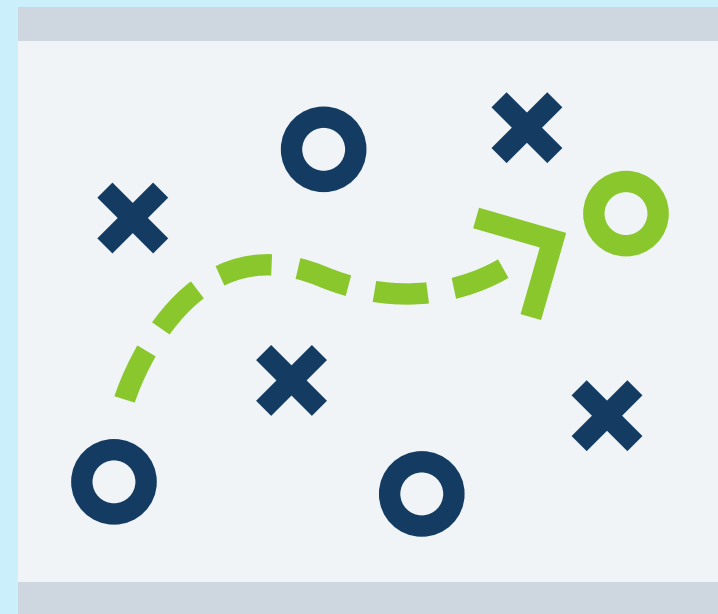
total subscribers as at 31 July 2020

Gross subscriber additions and churn trends have varied, however **all geographies achieved positive net subscriber additions**





