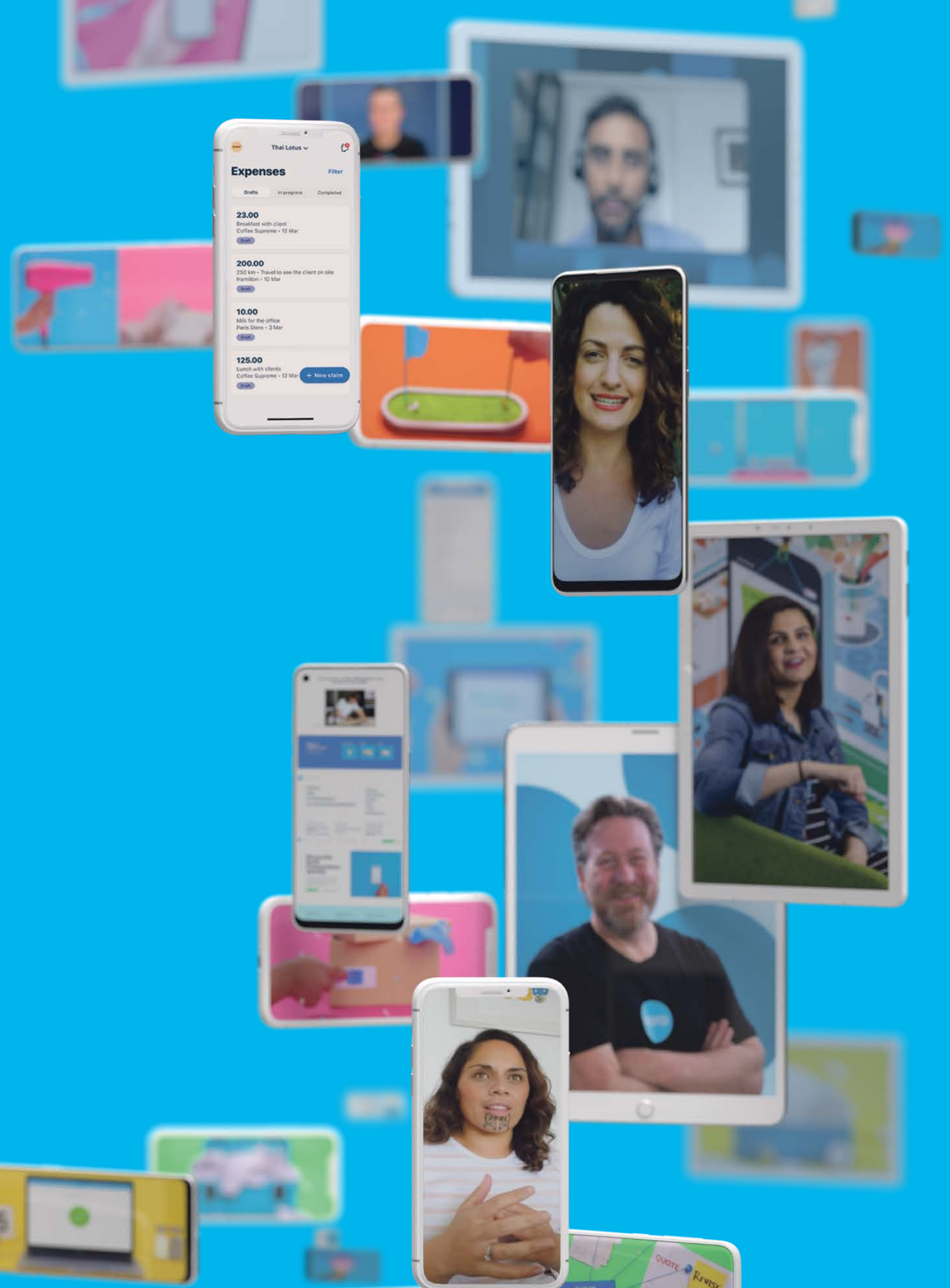
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Investor briefing

Half year results to 30 September 2021

11 NOVEMBER 2021

Beautiful business



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Important notice

This presentation is given 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 interim report for the period ended 30 September 2021, 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 2021, 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 29 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.

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Agenda

Business update



Steve Vamos
CHIEF EXECUTIVE OFFICER

01

Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

02

Outlook

03

Q&A

04

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Business update



Steve Vamos

CHIEF EXECUTIVE OFFICER



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Strong H1 FY22 result across multiple metrics

Financial and operating performance highlights for the half year ending 30 September 2021

SUBSCRIBERS

3.013m

+ 560,000 YOY

ARPU

$31.32

+ 5% YOY (7% in constant currency)

AMRR

$1,132.5m

+ 29% YOY (32% in constant currency)

TOTAL LIFETIME VALUE

$9.9b

+ $3.8b YOY

OPERATING REVENUE

$505.7m

+ 23% YOY (26% in constant currency)

