



## MARKET RELEASE

### **Xero successfully prices US\$925m 1.625 per cent convertible notes due 2031**

**WELLINGTON, 5 June 2024** - Xero Limited (ASX: XRO) (“Xero”) is pleased to announce it has successfully priced the US\$925m 1.625 per cent senior unsecured convertible notes due 2031 (the “Notes”) to be issued by Xero Investments Limited (“the Issuer”) and guaranteed by Xero (the “Offering”).

Settlement of the Offering is expected on 12 June 2024. The Notes will mature on 12 June 2031, unless earlier redeemed, repurchased or converted in accordance with their terms.

The Notes will bear interest at a rate of 1.625 per cent per annum. Interest will be payable semi-annually in arrears on 12 June and 12 December of each year, beginning on 12 December 2024.

The initial conversion price of the Notes is US\$109.65 per ordinary share, which represents a conversion premium of 30% over the Reference Share Price, based on a Fixed Exchange Rate of A\$1.00 = US\$0.6649.

Concurrently, to reduce any potential dilution to existing Xero shareholders due to the new convertible notes, the Issuer has entered into a new call spread transaction to raise the effective premium to 60%, equivalent to US\$134.95 per ordinary share.

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 of approximately US\$908m will be used (i) to repurchase the Existing Notes (described below); (ii) for potential acquisitions and strategic investments; and (iii) for general corporate purposes. Following the partial buyback of the existing convertible notes described below, the unwind of the existing call spread arrangement and initiation of a new call spread arrangement, Xero will realise net new proceeds of US\$234m.

The purpose and benefit of these transactions for Xero and Xero’s shareholders is to refinance Xero’s existing convertible note liability and access additional capital on highly attractive terms.

Xero CFO Kirsty Godfrey-Billy said: “We’re pleased with the response and the very strong demand for this offer. This will provide us with flexibility as we continue to execute our strategic priorities.”

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 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 approximately 92% of the Guaranteed Convertible Notes due 2025 ("Existing Notes") at an average price of US\$957.81 per US\$1,000 of the principal amount of the Existing Notes for a total cash consideration of approximately US\$618m.

The residual Existing Notes on issue, of approximately US\$54m in 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.

The buyback of the Existing Notes is expected to result in a loss of around US\$5m in the Group's FY25 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**"):

- o the Option Counterparties granting call options to the Issuer in respect of approximately 8.436m shares in Xero at an average exercise price of US\$109.65 per share (the lower strike call options). These call options will be cash settled (or, at the election of the Issuer, physically settled) and expire in 7 years; and
- o the Issuer granting call options to the Option Counterparties in respect of approximately 8.436m shares in Xero at an average exercise price of US\$134.95 per share (the upper strike call options). These call options will be physically settled by the issue of Xero ordinary shares and expire in 7 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.

Concurrent with the Offering a delta placement of approximately 2.359m shares has been executed to facilitate some of the hedging activity in relation to the Notes and the call option transactions. The clearing price of A\$126.85 per share, which represents a discount of 3.8% to the closing price of the ordinary shares on 4 June 2024, was used as the Reference Share Price for 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 12 June 2024. Settlement remains subject to the completion of typical conditions precedent.

*Authorised for release to the ASX by the Xero CFO*

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#### **About Xero**

[Xero](#) is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

## Key terms of the Notes

<b>Issuer</b>	Xero Investments Limited
<b>Guarantor</b>	Xero Limited
<b>Issue Size</b>	US\$925m
<b>Ranking</b>	Direct, unsubordinated, unsecured and unconditional
<b>Maturity</b>	On or about 12 June, 2031 (7 years)
<b>Coupon / Yield</b>	1.625 per cent
<b>Conversion Premium</b>	30% over the Reference Share Price
<b>Reference Share Price</b>	A\$126.85
<b>Initial Conversion Price</b>	US\$109.65 per ordinary share, based on the Fixed Exchange Rate
<b>Fixed Exchange Rate</b>	A\$1.00 = US\$0.6649
<b>Cash Settlement</b>	<p>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.</p> <p>The relevant Cash Settlement Amount will be calculated based on the volume weighted average price of the ordinary shares over a 90 trading day period.</p>
<b>Conversion Price Adjustment</b>	Standard anti-dilutive adjustments including Conversion Price adjustment for all dividends paid by the Company
<b>Listing</b>	SGX-ST
<b>Selling Restrictions</b>	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.*

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