# Strategic trends

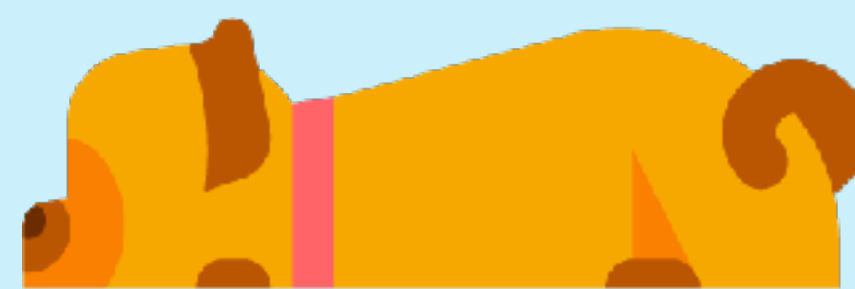


**Adoption of cloud technologies**

**Digitisation of tax and compliance**

**Innovation in financial services**

**Post COVID-19 small business economy**





# Areas of planned strategic investment

## STRATEGIC PRIORITIES

**Drive cloud accounting**

**Grow small business platform**

**Build for global scale and innovation**

## AREAS OF PLANNED INVESTMENT



Best-in-class cloud accounting for small business



Extend access and distribution to serve all small businesses



Serve small businesses with multi-lingual editions



Small business needs beyond accounting and compliance



Payments and access to capital



New applications leveraging data, AI and machine learning



Attract, inspire and retain world class talent



Robust technology to drive innovation at speed



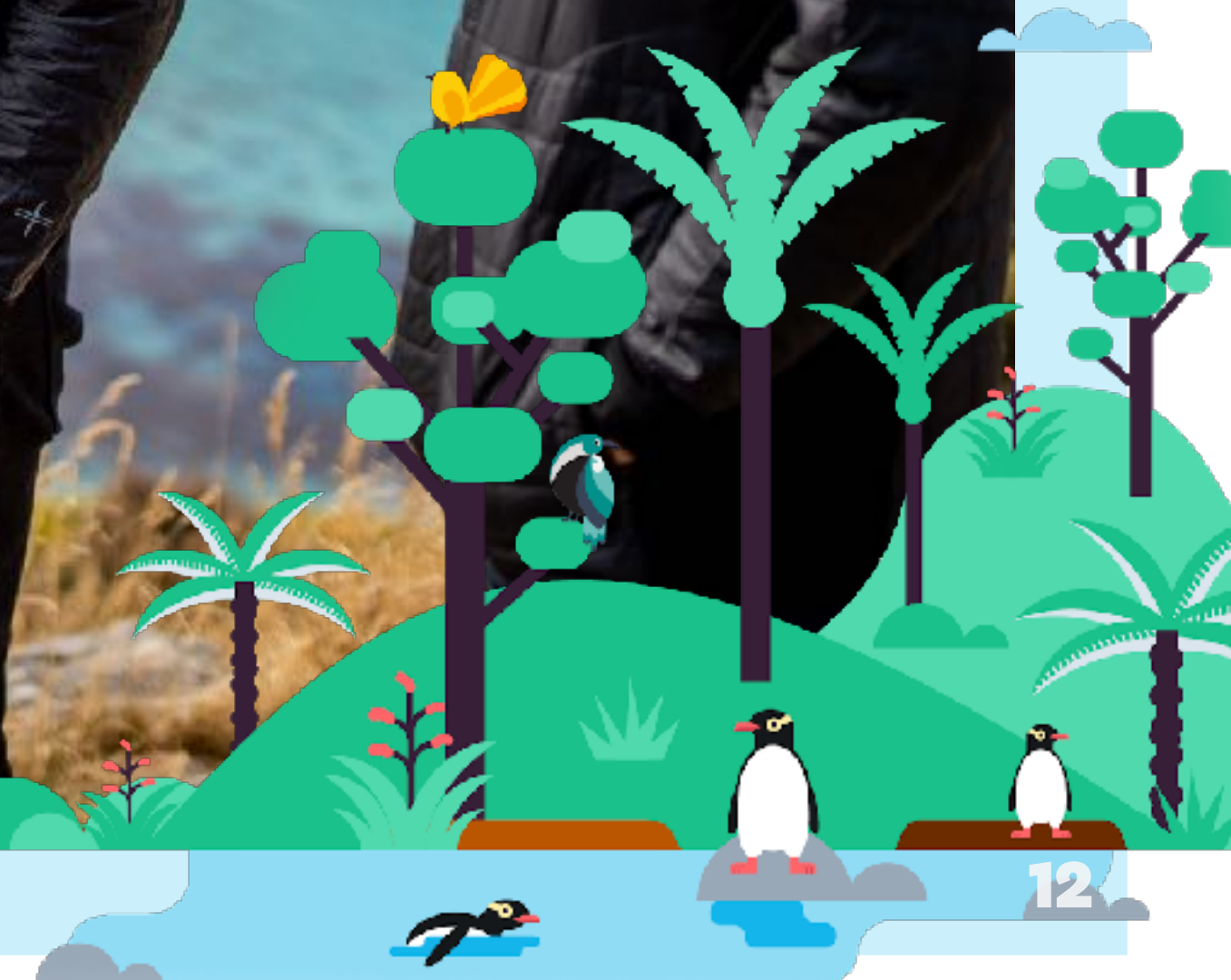
Optimised operational and financial structure



# Social and environmental impact



## Fishermans Bay Conservation Project NEW ZEALAND





# Financial overview



**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER





# Continued global growth drives FY20 results

Financial performance highlights for the year ended 31 March 2020

## SUBSCRIBERS

**2.285m**

+ 467,000 YOY

## ARPU

**\$29.93**

+ 2% YOY (-1% in constant currency)

## AMRR

**\$820.6m**

+ 29% YOY (25% in constant currency)

## TOTAL LIFETIME VALUE

**\$5.5b**

+ \$1.2b YOY

## OPERATING REVENUE

**\$718.2m**

+ 30% YOY (29% in constant currency)