EBITDA

$98.1m

- $22.7m YOY

NET LOSS

-$5.9m

- $40.4m YOY

FREE CASH FLOW

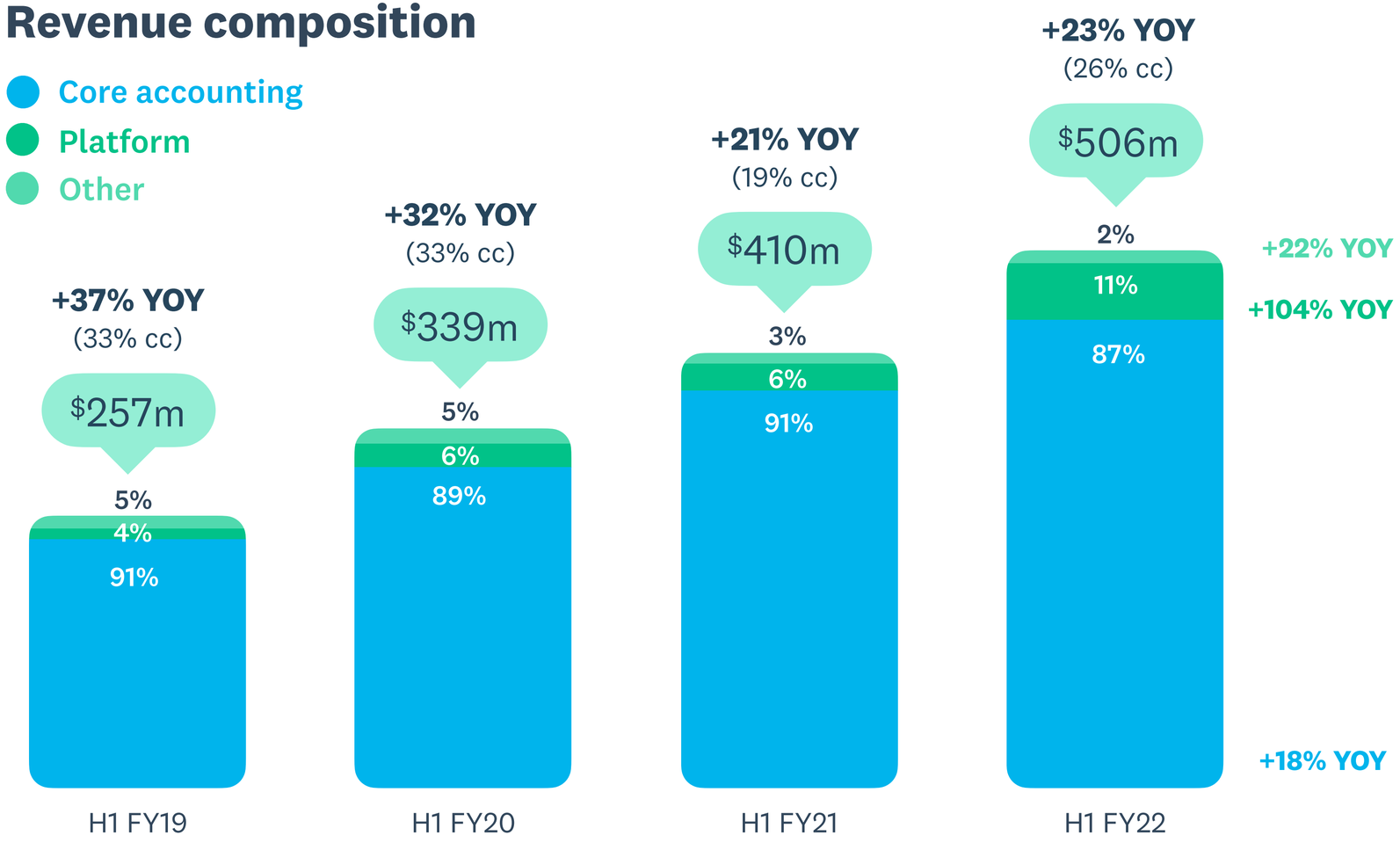
$6.4m

- $47.9m YOY

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Sustained revenue growth momentum

Revenue composition



- **Group operating revenue** grew 23% YOY, or 19% excluding revenue from acquired businesses
- **Core accounting revenues** grew 18% YOY or 20% in constant currency, largely in line with subscriber growth
- **Platform revenues** increased by 104% YOY, or 37% excluding revenues from acquired businesses
- **Other revenues** increased 22% YOY, or 9% excluding non-recurring revenues from acquired businesses

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Australia and New Zealand highlights



$297M REVENUE (+20% YOY) | **158K NET ADDS** | **1.72M SUBSCRIBERS** (+20% YOY)



Winners

Canstar's Most Satisfied Customers Award
Small Business Accounting Software
in Australia and New Zealand



Australia

	H1 FY22	Δ YOY
Revenue	$225m	+22%[1]
Net additions	124k	+24%
Subscribers	1.24m	+22%

New Zealand

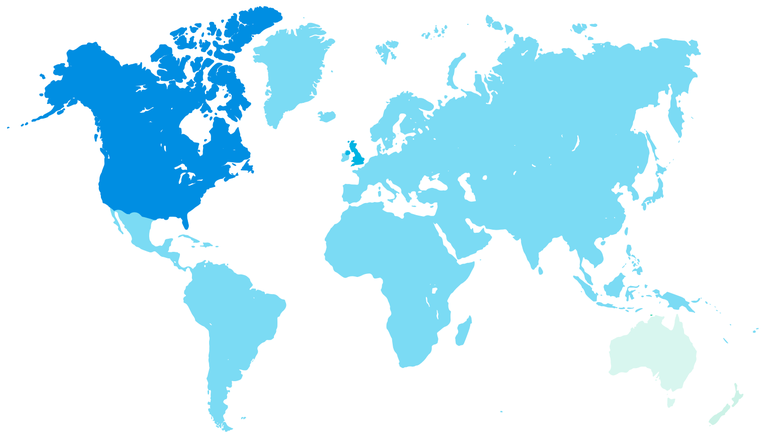
	H1 FY22	Δ YOY
Revenue	$72m	+13%
Net additions	34k	+55%
Subscribers	480k	+16%

- Strong double digit subscriber growth in Australia and New Zealand even at high adoption levels, pointing to positive potential of International segment
- Continuing to invest in promotion of additional products and services, given higher adoption levels in Australia and New Zealand
- Joseph Lyons moved into role as Managing Director, Australia & Asia
- Business Edition (BE) price changes effective 23 Sep 2021

1 Revenue growth 24% YOY constant currency

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International highlights



$209M REVENUE (+28% YOY) **114K NET ADDS** **1.29M SUBSCRIBERS** (+26% YOY)

United Kingdom

	H1 FY22	Δ YOY
Revenue	$133m	+24%[1]
Net additions	65k	+160%
Subscribers	785k	+23%

- Continued to execute compliance playbook and focus on acquisition through the partner channel
- Launched personal tax solution and continued to invest in readiness for upcoming phases of MTD
- Announced Alex von Schirmeister as Managing Director, UK & EMEA in November
- BE price changes effective 23 Sep 2021

North America

	H1 FY22	Δ YOY
Revenue	$30m	+5%[2]
Net additions	23k	+130%
Subscribers	308k	+23%

- Continued focus on partner channel, signing new agreements and expanding partnerships with accounting firms such as Liberty Tax, Padgett and Bernard Robinson & Co.
- Return of Xerocon confirmed for May 2022 in New Orleans
- BE price changes announced in the US, effective 15 Nov 2021, and Canada, effective 16 Nov 2021

Rest of World

	H1 FY22	Δ YOY
Revenue	$46m	+72%[3]
Net additions	26k	+136%
Subscribers	201k	+48%

- Strong progress in South Africa, supported by the opening of a new office and execution of partner engagement playbook
- Strong progress in Singapore with launch of SGD billing, and continued government support of e-invoicing helping with adoption
- ROW includes majority of Planday revenue and subscriber contribution.
- BE price changes announced for USD plans, effective 15/16 Nov 2021

1 Revenue growth 25% YOY constant currency

2 Revenue growth 14% YOY constant currency

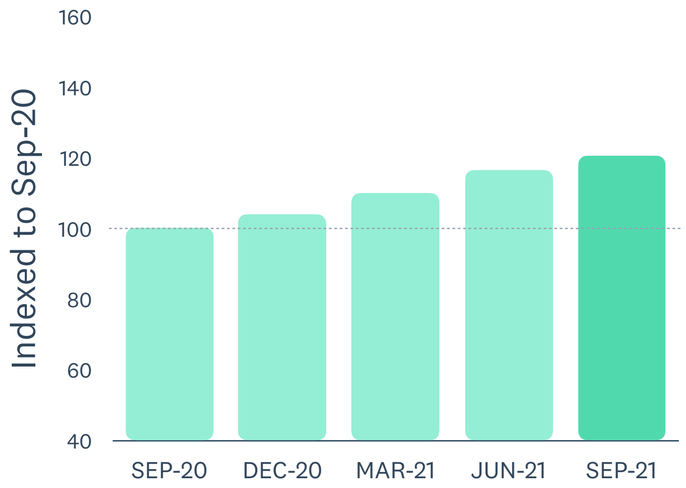
3 Revenue growth 85% YOY constant currency

