



Beautiful business

Market release

FY22 Annual Results Investor Presentation

WELLINGTON, 12 May 2022 - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its FY22 Annual Results Investor Presentation.

Authorised for release to the ASX by the Chair of the Board & Chair of the Audit and Risk Management Committee

Contact

Toby Langley - Investor Relations
Mobile: +61 450 223995
toby.langley@xero.com

Kate McLaughlin - Communications
Mobile: +64 27 533 4529
kate.mclaughlin@xero.com

About Xero

Xero is a global small business platform with 3.3 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also provides access to financial services, and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through Xero's open platform, small businesses can connect to a range of solutions that help them run their business and manage their finances. For three consecutive years (2020-2022), Xero was included in the Bloomberg Gender-Equality Index. In 2021, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero has been named as a FIFA Women's Football partner under FIFA's new commercial structure.

Xero Limited (XRO)
NZ Company no. 1830488
ARBN 160 661 183

Registered Address
19-23 Taranaki St
Te Aro
Wellington 6011

www.xero.com

Investor briefing

Full year results to 31 March 2022

12 MAY 2022



Beautiful business



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 annual report for the period ended 31 March 2022, 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 2022, 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 28 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.

Agenda

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Steve Vamos
CHIEF EXECUTIVE OFFICER

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Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

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Business update



Steve Vamos

CHIEF EXECUTIVE OFFICER



Strong result with 29% revenue growth

Financial and operating performance highlights for the year ended 31 March 2022

SUBSCRIBERS

3.271m

+ **530,000** net subscriber additions or **19% YOY**

ARPU

\$31.36

+ **7% YOY** (9% in constant currency)

AMRR

\$1,231.1m

+ **28% YOY** (30% in constant currency)

TOTAL LIFETIME VALUE

\$10.9b

+ **\$3.3b** or **43% YOY**

OPERATING REVENUE

\$1,096.8m

+ **29% YOY** (30% in constant currency)

EBITDA

\$212.7m

+ **\$21.4m YOY**

NET LOSS

-\$9.1m

- **\$28.9m YOY**

FREE CASH FLOW

\$2.1m

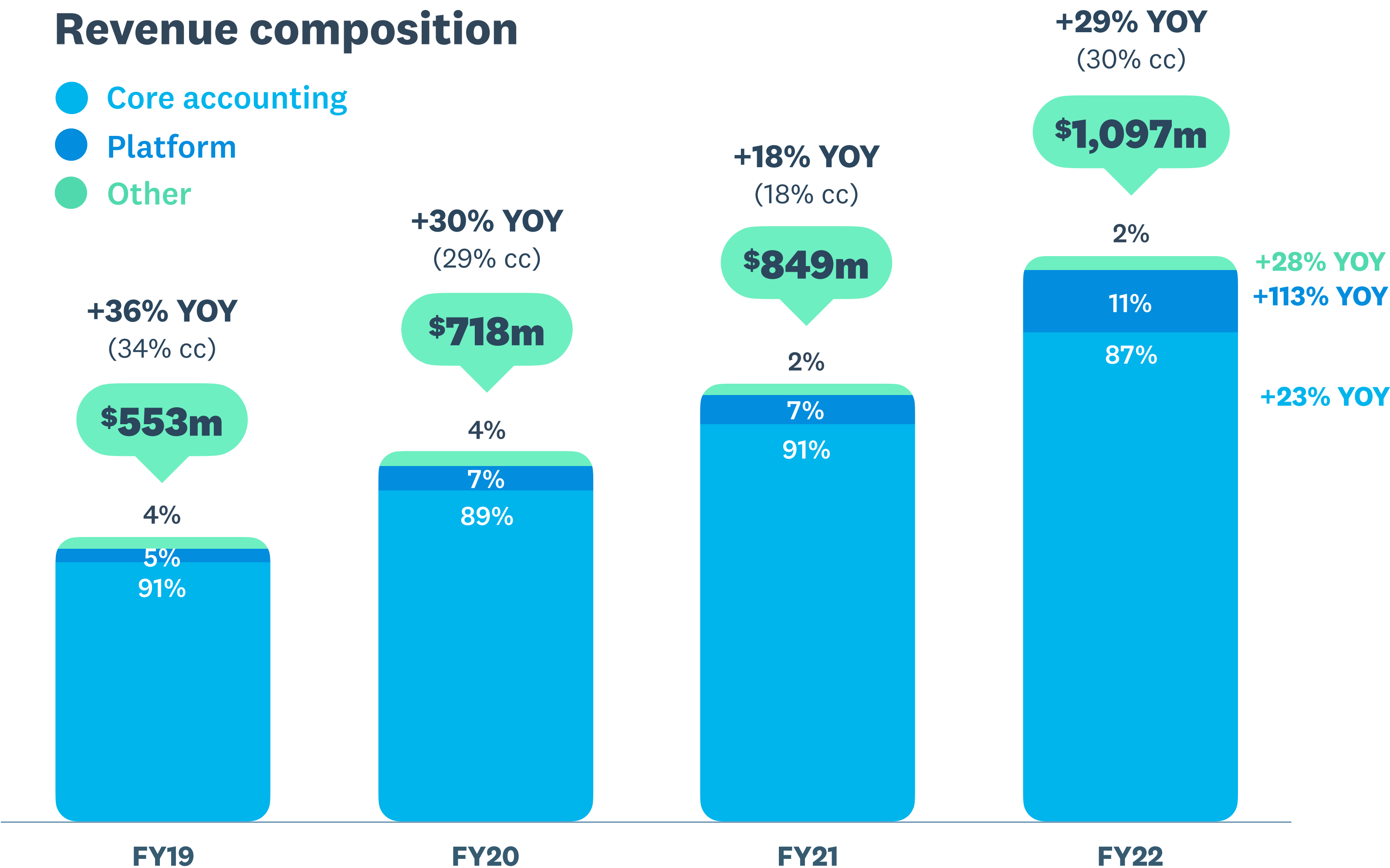
- **\$54.9m YOY**

Revenue growth strong

Customers increasingly consider Xero as fundamental to running their business and meeting compliance and other needs