## EBITDA

**\$137.7m**

+ \$64.6m YOY

## NET PROFIT AFTER TAX

**\$3.3m**

+ \$30.5m YOY

## FREE CASH FLOW

**\$27.1m**

+ \$20.7m YOY



# Drive cloud accounting



FY20

Subscribers

Net additions

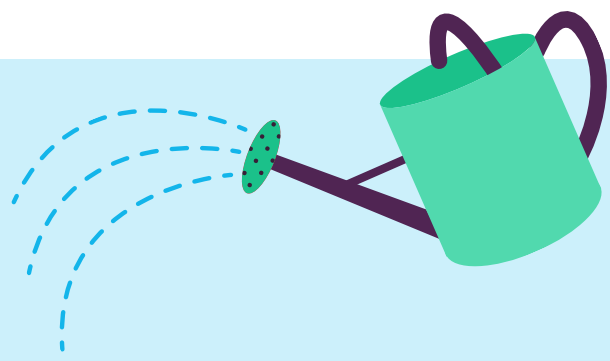
Revenue

Australia		New Zealand		United Kingdom		North America		Rest of World	
914k	+26%	392k	+12%	613k	+32%	241k	+24%	125k	+51%
188k	+31%	41k	-18%	150k	-1%	46k	+5% <sup>1</sup>	42k	+68%
\$320m	+23%	\$116m	+19%	\$184m	+54%	\$55m	+25%	\$43m	+43%
>50% cloud adoption <sup>2</sup>				<20% cloud adoption <sup>2</sup>					

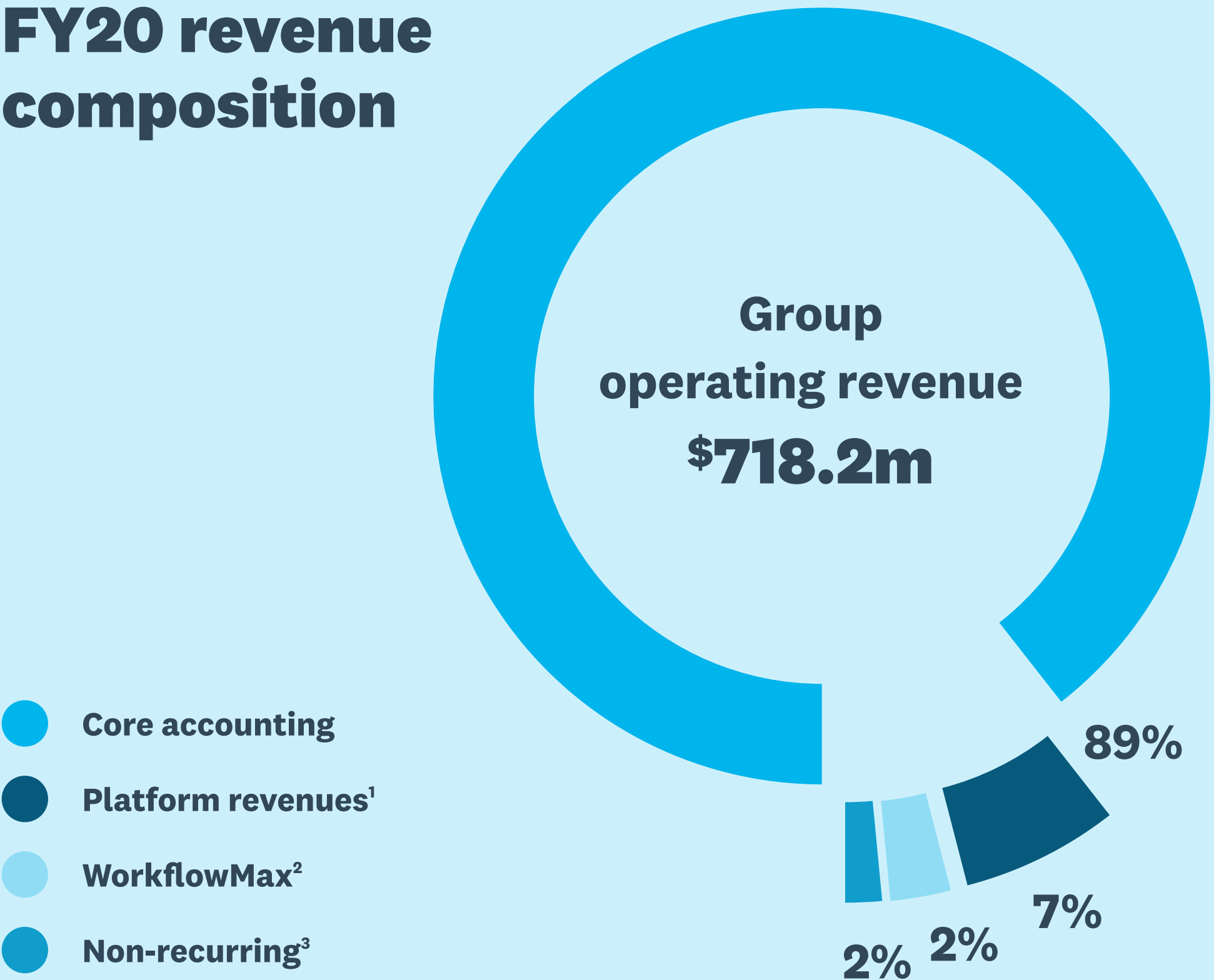
<sup>1</sup> Excludes acquired Hubdoc subscribers in FY19