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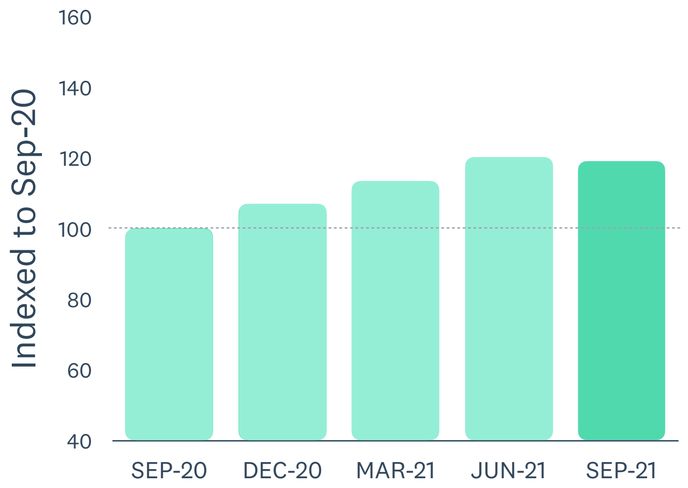
Platform activity indicators rising

Three largest contributors of platform revenue in H1 FY22 show increasing activity levels over the last 12 months

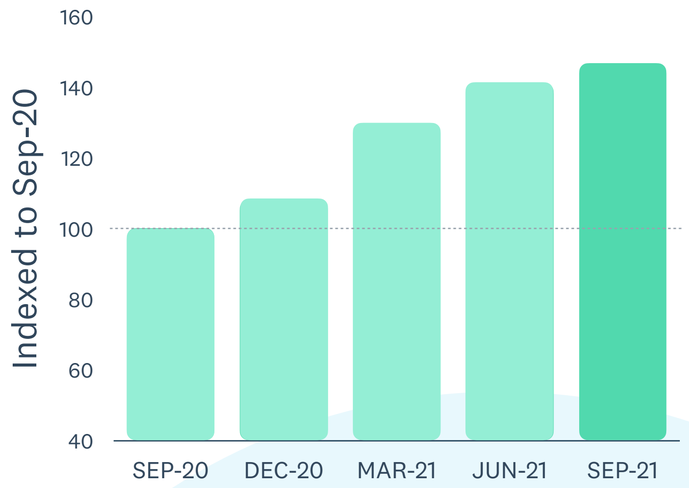
Planday users[1]



Employees paid through Xero Payroll[2]



Total payment value[3]



1 Average employee users of Planday
2 Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)
3 Total invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

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Investing in our strategy: people and product

Product and technology teams

Hiring, with a focus on product and technology, grew total FTEs 30%[1] YOY to 4,187 FTEs

Redesigned flexible work policy and established permanently remote roles

Attracting talent as we build our capabilities to further scale and innovate

Bank reconciliation, tax and reporting

Enhanced bank rec with smarter algorithms leveraging AI capabilities

Improved tax and reporting features in the US and Canada, VAT lodgements in South Africa, launched personal tax and investing in readiness for MTD in the UK

Xero Analytics Plus

Short-term cash flow and business snapshot now part Xero Analytics tool suite

Launched Xero Analytics Plus, providing advanced AI-powered forecasts and business insights

Waddle and invoice financing

Entered partnership to support Commonwealth Bank of Australia's new invoice financing offer, Stream Working Capital

Xero Me

Enhanced Xero Me app to include Xero Expenses functionality and refreshed UI

Integration with Xero Payroll lets employees access payslips, timesheets, request leave and make expense claims



1 22% YOY excluding acquired businesses

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Investing in our strategy: Xero App Store

The Xero App Store is the next evolution of the Xero App Marketplace, moving towards a more commercial model, with new, enhanced features for small business customers, partners and ecosystem app partners, to progress our platform strategy



APP PARTNER BENEFITS

Support to scale and reach more customers

Streamlined onboarding for app developers

New app partner dashboard

APIs for subscription billing

Greater go-to-market support

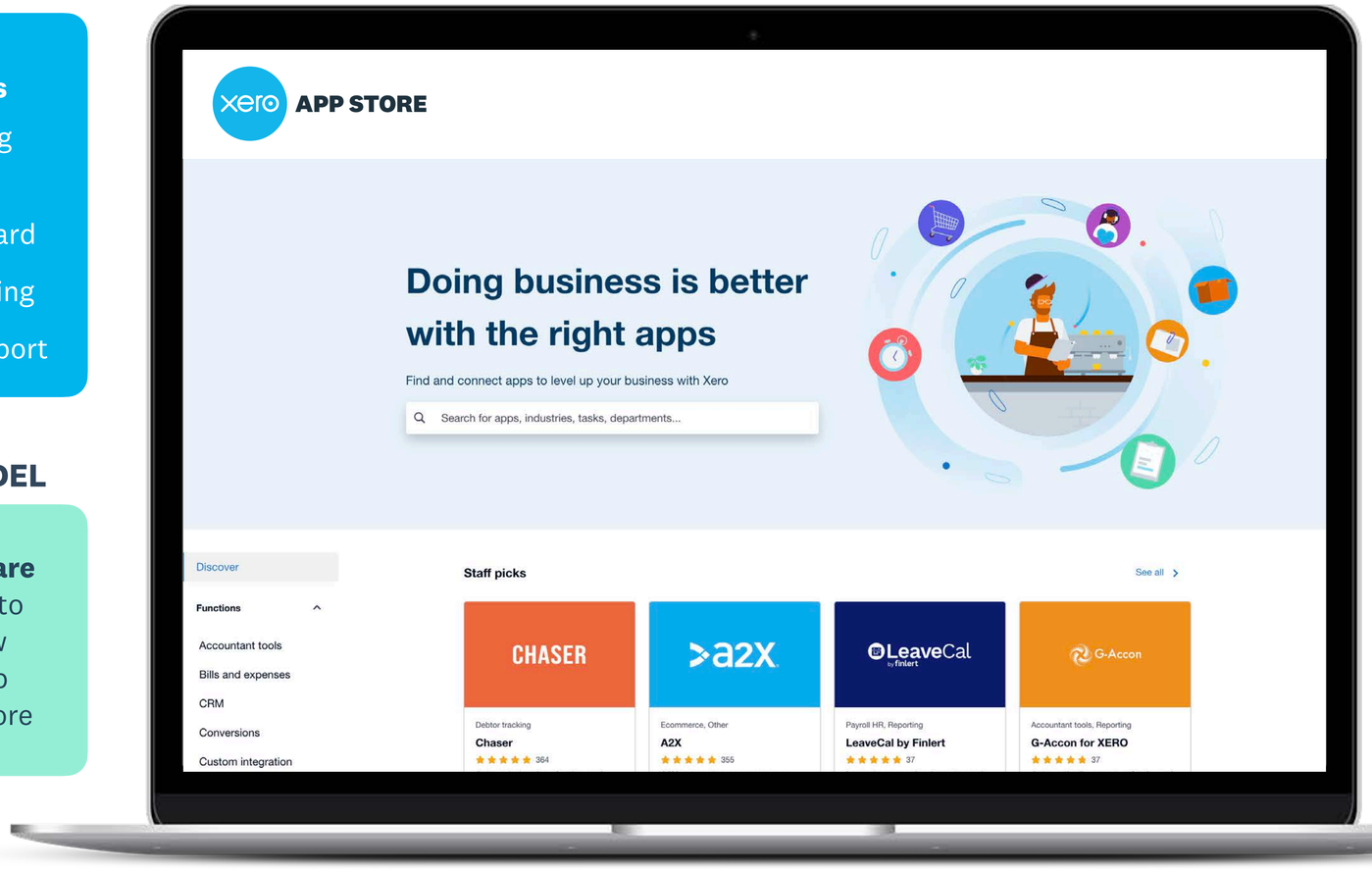
ENHANCEMENTS FOR CUSTOMERS

Easier app discovery through search and personalised app recommendations, leveraging machine learning