Revenue composition

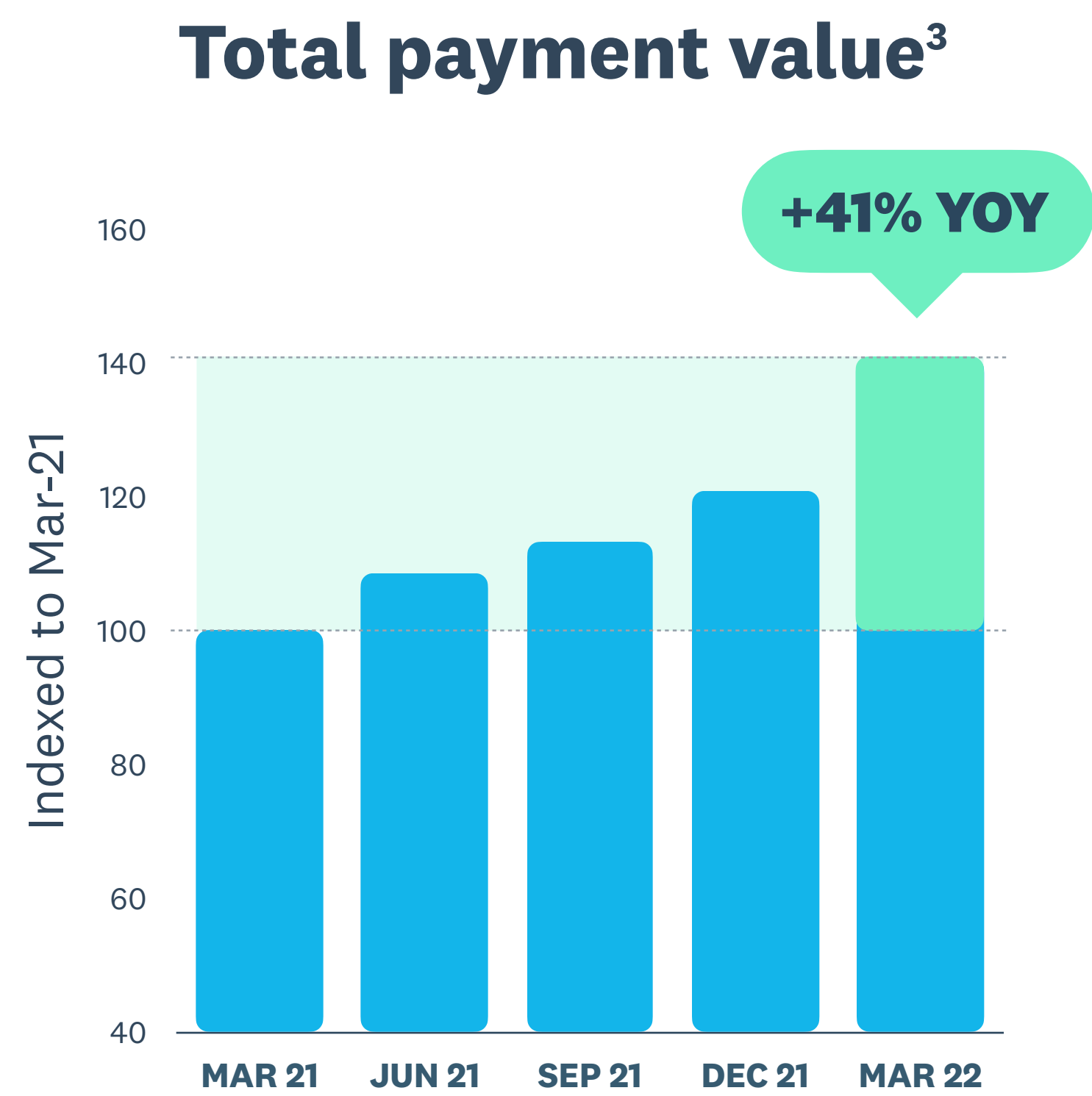
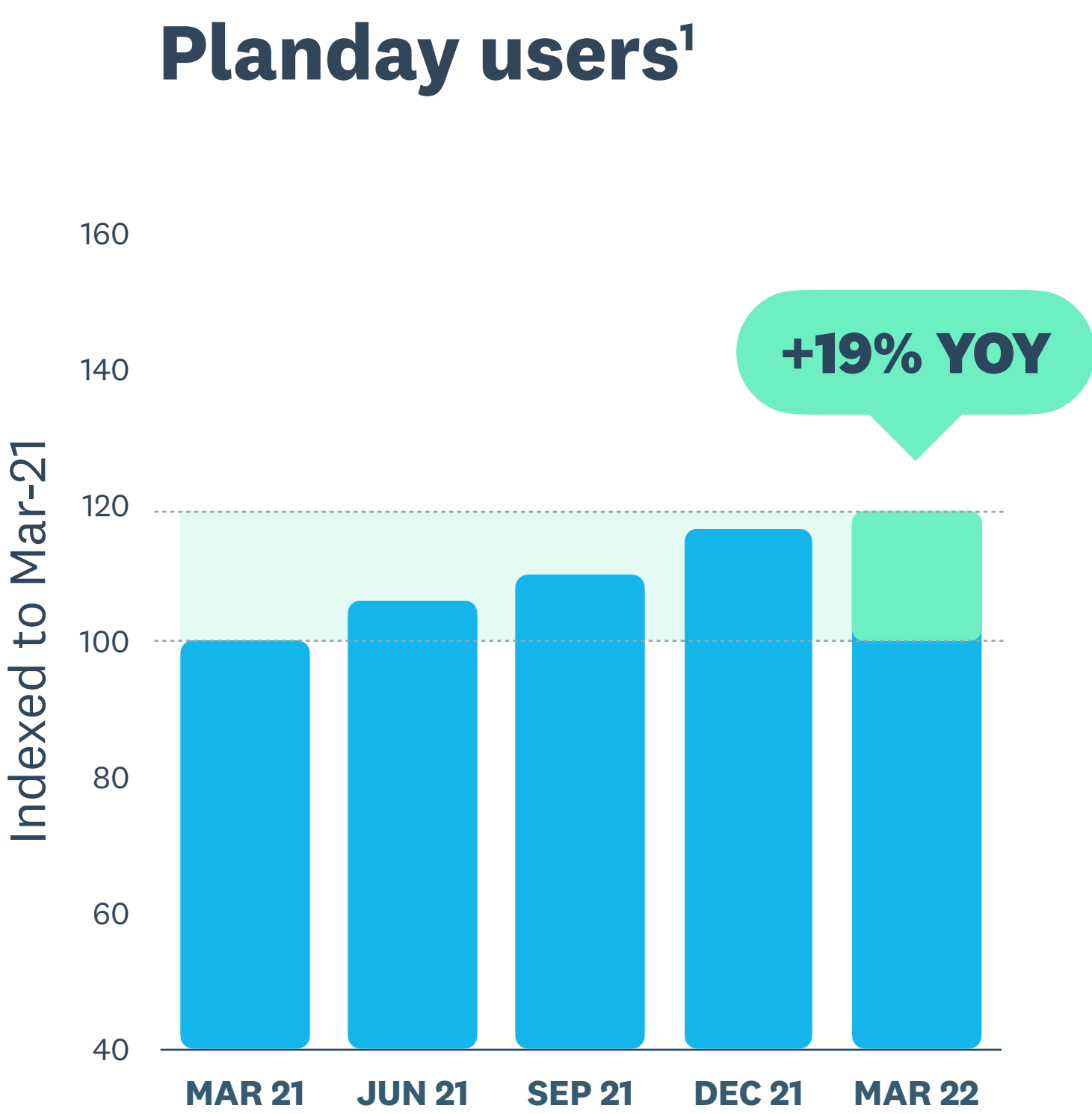
- Core accounting
- Platform
- Other



- **Group operating revenue** grew 29% YOY, or 24% excluding revenue from businesses acquired during the period
- **Core accounting revenues** grew 23% YOY or 24% in constant currency, driven by subscriber growth and price changes
- **Platform revenues** increased by 113% YOY, or 43% excluding revenues from businesses acquired during the period
- **Other revenues** increased 28% YOY, or 19% excluding revenues from businesses acquired during the period

Platform revenues grow, supported by rising activity

Platform revenues now account for 11% of revenues, up from 7% in FY21. The three largest contributors of platform revenue in FY22 show increasing activity levels over the last 12 months



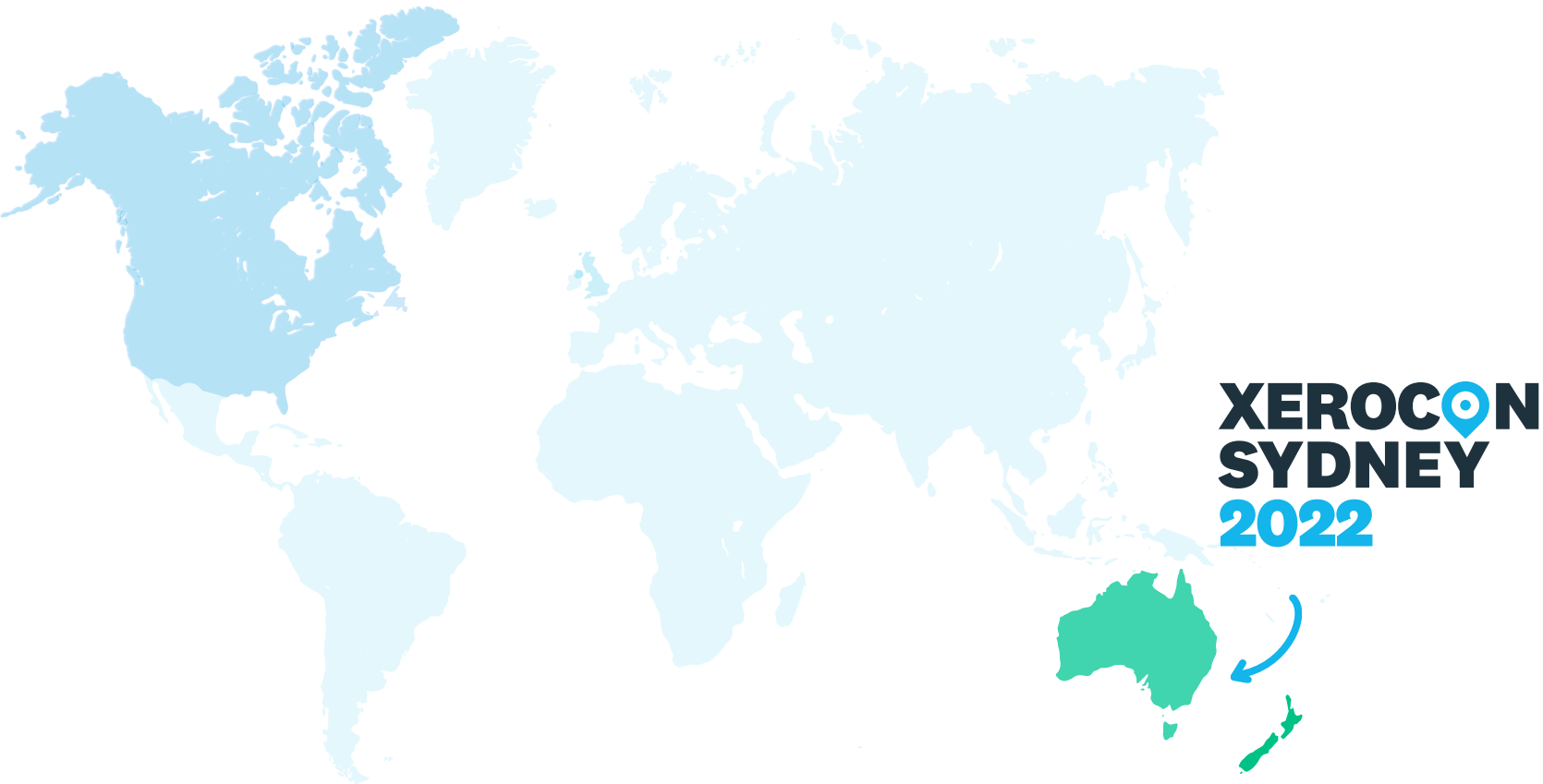
1 Average employee users of Planday
2 Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)
3 Total invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