<sup>2</sup> Estimated adoption rates across English speaking addressable cloud accounting markets, based on publicly available data

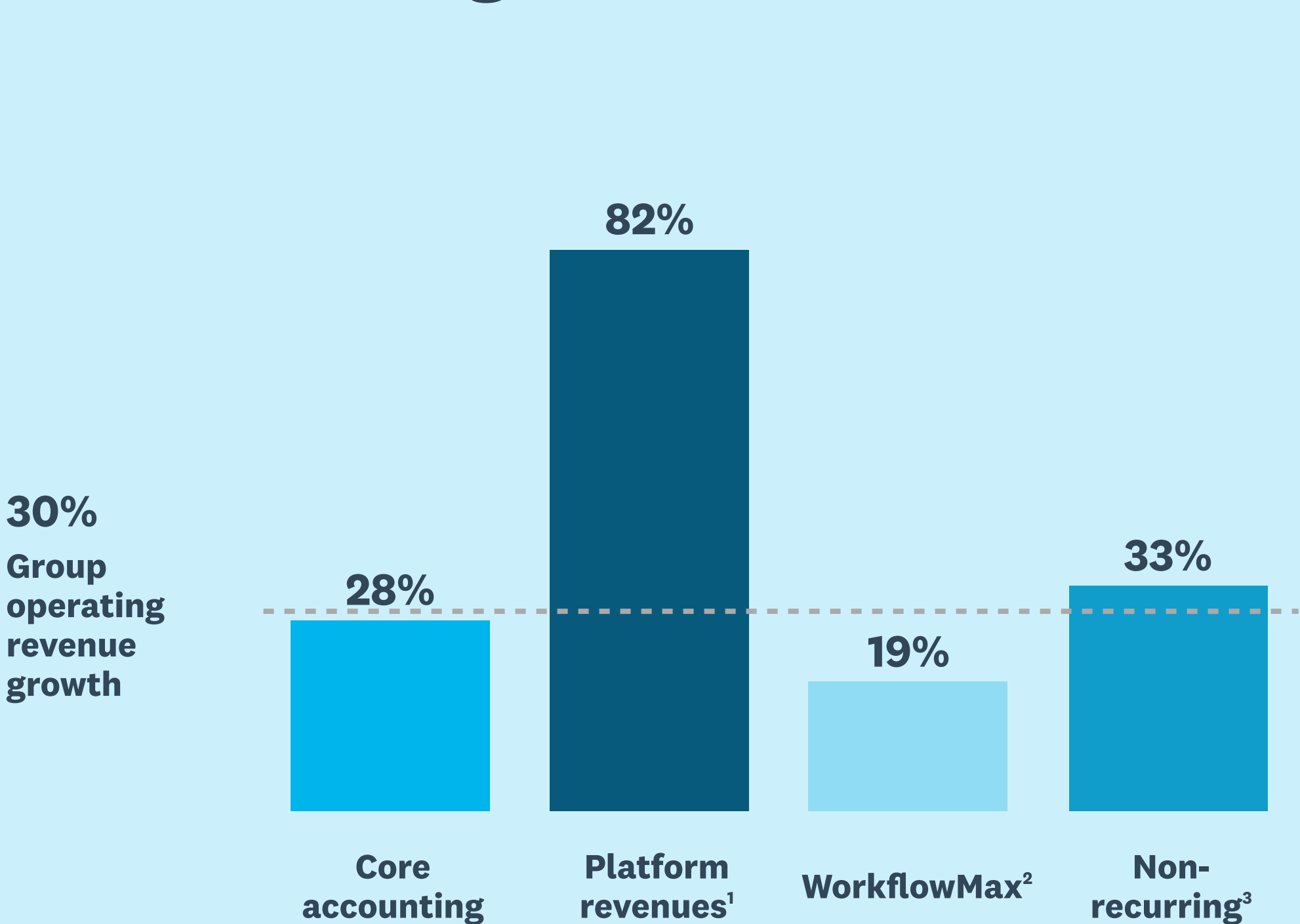
# Grow the small business platform



## FY20 revenue composition



## FY20 revenue growth YOY



<sup>1</sup> Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc), add-ons with incremental