Enhanced user reviews

REVENUE SHARE MODEL

15% referral revenue share (plus fees) now applied to subscriptions from new customers, who sign up through the Xero App Store



1 Total connected apps in the Xero ecosystem

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Investing in our strategy: inventory and ecommerce

STRATEGIC PRIORITIES

Grow small business platform

Drive cloud accounting

CATEGORY

Inventory management and ecommerce

OPPORTUNITY

Supporting increased inventory and ecommerce needs of customers

ALIGNMENT WITH CUSTOMER NEEDS

Acquisition of LOCATE Inventory

LOCATE's inventory-accounting workflows will help develop Xero's new inventory solution

This will help customers track and manage inventory in real-time, across multiple locations and channels including Xero's ecommerce partners

Expected to launch in the US before other markets

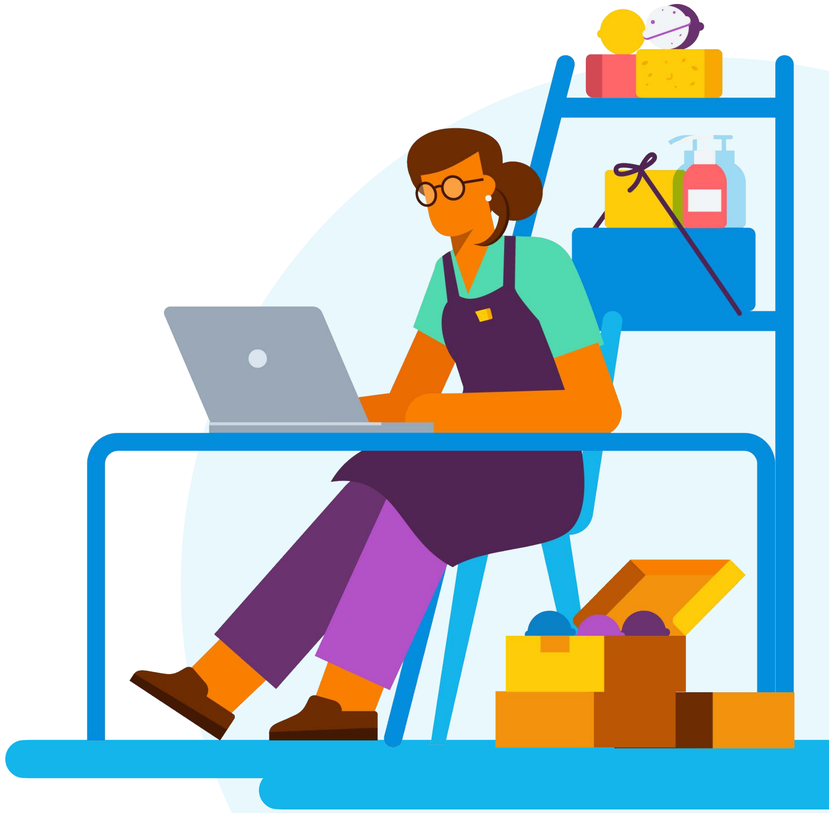
Working with ecommerce platforms

New integration launched in the Shopify App Store and Xero App Store will help Xero's customers to:

Simplify reconciliation

Interpret sales data

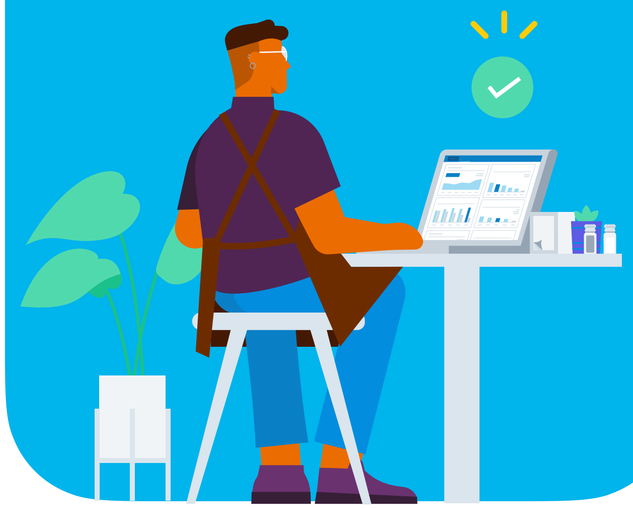
Use finance, cash flow and performance insights within Xero



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Strategic priorities

Drive cloud accounting



Grow small business platform



Build for global scale and innovation



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Financial results



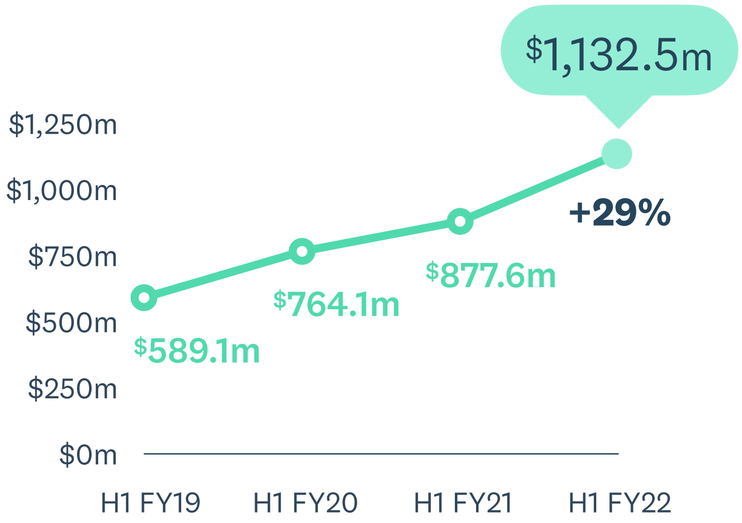
Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



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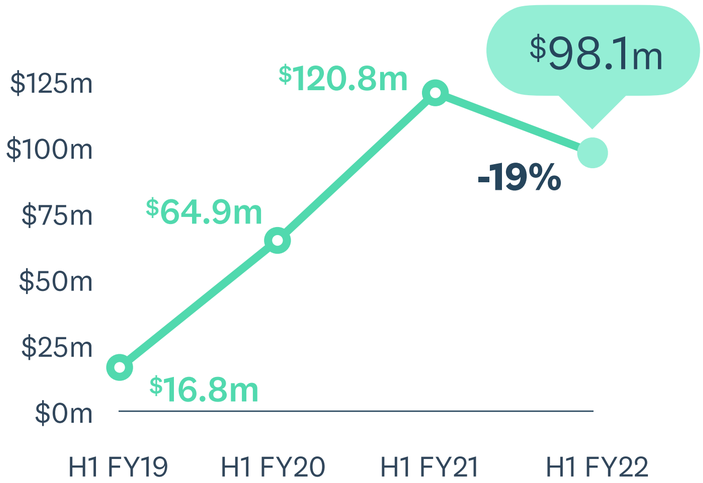
Strong financial performance with continued investment in the long term