Australia and New Zealand highlights

\$633M REVENUE (+23% YOY)

295K NET ADDS

1.86M SUBSCRIBERS (+19% YOY)



Winners

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



Australia

	FY22	Δ YOY
Revenue	\$483m	+26% ¹
Net additions	229k	+14%
Subscribers	1.34m	+21%

New Zealand

	FY22	Δ YOY
Revenue	\$149m	+15%
Net additions	66k	+22%
Subscribers	512k	+15%

- Ongoing momentum in subscriber and revenue growth as cloud adoption continues
- Recent Australian Budget measures such as the Technology Investment Boost add further support to small business
- Xerocon scheduled for September 2022 in Sydney
- Business Edition (BE) price changes effective September 2021, Partner Edition price changes effective March 2022²

1 Revenue growth 27% YOY constant currency 2 This excludes ledger products

International highlights

\$464M REVENUE (+39% YOY)

235K NET ADDS

1.4M SUBSCRIBERS (+20% YOY)

**XEROCON
NEW ORLEANS
2022**

**XEROCON
LONDON
2022**

United Kingdom

	FY22	Δ YOY
Revenue	\$292m	+30%¹
Net additions	130k	+21%
Subscribers	850k	+18%

- Well positioned and continue to deliver product specific enhancements
- Subdued Q3 subscriber net additions due to partner channel productivity and service related challenges, improved performance in Q4
- Slower than expected rate of uptake from final stage of MTD for VAT to date
- Xerocon scheduled for July 2022 in London
- BE price changes effective September 2021

North America

	FY22	Δ YOY
Revenue	\$73m	+28%²
Net additions	54k	+23%
Subscribers	339k	+19%

- Focused on product localisation, as evidenced by recent TaxCycle acquisition
- New partnership agreed with Avalara
- Xerocon schedule for August 2022 in New Orleans
- BE price changes in the US and Canada, effective November 2021

Rest of World

	FY22	Δ YOY
Revenue	\$100m	+85%³
Net additions	51k	+2%
Subscribers	226k	+29%

- Continued to expand our product offering in South Africa
- ROW includes the majority of Planday revenue and subscriber contribution
- BE price changes for USD plans, effective November 2021

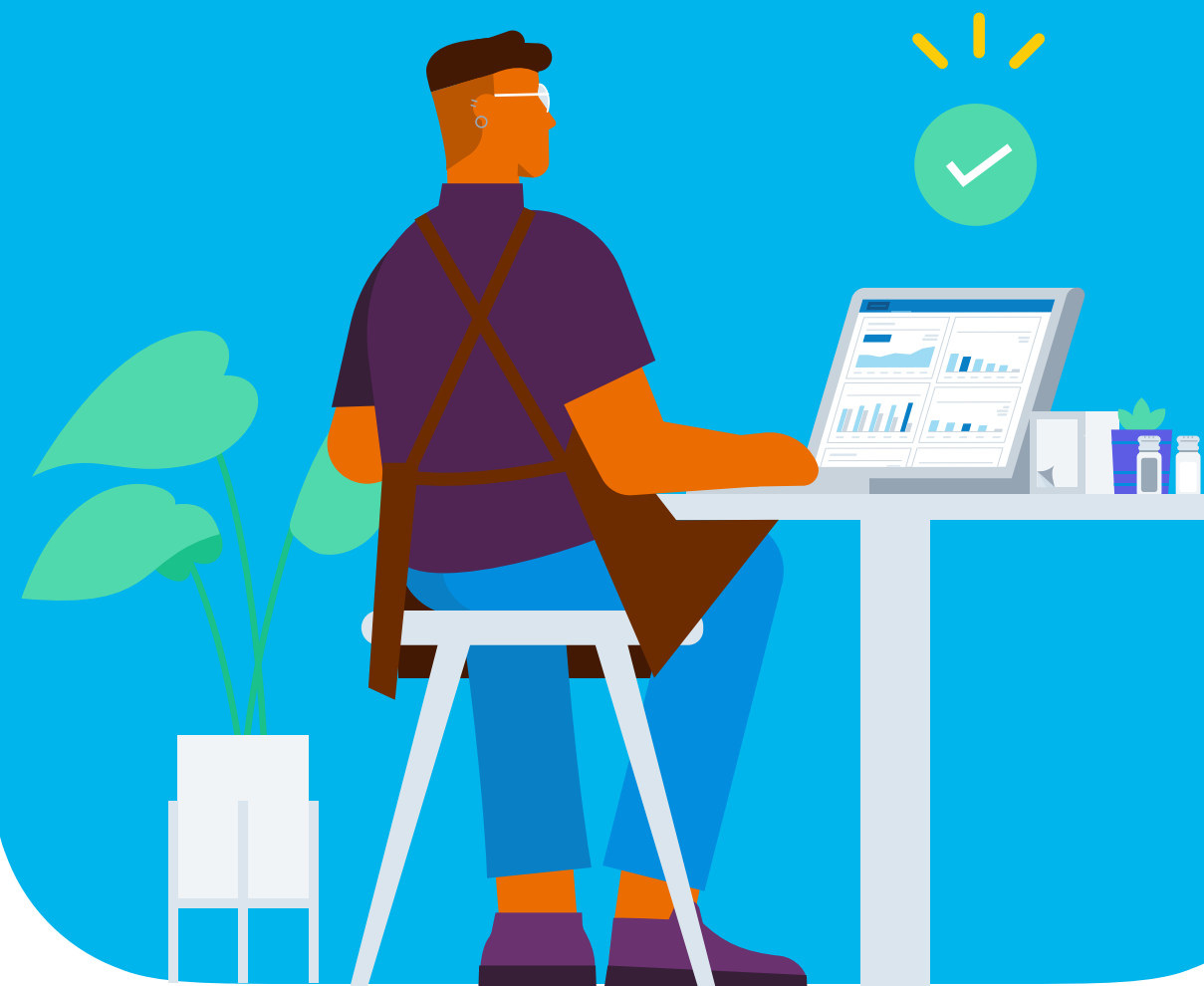
1 Revenue growth 30% YOY constant currency

2 Revenue growth 31% YOY constant currency

3 Revenue growth 90% YOY constant currency

Strategic priorities

Drive cloud accounting



Grow small business platform



Build for global scale and innovation



Investing in our strategy: North America

Canadian product localisation with TaxCycle

STRATEGIC PRIORITY	Drive cloud accounting	
CATEGORY	Canadian tax compliance	
OPPORTUNITY	Serving more Canadian customers by enhancing income tax filing capability, in line with Xero's compliance playbook, and accessing a larger partner base	
TAM	4 million SMEs	
MARKET AND CUSTOMER NEEDS	The Canadian market Low cloud penetration and 4 million SMEs in total addressable market opportunity Accountants and bookkeepers play a similar role in supporting small business Xero Canada was established in FY18 With the acquisition of TaxCycle we now have locations in Toronto and Calgary with a team of 200+	Acquisition of TaxCycle Founded in 2010, TaxCycle is used by accountants and bookkeepers in all local tax jurisdictions representing almost 4,000 tax firms across Canada Provides immediate access to income tax and annual tax submissions for customers Steps up localisation of our Canadian offering, adding end-of-year tax capability in key filing categories with support for others to come



Investing in our strategy: our people

Successful year in talent acquisition

- In a challenging hiring environment, delivered our biggest ever year of talent acquisition in FY22
- Expanded to 4,784 total FTEs globally
- Focus on product and technology, where we grew FTEs 35% YOY
- Attracting talent as we build our capabilities to further scale and innovate, including adding senior product capability in North America

Employee value proposition

Tools that support our talent acquisition

Purpose-led

Our people are inspired to fulfil our purpose to make life better for people in small business

Global footprint

Continue to leverage our global footprint

Flexible working policy

Giving our people flexibility and choice to work where they and their teams perform best, at home, in the office or a combination of both

