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MARKET RELEASE: ASX - SGX-ST

Xero announces US\$600m convertible notes offering

WELLINGTON, 24 November 2020 - Xero Limited (ASX: XRO) ("Xero") today launches an offering of US\$600m senior unsecured convertible notes due 2025 (the "Notes") to be issued by its wholly-owned subsidiary, Xero Investments Limited (the "Issuer"), and guaranteed by Xero (the "Offering").

Xero CEO Steve Vamos said: "This announcement represents the next step in our ongoing program to optimise Xero's financial structure as we continue to execute our strategic priorities."

It is intended that the Notes will be listed on the Official List of the Singapore Exchange Securities Trading Limited ("SGX-ST"). Conversion of the Notes will be cash settled unless the Issuer elects to physically settle the conversion by having Xero issue ordinary shares to the relevant Noteholders.

After deduction of commissions, professional fees, other administrative expenses, and funding the costs of the call option transactions (described below), it is intended that the net proceeds will be used (i) to repurchase the Existing Notes (described below); (ii) for potential acquisitions and strategic investments; and (iii) for general corporate purposes.

Xero CFO Kirsty Godfrey-Billy said: "The new offering, combined with the restructuring of our existing convertible note liability, will benefit shareholders and provide Xero with additional financial flexibility to pursue strategic investments, and deliver ongoing innovation and support of our customers and partners."

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

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The Issuer and Xero also intend to enter into:

- **Buyback of existing convertible bonds:** a concurrent repurchase of the outstanding US\$300m Guaranteed Convertible Notes due 2023 (“Existing Notes”). The Issuer is carrying out a reverse bookbuilding process to receive indications of interest from holders of the Existing Notes (that are not persons located or resident in the United States), willing to sell either in return for cash or for an issuance of ordinary shares (or a combination of both) (the “Concurrent Repurchase”). The maximum amount of the Concurrent Repurchase will be the full outstanding amount of the Existing Notes. The repurchase price, together with the proportion of cash and Xero ordinary shares that make up the aggregate repurchase price (and subject to a maximum value payable by the issuance of ordinary shares) will be determined by the reverse bookbuilding process. The buyback of the existing notes is expected to result in a loss of US\$30-40m in the Group’s FY21 income statement, equating to the difference between the Existing Notes’ amortised cost and fair value.

In addition, the Issuer may, at its discretion, continue to buyback on-market any remaining Existing Notes following the Concurrent Repurchase. Pursuant to the terms of the Existing Notes, if the Existing Notes have been converted, redeemed or repurchased in respect of 90 per cent. or more in principal amount, all of the remaining Existing Notes on issue may be redeemed by the Issuer at their principal amount plus accrued but unpaid interest.

- **Unwind of existing Call Spread transaction:** in relation to the Concurrent Repurchase, an unwinding of the existing call spread arrangements that were entered into at the time of the issue of the Existing Notes (“Existing Call Spread”) to the extent that Existing Notes are repurchased (unless otherwise agreed).
- **New Call Spread transaction:** certain call option transactions (involving a lower strike call option and an upper strike call option (“New Call Spread”). The lower strike call option will have a strike price which is the same as the Initial Conversion Price of the Notes. 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 is also expected to 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 counterparties to the New Call Spread transaction and the holders of Existing Notes and the holders of 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.

Each of the above transactions are subject to change and to completion of pricing and settlement. One or more of the proposed transactions may not complete. Xero will provide further updates as required.

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
Expected Issue Size	US\$600 million
Ranking	Direct, unsubordinated, unsecured and unconditional
Maturity	On or about December 2, 2025 (5 years)
Coupon / Yield	zero coupon
Conversion Premium	27.5% - 35% over the Reference Share Price
Reference Share Price	The clearing price of the Delta Hedging – see below
Fixed Exchange Rate	The Fixed Exchange Rate is to be calculated at 2am HKT on November 25, 2020 HKT - USD/AUD Bloomberg BFIX rate
Delta Hedging	The JLMs intend to facilitate some or all of the hedging activities that may be executed in relation to the proposed transactions described above. The clearing price of the Delta Hedging will be used as the reference share price to determine the initial conversion price, the price of ordinary shares to be issued as consideration for the Concurrent Repurchase and the reference price for the unwinding of the Existing Call Spread and for the New Call Spread. The manner of conducting the Delta Hedging will be determined by the JLMs in consultation with Xero. The JLMs or their respective affiliates may acquire long and/or short exposure to the shares under the Delta Hedging. The number of shares involved in the Delta Hedging will be determined by the outcomes and interaction of each of the transactions referenced in this announcement.
Cash Settlement	The conversion of the 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 Xero
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.