AMRR



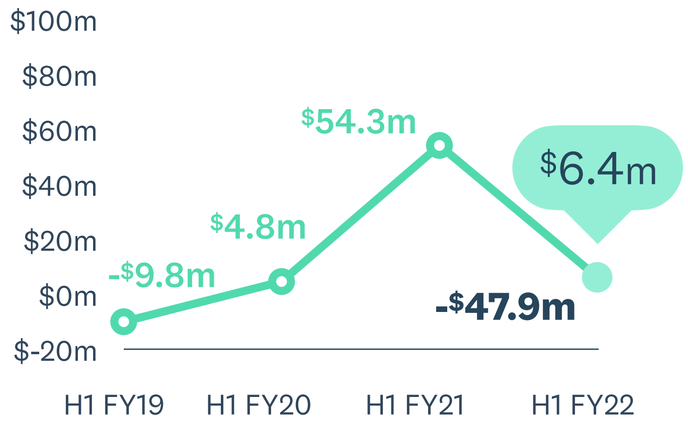
Growth in AMRR of $255m or 29% YOY (32% in constant currency) reflects subscriber growth of 23%, and ARPU increase of 5% YOY (7% YOY in constant currency)

EBITDA



EBITDA decreased by $22.7m or 19% YOY, reflecting strong revenue growth and a return to pre-pandemic levels of spend across sales and marketing and product design and development during H1 FY22, consistent with operating expense guidance

Free cash flow



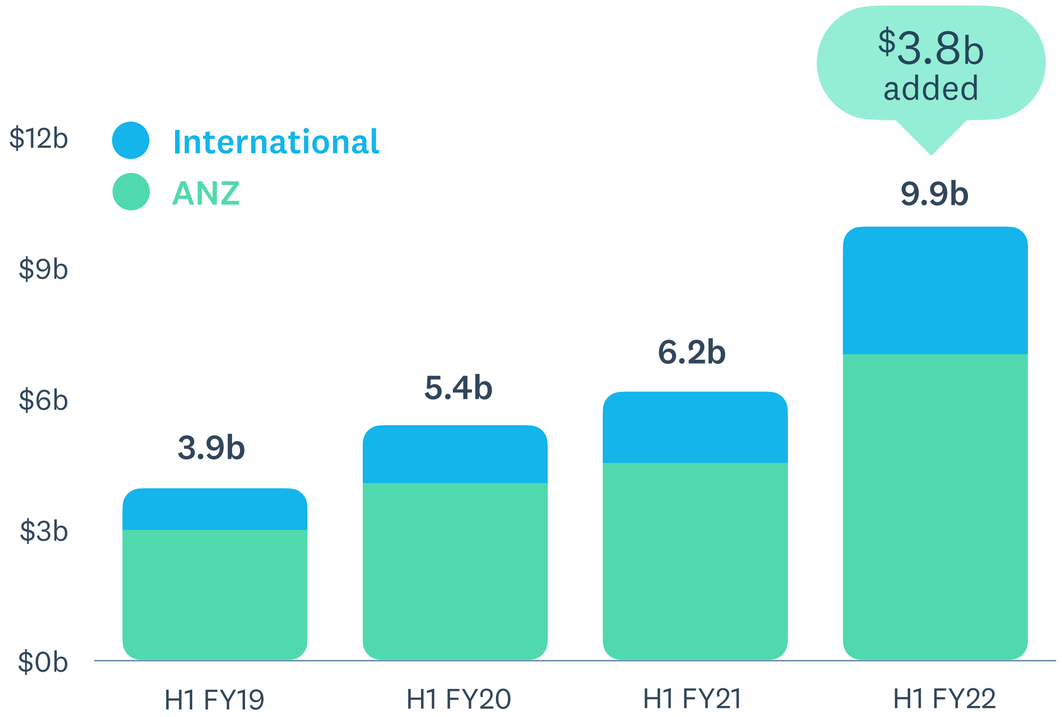
Free cash flow decreased by $47.9m to $6.4m. Free cash flow as a percentage of revenue decreased 11.9pp from 13.2% to 1.3% YOY

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Uplift in lifetime value of subscribers

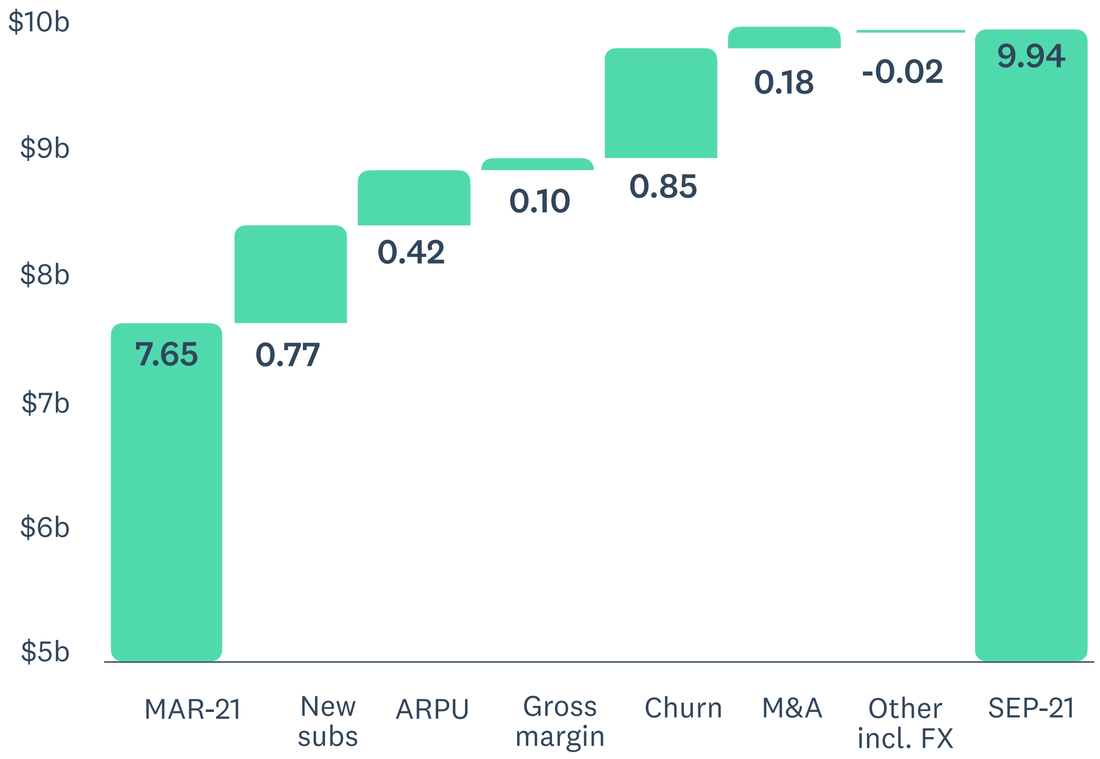
Total LTV over time

- LTV 5 year CAGR was 38% for ANZ and 56% for International
- Average customer lifetime of 9.5 years