Fully remote roles

Fully remote roles for our product and technology teams



Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER



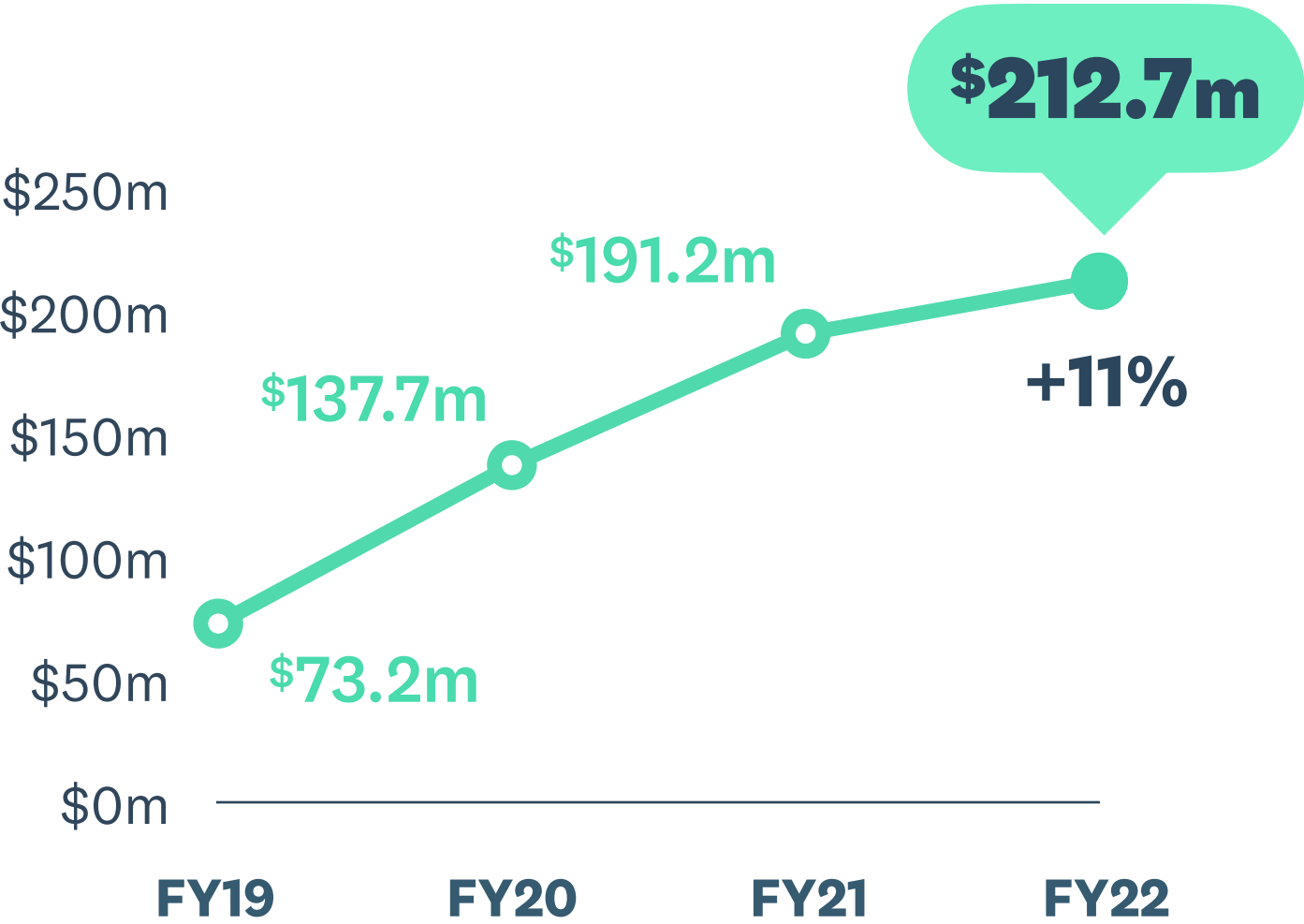
Strong financial performance with continued investment in the long term

AMRR



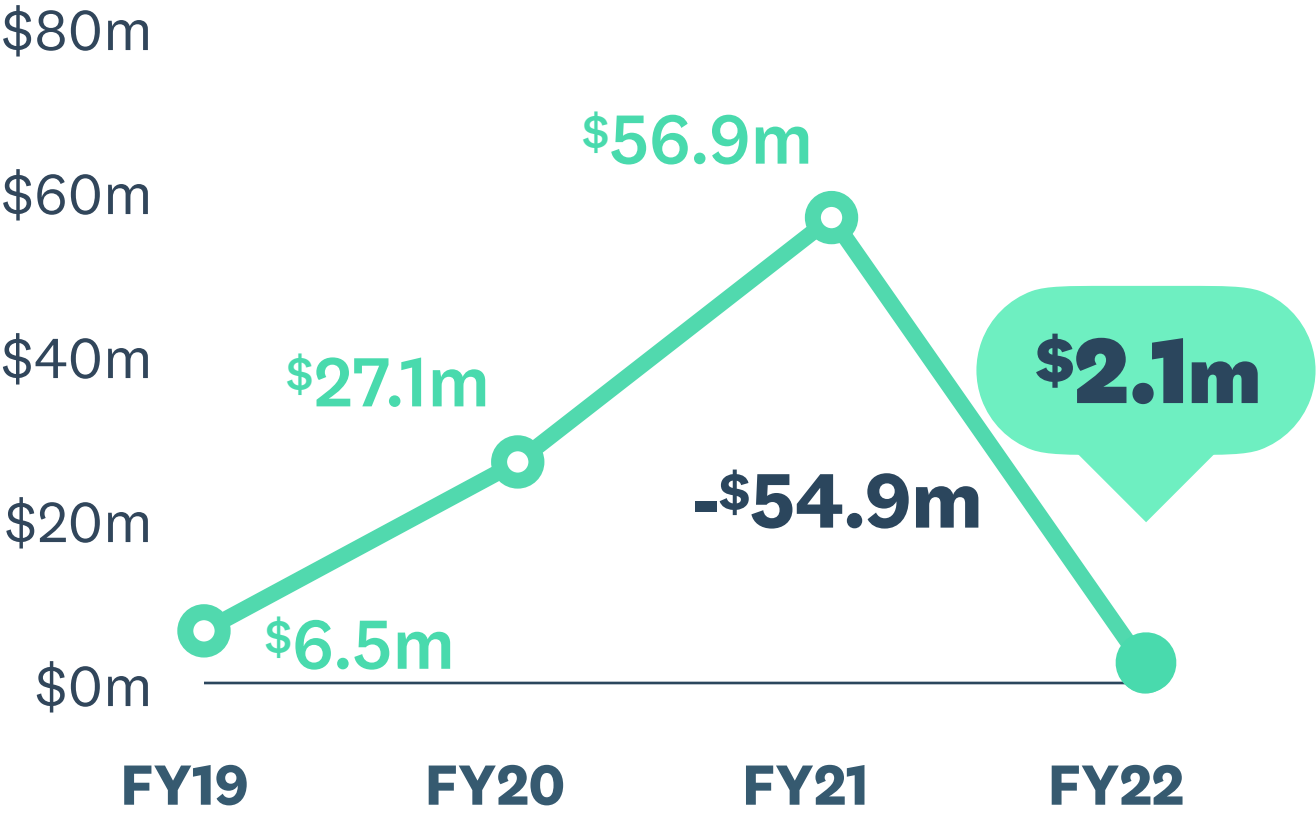
Growth in AMRR of \$267.5m or 28% YOY (30% in constant currency) reflects subscriber growth of 19%, and ARPU increase of 7% YOY (9% YOY in constant currency)

EBITDA



EBITDA increased by \$21.4m or 11% YOY, reflecting rebound in revenue growth partially offset by increased sales and marketing and product spend. EBITDA also includes net benefit of \$3.7m from non-cash items (discussed on slide 18)