revenue (such as payroll and expenses modules), payments and revenue share agreements with partners

<sup>2</sup> Revenues relating to WorkflowMax, online workflow and job management software

<sup>3</sup> Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services



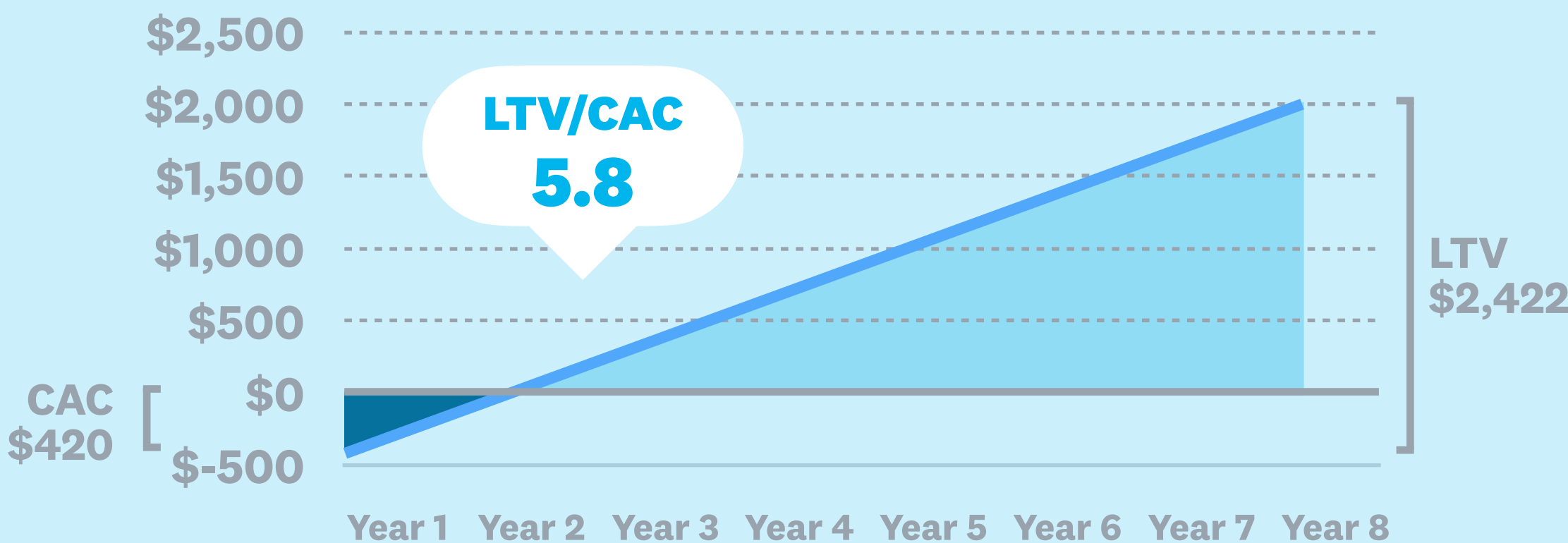
# Unit economics and track record of value creation