LTV movements by driver

From 31 March to 30 September 2021



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Higher ARPU, lower churn helping drive LTV uplift

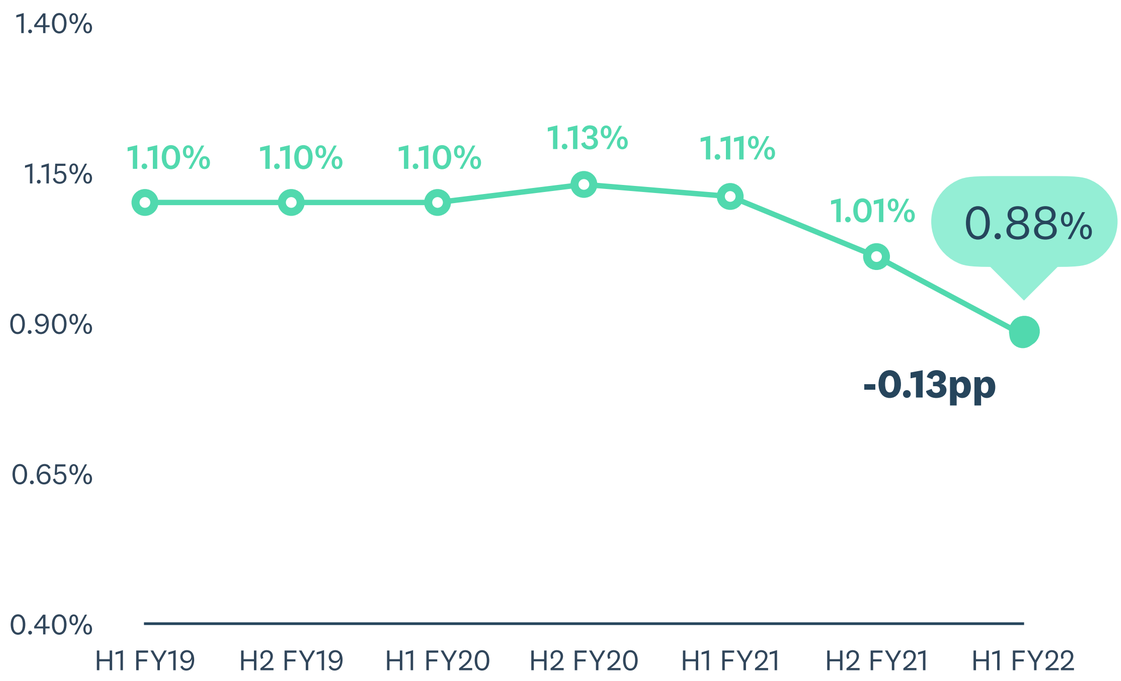
ARPU movement contributors

ARPU has increased by just over $2 since 31 March 2021

ARPU at 31 March 2021	**$29.30**
Price changes	↑
Product mix and other	↑
M&A	↑
FX movements	↓
ARPU at 30 September 2021	**$31.32**

Churn[1]