Free cash flow

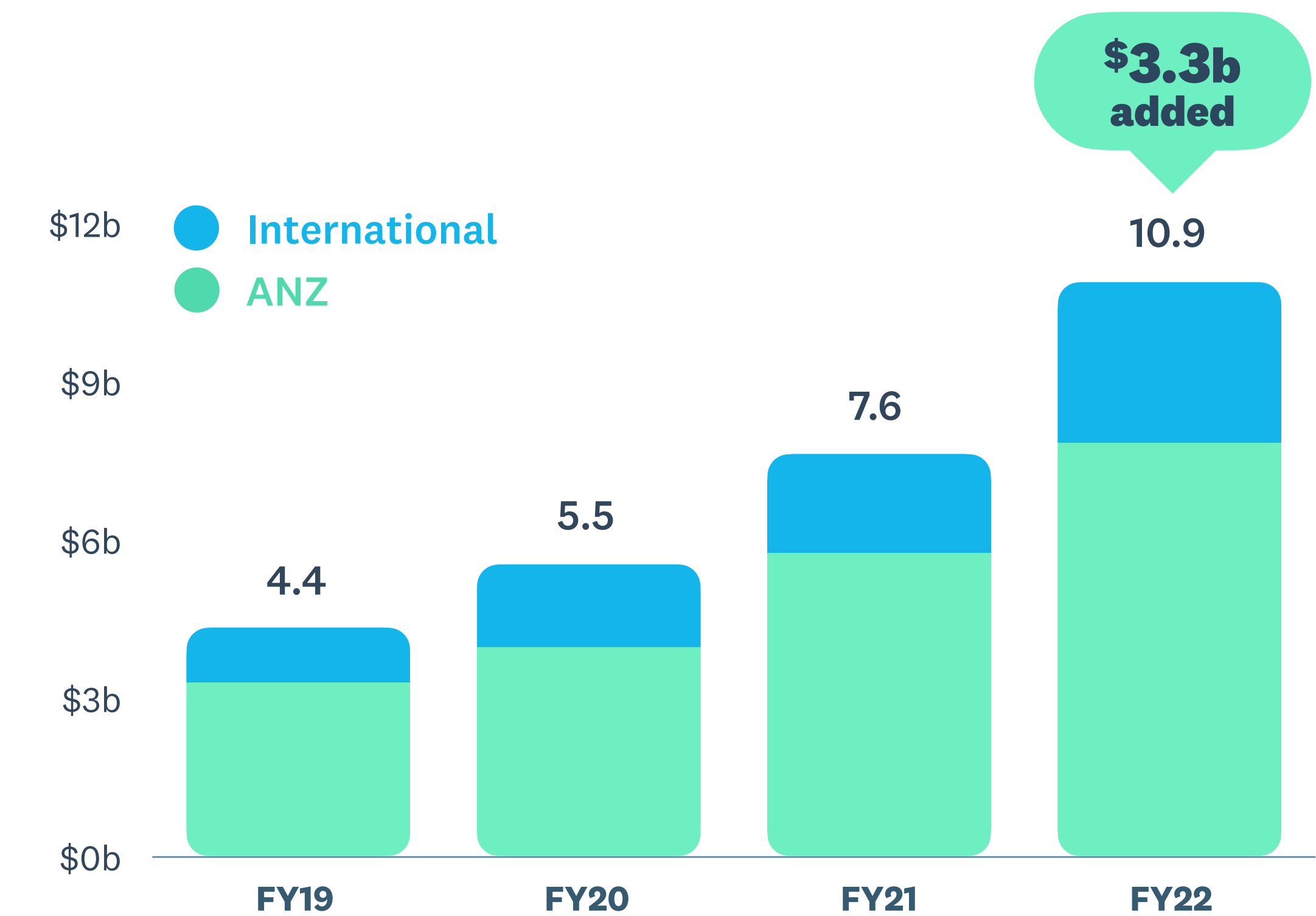


Free cash flow decreased by \$54.9m to \$2.1m. Free cash flow as a percentage of revenue decreased 6.5pp from 6.7% to 0.2% YOY as higher investment levels returned in FY22 after FY21 free cash flow benefited from responsive expense management

Continued uplift in lifetime value of subscribers

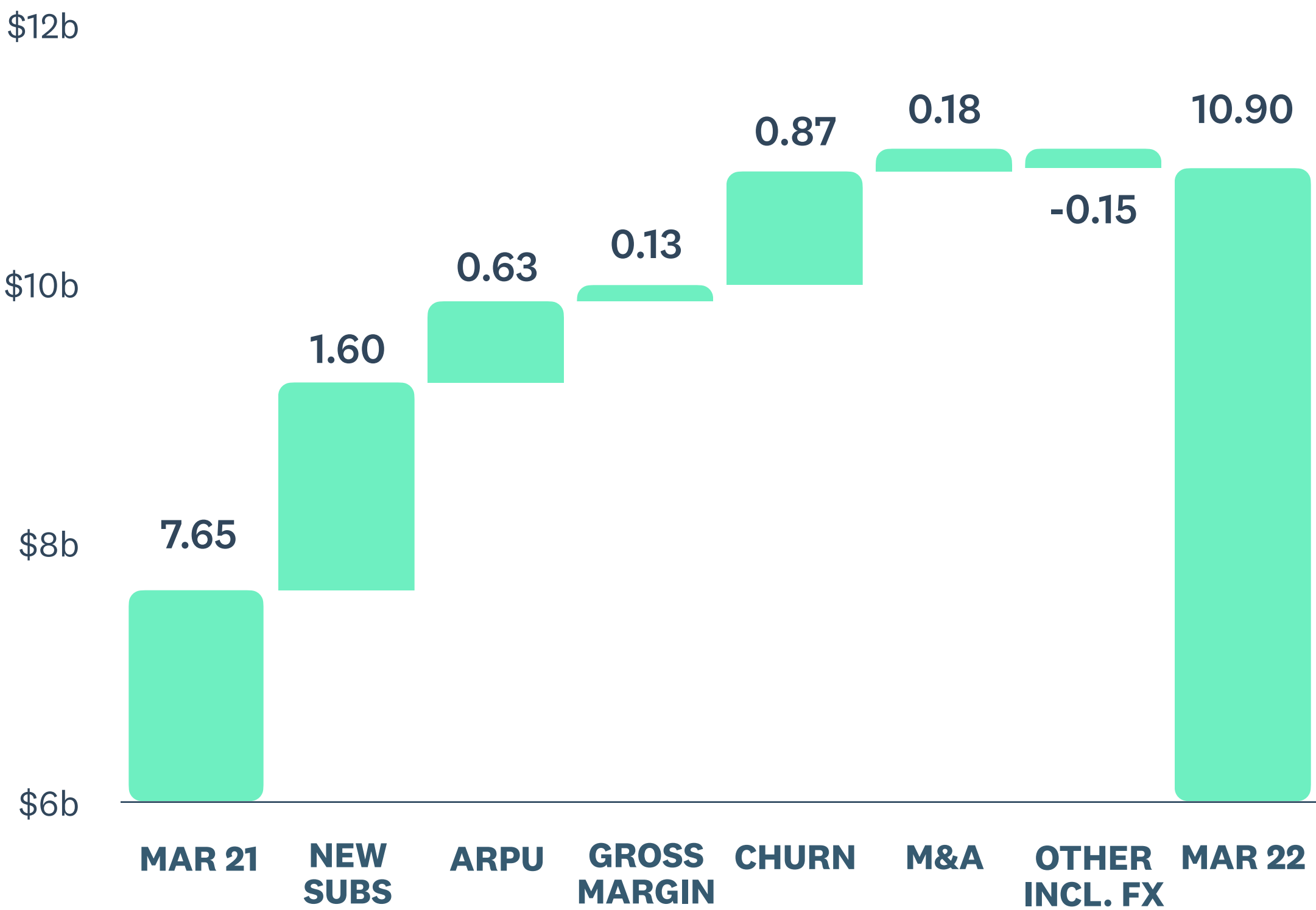
Total LTV over time

- LTV 5 year CAGR was 34% for ANZ and 49% for International
- Average customer lifetime of 9.3 years