	March 2020	Δ YOY
ARPU	\$29.93	↑
MRR churn	1.13%	↓
Gross margin	85%	↑
LTV per subscriber	\$2,422	1% <sup>1</sup>
LTV/CAC	5.8	↓
CAC months	14.0	↑

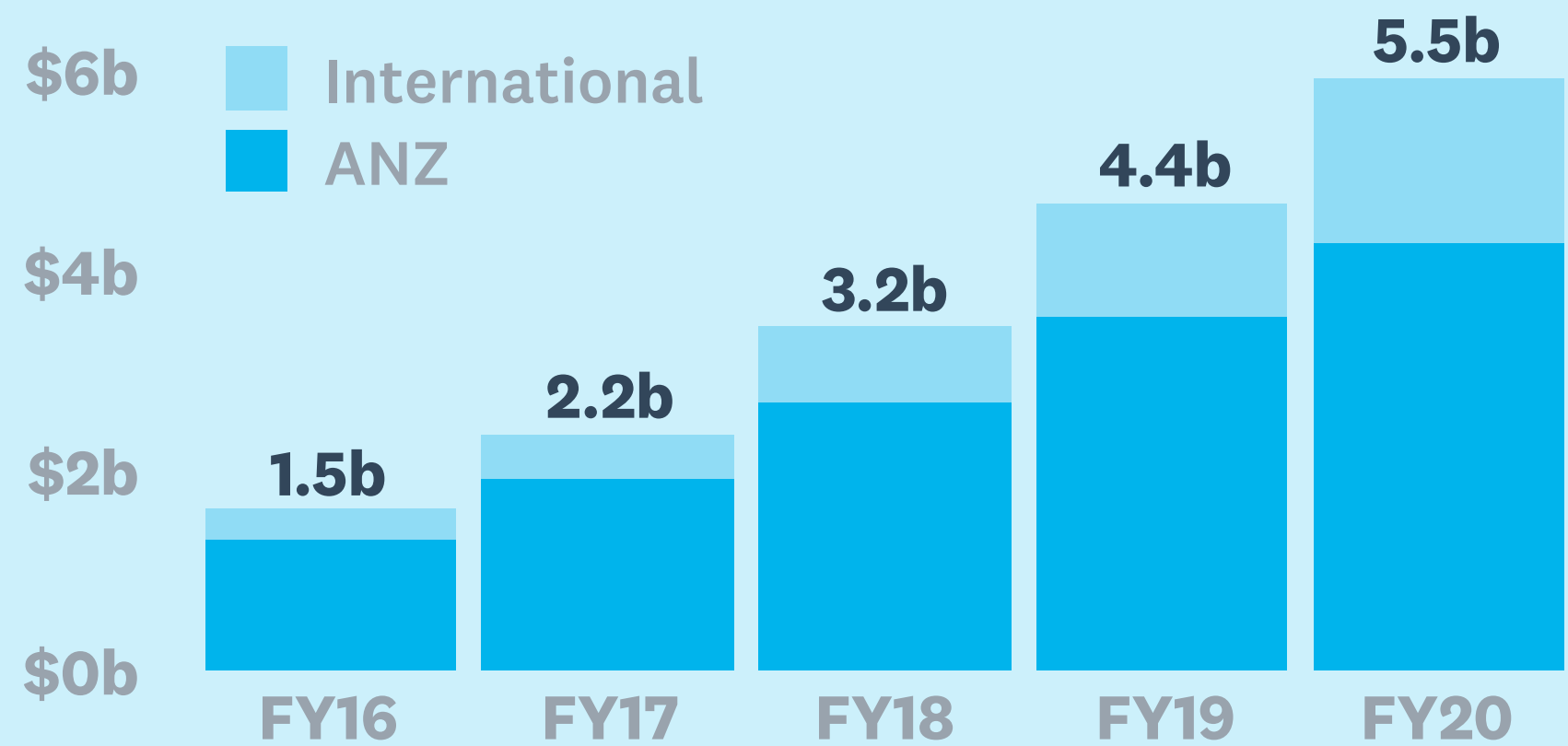
LTV grew 1.7x in the last 2 years  
LTV CAGR FY16 to FY20 was 34% for ANZ  
and 52% for International