All markets recorded lower churn

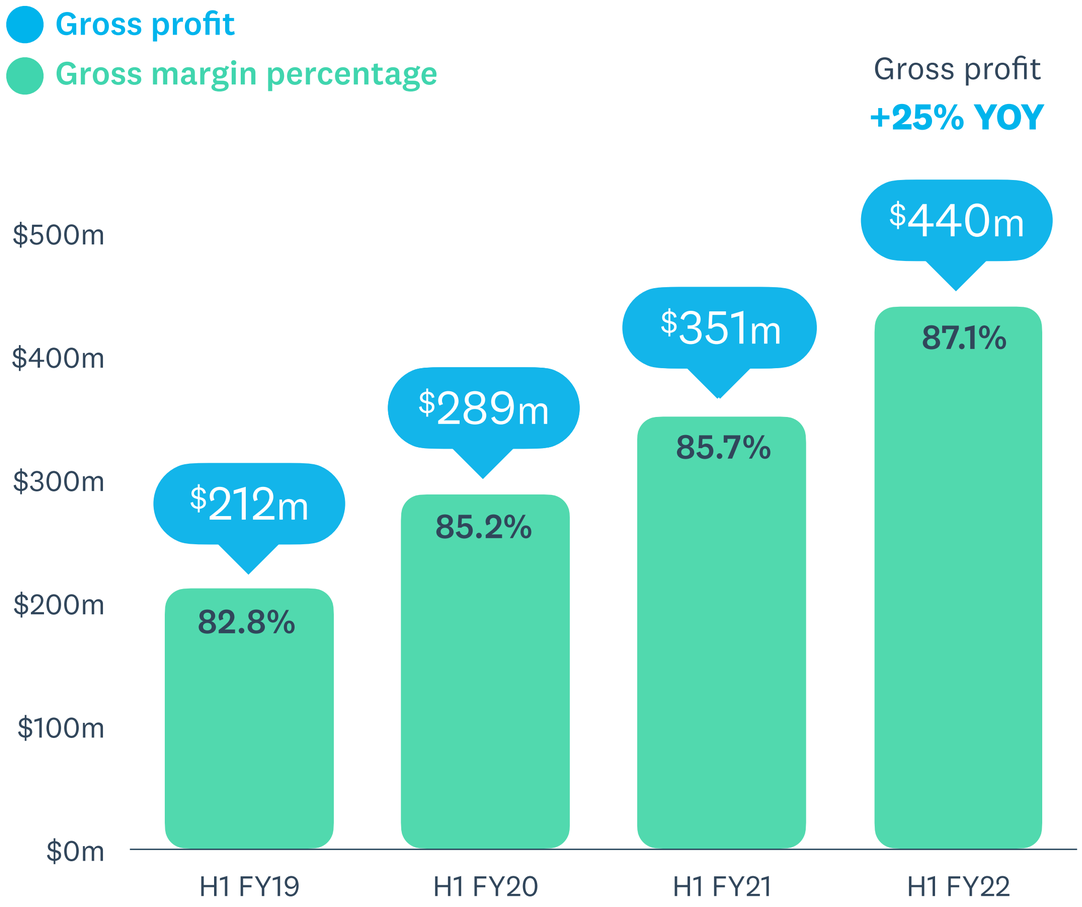


1 See glossary on page 29 for definition of churn

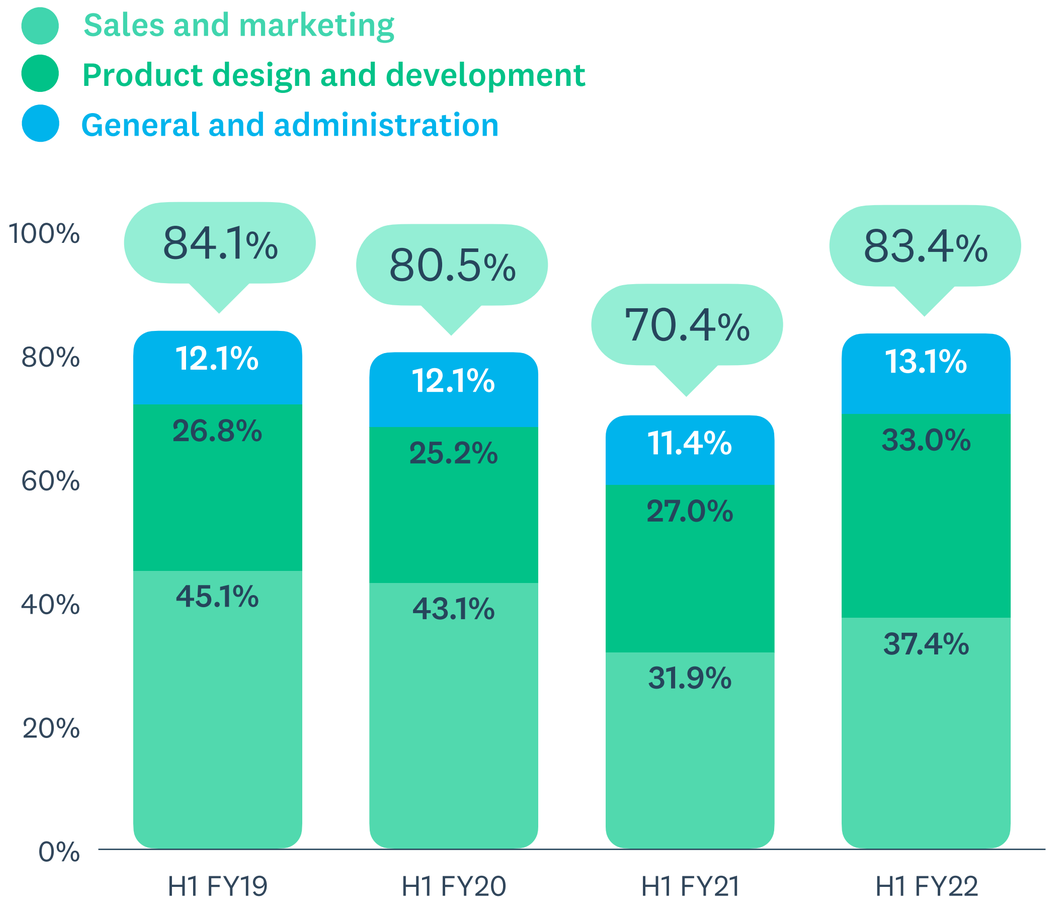
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Improved gross profit with normalising expenses

Gross profit and gross margin percentage



Operating expenses as a % of revenue



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Financial performance

Operating revenue growth of 23% YOY (26% constant currency), driven primarily by subscriber growth across all markets

Operating expenses, inclusive of acquisition integration costs, increased 46% YOY and represented 83% of operating revenue, consistent with guidance for FY22

EBITDA reduced $22.7m YOY, resulting in a 10.1pp decrease in EBITDA margin over the period. Half year net loss of $5.9m. These movements primarily reflected the increase in operating expenses

	H1 FY21 ($000s)	H1 FY22 ($000s)	Δ YOY (%)
Total operating revenue	409,837	**505,703**	23%
Cost of revenue	(58,676)	**(65,286)**	11%
Gross profit	351,161	**440,417**	25%
Gross margin	**85.7%**	**87.1%**	**+1.4pp**
Total operating expenses	(288,321)	**(421,994)**	46%
Asset impairments and other income & expenses	(3,151)	**(1,500)**	-52%
Operating profit	59,689	**16,923**	-72%
EBITDA	**120,765**	**98,080**	**-19%**
EBITDA margin	**29.5%**	**19.4%**	**-10.1pp**
Net profit/(loss)	**34,486**	**(5,922)**	**NM**

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Total liquid resources of $1.2 billion

Net cash position decreased by $52.6m YOY to $125.0m at 30 September 2021

Total available liquid resources at 30 September 2021 of $1.2b, inclusive of $150m of undrawn committed debt facilities

Investing cash flows include payments of $135.6m relating to acquisitions, including completion payments for Planday and Tickstar that occurred on 1 April 2021

Movement in net cash position

	H1 FY21 ($000s)	H1 FY22 ($000s)	Δ YOY ($000s)
Cash and cash equivalents	222,016	**470,065**	248,049
Short-term deposits	350,516	**537,986**	187,470
Total cash and short-term deposits	**572,532**	**1,008,051**	**435,519**
Convertible notes – term debt liability	(394,873)	**(883,003)**	(488,130)
Net cash	**177,659**	**125,048**	**(52,611)**

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Outlook

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.

Total operating expenses (excluding acquisition integration costs) as a percentage of operating revenue for FY22 are expected to be in a range of 80-85% which is consistent with levels seen in the second half of FY21 and the pre-pandemic period. Integration costs, relating to all the acquisitions announced since the start of FY21, are expected to increase total operating expenses as a percentage of operating revenue by up to 2% for FY22.

As previously stated, the acquisition of Planday is expected to contribute approximately three percentage points of additional operating revenue growth in FY22.



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Q&A



Steve Vamos
CHIEF EXECUTIVE OFFICER



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



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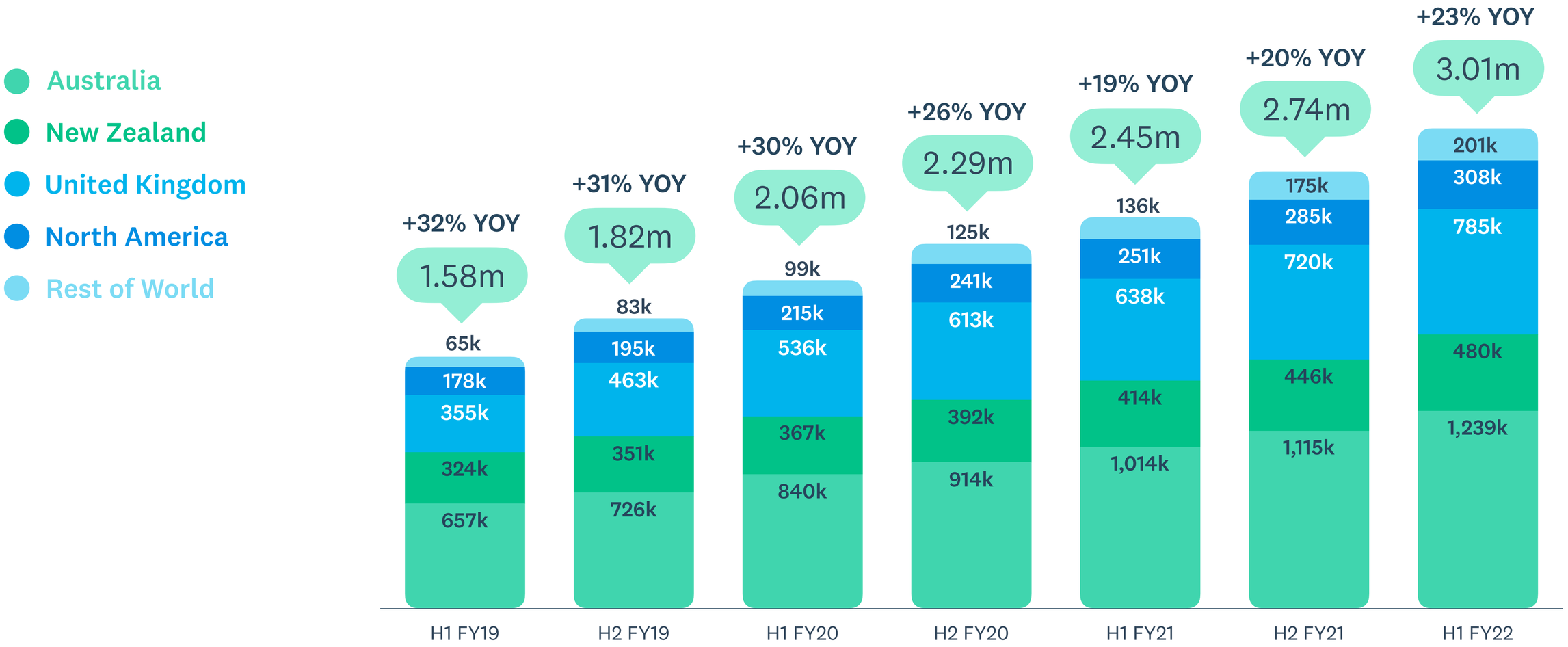
Appendix