LTV movements by driver

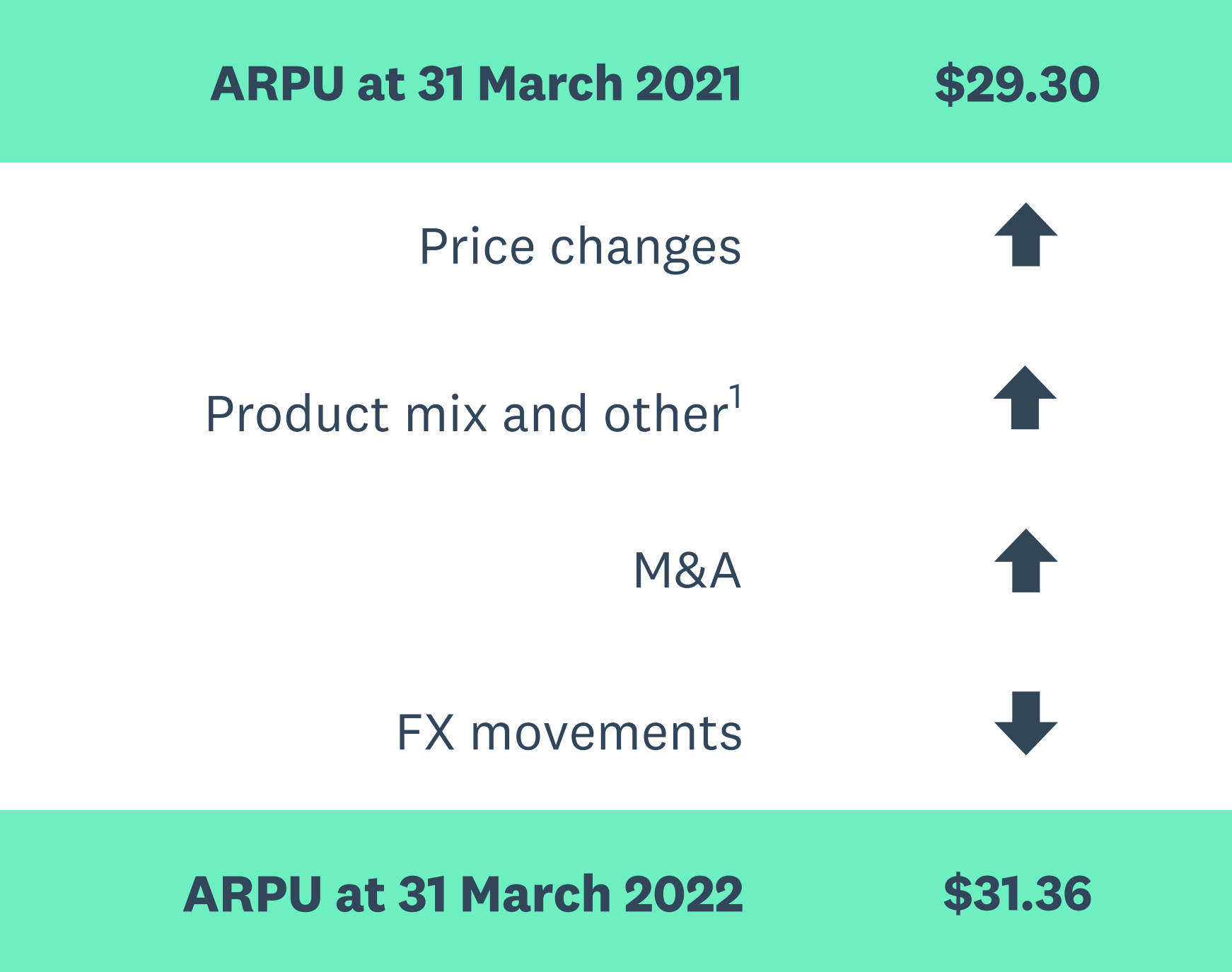
From 31 March 2021 to 31 March 2022



Higher ARPU, low churn helping drive LTV uplift

ARPU movement contributors

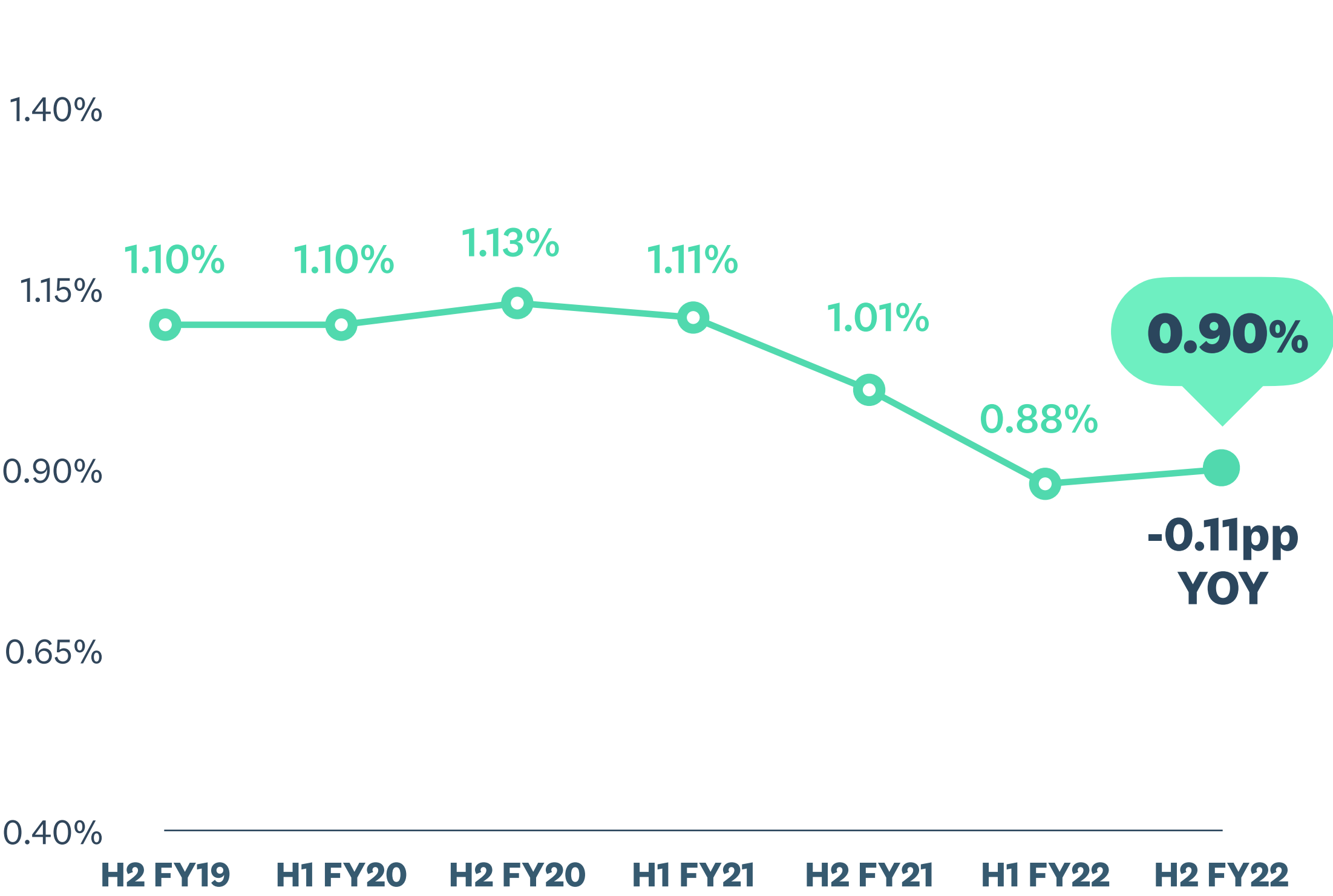
ARPU has increased by just over \$2 since 31 March 2021