<sup>1</sup> LTV per subscriber growth in nominal terms. 0.6% decrease in constant currency terms based on exchange rates at 31 March 2019

## Value of a Xero subscriber at 31 March 2020



## Total lifetime value



# Total available liquid resources of \$686 million

Positive free cash flow result in FY20 of \$27.1m, equivalent to 3.8% of operating revenues

Operating cash flow increased 46% to \$166.6m for FY20, an improvement of \$52.4m from \$114.2m in FY19

Net cash position at 31 March 2020 was \$111.5m (comprising cash and short-term deposits less term debt) compared to \$100.6m at 31 March 2019

Total available liquid resources, inclusive of \$150m of undrawn committed debt facilities, of \$686m

## Movement in net cash position

	FY19 (\$000s)	FY20 (\$000s)	YOY change (\$000s)
Cash and cash equivalents	121,527	108,027	(13,500)
Short-term deposits	336,819	428,052	91,233
<b>Total cash and short-term deposits</b>	<b>458,346</b>	<b>536,079</b>	<b>77,733</b>
Convertible notes – term debt liability	(357,731)	(424,587)	(66,856)
<b>Net cash</b>	<b>100,615</b>	<b>111,492</b>	<b>10,877</b>



# Outlook

The continuing uncertainty surrounding the COVID-19 environment means it remains speculative to comment further on the potential impact on our expected performance for FY21.

Xero's ambition is to be a long-term oriented, high-growth business. 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, support our customers, and respond to opportunities and changes in our operating environment.





# Resolutions





## RESOLUTION 1

# Fixing the remuneration of the auditor

That the Board is authorised to fix the fees and expenses of Ernst & Young as auditor for the ensuing year

**For**

**XX,XXX,XXX**

YY.YY%

**Against**

**XX,XXX,XXX**

YY.YY%

**Discretionary**

**XX,XXX\***

YY.YY%

*\* XX,XXX of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

## RESOLUTION 2

# Re-election of Lee Hatton as a director



That Lee Hatton, retiring from office as a director of Xero at the Meeting, and being eligible, be re-elected as a director of Xero

### For

**XX,XXX,XXX**

YY.YY%

### Against

**XX,XXX,XXX**

YY.YY%

### Discretionary

**XX,XXX\***

YY.YY%

*\* XX,XXX of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*



## RESOLUTION 3

# Re-election of Rod Drury as a director



That Rod Drury, retiring from office as a director of Xero at the Meeting, and being eligible, be re-elected as a director of Xero

### For

**XX,XXX,XXX**

YY.YY%

### Against

**XX,XXX,XXX**

YY.YY%

### Discretionary

**XX,XXX\***

YY.YY%

*\* XX,XXX of which are held by the Chair of the Meeting who intends to vote in favour of the resolution*

**RESOLUTION 4**

# Election of Mark Cross as a director



That Mark Cross, appointed by the Board as a director of Xero on 1 April 2020, and who will retire at the Meeting in accordance with clause 20.4 of Xero's Constitution, and being eligible, be elected as a director of Xero

**For**

**XX,XXX,XXX**

YY.YY%

**Against**

**XX,XXX,XXX**

YY.YY%

**Discretionary**

**XX,XXX\***

YY.YY%

\* XX,XXX of which are held by the Chair of the Meeting who intends to vote in favour of the resolution



# Q&A





# Glossary

## Subscribers

Subscriber means each unique subscription to a Xero-offered product that is purchased by an accounting partner or an end user (small business subscriber) 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 31 March, 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 31 March 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 12 months ended 31 March 2019. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 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

## SBP

Share-based payments

## TAM

Total addressable market

## GAAP

Generally accepted accounting principles





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[xero.com/investors](https://xero.com/investors)