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Subscriber growth trend

Closing subscribers from H1 FY19 to H1 FY22



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SaaS metrics summary

	ANZ				International				Group			
	FY20	H1 FY21	FY21	**H1 FY22**	FY20	H1 FY21	FY21	**H1 FY22**	FY20	H1 FY21	FY21	**H1 FY22**
ARPU	$29.83	$30.79	$31.23	**$31.38**	$30.05	$28.44	$26.74	**$31.25**	$29.93	$29.81	$29.30	**$31.32**
CAC months	9.7	9.1	8.9	**9.1**	18.1	22.0	22.4	**19.5**	14.0	14.9	14.8	**14.2**
Churn	0.84%	0.83%	0.73%	**0.67%**	1.59%	1.53%	1.43%	**1.20%**	1.13%	1.11%	1.01%	**0.88%**
Subscribers	1,306,000	1,428,000	1,561,000	**1,719,000**	979,000	1,025,000	1,180,000	**1,294,000**	2,285,000	2,453,000	2,741,000	**3,013,000**
Net additions (6 months)	99,000	122,000	133,000	**158,000**	129,000	46,000	155,000	**114,000**	228,000	168,000	288,000	**272,000**
LTV per sub	$3,058	$3,182	$3,682	**$4,080**	$1,573	$1,587	$1,608	**$2,262**	$2,422	$2,516	$2,789	**$3,299**
LTV/CAC	10.6	11.4	13.2	**14.3**	2.9	2.5	2.7	**3.7**	5.8	5.7	6.4	**7.4**
Total LTV	$3.99b	$4.54b	$5.75b	**$7.01b**	$1.54b	$1.63b	$1.90b	**$2.93b**	$5.53b	$6.17b	$7.65b	**$9.94b**

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Recent acquisitions FY21 to H1 FY22

	waddle	TICKSTAR	Planday	LOCATE™
ACQUISITION	Invoice lending platform leveraging customers' accounting data **Completed 1 October 2020**	E-invoicing technology providing connections to the Peppol global e-invoicing network **Completed 1 April 2021**	Workforce management platform for employers and employees **Completed 1 April 2021**	Cloud-based inventory management provider **Completion November 2021**
STRATEGIC PRIORITY	Grow small business platform	Drive cloud accounting	Grow small business platform	Grow small business platform; Drive cloud accounting
CONSIDERATION[1]	A$80 million ($87m)	SEK150 million ($25m)	€183.5 million ($305m)	US$14 million ($20m)
ALIGNMENT WITH CUSTOMER NEEDS	Provides access to capital through invoice financing	Provides access to well-established e-invoicing capability and network for faster, more secure transactions	Makes worker scheduling, payroll compliance and communicating with employees easier	Will help to track and manage inventory in real-time, across multiple locations and channels (including Xero's ecommerce partners)

1 For Waddle, Tickstar & Planday total consideration subject to performance and or product development milestones. Additional employee incentives payments apply, including US$5 million in restricted stock units for LOCATE employees over 3 to 5 years (see ASX release)

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Financial performance

Overview of financial performance from H1 FY20 to H1 FY22

	H1 FY20 ($000s)	H2 FY20 ($000s)	H1 FY21 ($000s)	H2 FY21 ($000s)	**H1 FY22 ($000s)**
Total operating revenue	338,658	379,573	409,837	438,945	**505,703**
Gross profit	**288,517**	**323,132**	**351,161**	**378,728**	**440,417**
Gross margin	**85.2%**	**85.1%**	**85.7%**	**86.3%**	**87.1%**
Sales & marketing costs	(146,072)	(166,780)	(130,750)	(177,198)	**(189,017)**
Percentage of operating revenue	43.1%	43.9%	31.9%	40.4%	**37.4%**
Product design & development	(85,297)	(92,961)	(110,654)	(138,878)	**(166,833)**
Percentage of operating revenue	25.2%	24.5%	27.0%	31.6%	**33.0%**
General & administration	(41,138)	(47,842)	(46,917)	(59,428)	**(66,144)**
Percentage of operating revenue	12.1%	12.6%	11.4%	13.5%	**13.1%**
Total operating expenses	**(272,507)**	**(307,583)**	**(288,321)**	**(375,504)**	**(421,994)**
Percentage of operating revenue	80.5%	81.0%	70.4%	85.5%	**83.4%**
Asset impairments and other income & expenses	(1,270)	2,393	(3,151)	(1,226)	**(1,500)**
Operating profit	**14,740**	**17,942**	**59,689**	**1,998**	**16,923**
EBITDA	**64,850**	**72,893**	**120,765**	**70,463**	**98,080**
EBITDA margin	**19.1%**	**19.2%**	**29.5%**	**16.1%**	**19.4%**
Net profit/(loss)	**1,336**	**2,000**	**34,486**	**(14,712)**	**(5,922)**

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Exchange rates

The table below outlines the principal exchanges rates used in the current and prior period



Six months ended/ as at 30 September	2021		2020	
	Average rate	Closing rate	Average rate	Closing rate
NZD / AUD	0.941	0.956	0.933	0.924
NZD / CAD	0.880	0.876	0.869	0.882
NZD / EUR	0.594	0.592	0.564	0.561
NZD / GBP	0.510	0.511	0.505	0.513
NZD / SGD	0.950	0.936	0.891	0.902
NZD / USD	0.708	0.687	0.640	0.659

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Glossary

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)

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

CAGR
Compound annual growth rate

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 (cc)
Constant currency comparisons for revenue are based on average exchange rates for the 6 months ended 30 September 2020. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 30 September 2020

Core accounting revenue
Core accounting revenue comprises subscription based revenue to Xero's cloud based platform, including any revenue for products that are bundled into subscription plans (such as Hubdoc and Payroll in some regions)

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

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

Liquid resources
Liquid resources comprises cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities

Other revenues
Other comprises non-recurring revenues and WorkflowMax. Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services. WorkflowMax is online workflow and job management software

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

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

TAM
Total addressable market

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