1 Other includes platform revenues
2 See glossary on page 28 for definition of churn

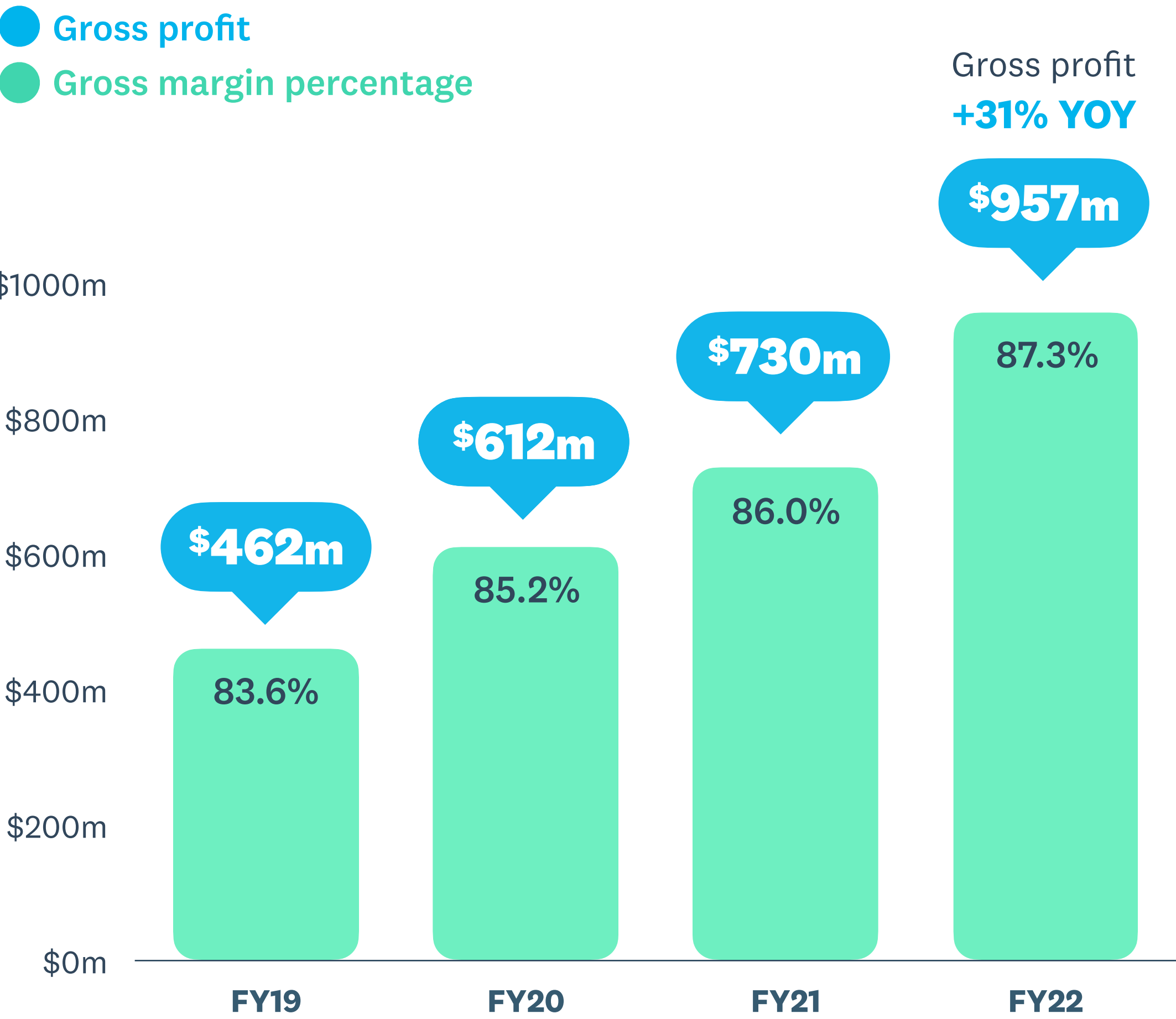
Churn²

Churn has remained consistently below pre-COVID-19 pandemic levels

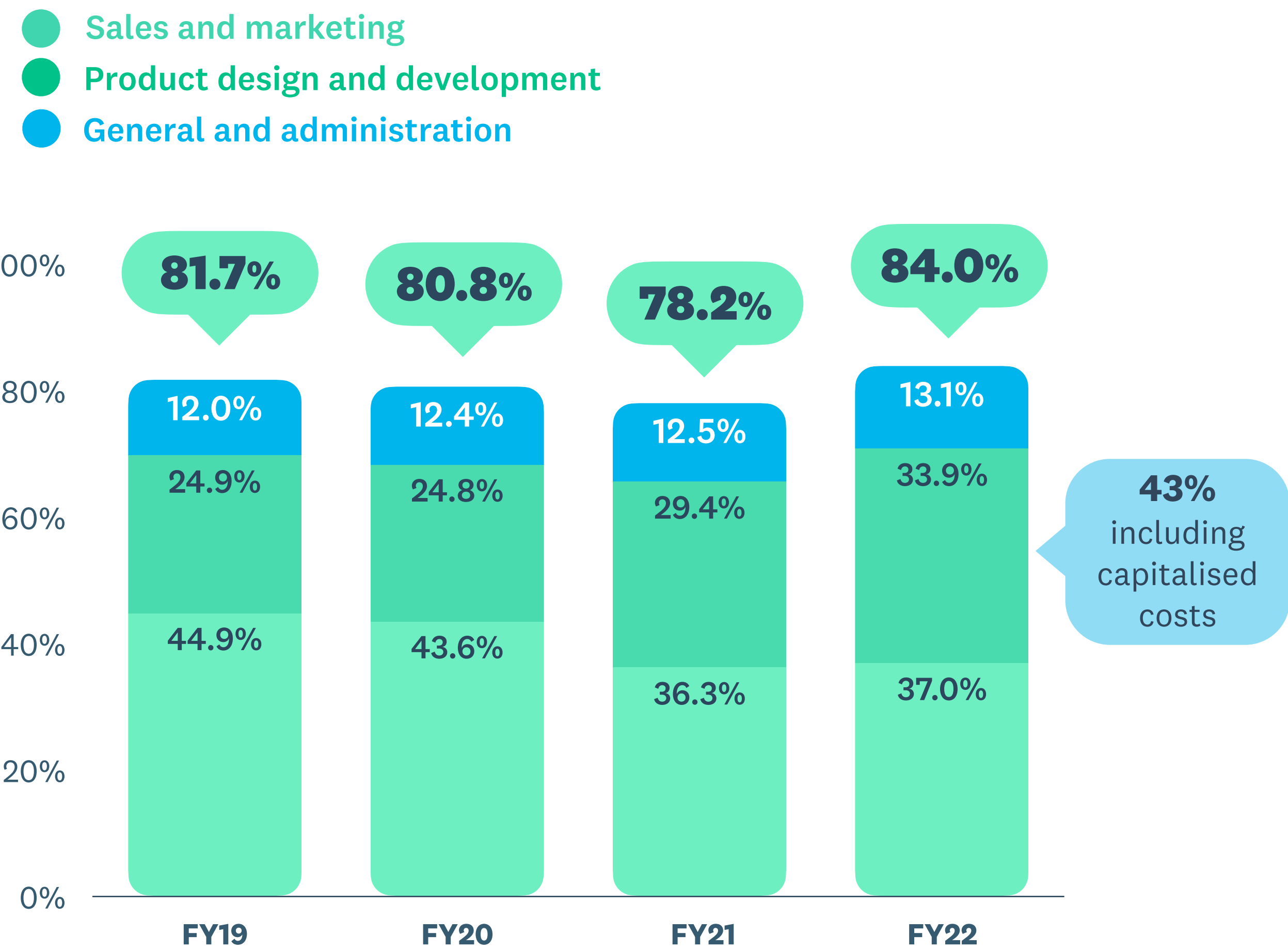


Improved gross profit reflects continued investment

Gross profit and gross margin percentage



Operating expenses as a % of revenue



Financial performance

Operating revenue growth of 29% YOY (30% constant currency), driven primarily by subscriber growth and platform revenue

Operating expenses, inclusive of acquisition integration costs, increased 39% YOY and represented 84% of operating revenue, consistent with guidance for FY22

EBITDA increased \$21.4m YOY, with a 3.1pp decrease in EBITDA margin over the period as operating expenses increased to support a stronger growth profile

One-off items that had a net impact of \$3.7m, comprised

- Restructuring of Planday deferred consideration: -\$2.2m
- Reduced Waddle deferred consideration gain: +\$30.6m
- Impairment of Waddle goodwill: -\$20.4m
- Impairment of other intangibles: -\$4.3m

	FY21 (\$000s)	FY22 (\$000s)	Δ YOY (%)
Total operating revenue	848,782	1,096,819	29%
Cost of revenue	(118,893)	(139,388)	17%
Gross profit	729,889	957,431	31%
Gross margin	86.0%	87.3%	+1.3pp
Total operating expenses	(663,825)	(921,849)	39%
Asset impairments and other income & expenses	(4,377)	6,392	NM
Operating profit	61,687	41,974	-32%
EBITDA	191,228	212,661	11%
EBITDA margin	22.5%	19.4%	-3.1pp
Net profit/(loss)	19,774	(9,114)	NM

Total liquid resources of \$1.1 billion

Net cash position decreased by \$205.4m YOY to \$51.2m at 31 March 2022

Total available liquid resources at 31 March 2022 of \$1.1b, inclusive of \$150m of undrawn committed debt facilities

Investing cash flows include acquisition payments for Planday, Tickstar, LOCATE Inventory and TaxCycle along with deferred consideration payments from previous acquisitions, totalling \$185.4 million

Movement in net cash position

	FY21 (\$000s)	FY22 (\$000s)	Δ YOY (\$000s)
Cash and cash equivalents	657,849	404,192	(253,657)
Short-term deposits	452,814	531,866	79,052
Total cash and short-term deposits	1,110,663	936,058	(174,605)
Convertible notes – term debt liability	(854,078)	(884,839)	(30,761)
Net cash	256,585	51,219	(205,366)

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 (including acquisition integration costs) as a percentage of operating revenue for FY23 are expected to be towards the lower end of a range 80-85%.



Evolution of Xero's financial profile

EXPENSE RATIO	FY22	FY23 EXPECTATION	LONG TERM ASPIRATION
SALES & MARKETING	37.0% of revenue	Expected ratio trend: 	
OUTCOME	- Revenue Growth: +29% - Subscriber Growth: +19% - LTV/CAC: 6.9	- Revenue Growth - Subscriber Growth - Attractive LTV/CAC	
PRODUCT DESIGN & DEVELOPMENT	33.9% of revenue	Expected ratio trend: 	
PRODUCT INITIATIVES AND DELIVERY HIGHLIGHTS	DELIVERED - Xero Analytics / Analytics Plus - Personal tax (UK) - Enhanced US reporting and Provincial Tax in Canada	DELIVERING - Meeting needs of customers with less complex needs - Deeper North America localisation - Launch of Planday Australia	CONTINUING TO INVEST IN - Products and functionality to meet customer compliance needs in all markets - Embedding our inventory product - Seamless access to financial services - Workforce management - Continued modernisation of the platform
GENERAL & ADMINISTRATION	13.1% of revenue	Expected ratio trend: 	
TOTAL OPERATING EXPENSES	84.0% of revenue	Lower end of 80-85% range	

Q&A



Steve Vamos

CHIEF EXECUTIVE OFFICER



Kirsty Godfrey-Billy

CHIEF FINANCIAL OFFICER



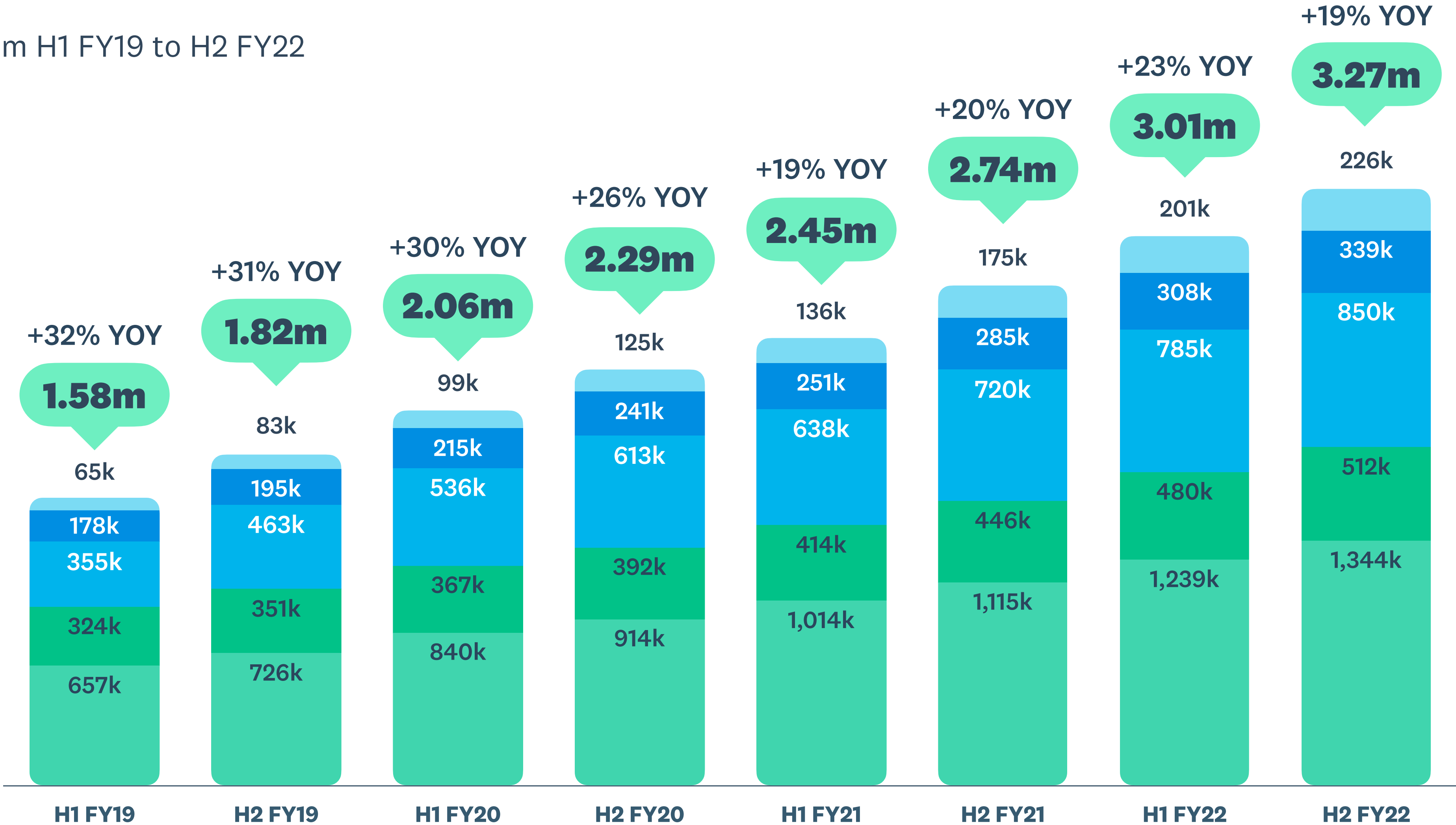
Appendix



Subscriber growth trend

Closing subscribers from H1 FY19 to H2 FY22

- Australia
- New Zealand
- United Kingdom
- North America
- Rest of World



SaaS metrics summary

	ANZ			International			Group		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
ARPU	\$29.83	\$31.23	\$32.00	\$30.05	\$26.74	\$30.53	\$29.93	\$29.30	\$31.36
CAC months	9.7	8.9	8.8	18.1	22.4	22.9	14.0	14.8	15.5
Churn	0.84%	0.73%	0.66%	1.59%	1.43%	1.23%	1.13%	1.01%	0.90%
Subscribers	1,306,000	1,561,000	1,856,000	979,000	1,180,000	1,415,000	2,285,000	2,741,000	3,271,000
Net additions	229,000	255,000	295,000	238,000	201,000	235,000	467,000	456,000	530,000
LTV per sub	\$3,058	\$3,682	\$4,225	\$1,573	\$1,608	\$2,164	\$2,422	\$2,789	\$3,333
LTV/CAC	10.6	13.2	14.9	2.9	2.7	3.1	5.8	6.4	6.9
Total LTV	\$3.99b	\$5.75b	\$7.84b	\$1.54b	\$1.90b	\$3.06b	\$5.53b	\$7.65b	\$10.90b

Financial performance

Overview of financial performance from H1 FY20 to H2 FY22

	H1 FY20 (\$000s)	H2 FY20 (\$000s)	H1 FY21 (\$000s)	H2 FY21 (\$000s)	H1 FY22 (\$000s)	H2 FY22 (\$000s)
Total operating revenue	338,658	379,573	409,837	438,945	505,703	591,116
Gross profit	288,517	323,132	351,161	378,728	440,417	517,014
Gross margin	85.2%	85.1%	85.7%	86.3%	87.1%	87.5%
Sales & marketing costs	(146,072)	(166,780)	(130,750)	(177,198)	(189,017)	(216,636)
Percentage of operating revenue	43.1%	43.9%	31.9%	40.4%	37.4%	36.6%
Product design & development	(85,297)	(92,961)	(110,654)	(138,878)	(166,833)	(205,191)
Percentage of operating revenue	25.2%	24.5%	27.0%	31.6%	33.0%	34.7%
General & administration	(41,138)	(47,842)	(46,917)	(59,428)	(66,144)	(78,028)
Percentage of operating revenue	12.1%	12.6%	11.4%	13.5%	13.1%	13.2%
Total operating expenses	(272,507)	(307,583)	(288,321)	(375,504)	(421,994)	(499,855)
Percentage of operating revenue	80.5%	81.0%	70.4%	85.5%	83.4%	84.6%
Asset impairments and other income & expenses	(1,270)	2,393	(3,151)	(1,226)	(1,500)	7,892
Operating profit	14,740	17,942	59,689	1,998	16,923	25,051
EBITDA	64,850	72,893	120,765	70,463	98,080	114,581
EBITDA margin	19.1%	19.2%	29.5%	16.1%	19.4%	19.4%
Net profit/(loss)	1,336	2,000	34,486	(14,712)	(5,922)	(3,192)

Recent acquisitions FY21 to FY22

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 Completed 12 November 2021	 Canadian tax preparation software for accountants and bookkeepers Completed 30 December 2021
STRATEGIC PRIORITY	 Grow small business platform	 Drive cloud accounting	 Grow small business platform	 Drive cloud accounting	
TOTAL CONSIDERATION AT ACQUISITION ¹	A\$85 million (\$92m)	SEK151 million (\$25m)	€186 million (\$311m)	US\$14 million (\$20m)	CA\$66 million (\$75m)
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)	Offers accountants and bookkeepers capability to better serve and advise small business customers on their tax needs

¹ Total consideration includes maximum amounts payable in respect of contingent consideration and indemnification funds. For Waddle, Tickstar & Planday total consideration subject to performance and or product development milestones. Refer to notes 14 and 19 in the Financial Statements for recognition under IFRS including adjustments. Additional employee incentive of US\$5 million (over 3 - 5 years) and CA\$5 million (over 1 - 3 years) were provided to LOCATE and TaxCycle employees respectively

Glossary

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)

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 12 months ended 31 March 2021. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2021

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

Contact

**Toby Langley /
Nicole Mehalski**

INVESTOR RELATIONS

toby.langley@xero.com

+61 450 223 995

nicole.mehalski@xero.com

+61 400 947 145

Kate McLaughlin

COMMUNICATIONS

kate.mclaughlin@xero.com

+64 27 533 4529





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xero.com/investors