

MARKET RELEASE

Xero Delivers 30% Revenue Growth & Free Cash Flow Progress

Focus is on supporting Xero customers during COVID-19

WELLINGTON, 14 May 2020 - Xero Limited (ASX: XRO) today reports full year earnings to 31 March 2020 (FY20) delivering top-line growth with a positive free cash flow and net profit outcome.

The effect of COVID-19 on the global business environment, and associated social distancing measures that commenced in March, fell late in FY20 and had a relatively modest impact on Xero's operating and financial performance for the year.

However, the impact of COVID-19 on March trading did result in some reduction in annualised monthly recurring revenue (AMRR) progress in that month. This outcome, along with the ongoing COVID-19 environment, will be reflected in Xero's FY21 financial performance. Xero does not anticipate significant changes to its long-term strategy, and it believes strongly in the value Xero can bring to small businesses and their advisors.

Performance highlights FY20 (All figures in NZD as at 31 March 2020. Comparisons are made against FY19)

- 30% growth in operating revenue to \$718.2 million (29% in constant currency (CC))
- 29% growth in AMRR to \$820.6 million
- 26% growth in total subscribers to 2.285 million
- Rest of World and North America contributed almost one in four subscriber additions in H2 FY20
- Total subscriber lifetime value grew by 27% (25% in CC) to \$5.5 billion
- Free cash flow was \$27.1 million, taking total available liquid resources to \$686.1 million
- Net profit of \$3.3 million, an improvement of \$30.5 million over a net loss of \$27.1 million
- EBITDA of \$137.7 million, an improvement of 88% compared to \$73.2 million

Financial highlights

Year ended 31 March	2020	2019	change
Operating revenue (\$000s)	718,231	552,819	30%
Subscribers	2,285,000	1,818,000	26%
Net subscriber additions	467,000	432,000	8%
Average revenue per user (\$)	29.93	29.25	2%
Annualised monthly recurring revenue (\$000s)	820,557	638,179	29%
EBITDA excluding impairments (\$000s)	139,170	91,775	52%
Net profit/(loss) after tax (\$000)	3,336	(27,143)	NM*
Free cash flow (\$000s)	27,105	6,451	320%
Total lifetime value of subscribers (\$b)	5.53	4.36	27%
Gross margin percentage	85.2%	83.6%	1.6pp**

*NM stands for not meaningful **pp stands for percentage points



Xero's FY20 & COVID-19

Xero achieved its first full year net profit after tax of \$3.3 million, an improvement of \$30.5 million compared to a \$27.1 million loss in FY19. The net profit result was driven by ongoing growth in operating revenue, improved gross margin, and disciplined management of operating costs. However, the global environment changed significantly in March as the impact of COVID-19 escalated around the world. Unquestionably, this is a difficult time for many people in small business.

Xero has focused on maintaining the quality and continuity of its 100% cloud-based products and services while moving swiftly to roll out a range of new customer and partner support services. This includes a focus on immediate customer information needs, targeted product development (specifically, cash flow insights, in-product prompts and reminders and access to information, in-application data and preparation for government stimulus packages), and collaboration with governments and banks on the impacts to small business and how assistance is provided.

CEO Steve Vamos said: "Many of our customers and partners are having to adapt the way they operate, while investing enormous effort to survive at this difficult time. Helping them is our immediate priority."

"While COVID-19 brings uncertainty, our long-term strategic ambitions are unchanged and we remain committed to our three strategic priorities: to drive cloud accounting around the world, grow the small business platform, and to continue to build for global scale and innovation. Now more than ever, small businesses are recognising the benefit of being able to use the cloud to run their businesses and manage their finances."

"In FY20 we continued to execute our strategy, delivering operational revenue growth of 30 percent driven by subscriber growth in all markets, while staying focused on financial and operating discipline. Digitisation of tax and compliance remains a significant driver of demand for our cloud accounting solutions during the financial year."

Market highlights

Australia subscribers grew by 26% in the year to reach 914,000. Net subscriber additions of 188,000 set a new high for net additions in all our markets. Revenue was up 23% (25% in CC). We continued to benefit from the opportunity represented by Single Touch Payroll.

UK subscribers grew by 32% to 613,000. Revenue grew by 54% (50% in CC). The strong net subscriber additions of 150,000 were assisted in part by the Making Tax Digital initiative and Xero Tax now offering end-to-end integration with HMRC.

New Zealand subscribers grew by 12% in the year to 392,000, with 41,000 subscribers joining in FY20. Revenue outpaced subscriber growth, increasing by 19%.

North America subscribers grew by 24% in the year to 241,000. Net additions of 26,000 in H2 FY20 compared to 17,000 in H2 FY19. This is a strong indicator of the early progress from our renewed positioning in a key global market. Revenue grew by 25% (19% in CC).

Rest of World subscribers grew by 51% to 125,000, maintaining the momentum that this part of the business has reported in recent periods. Revenue grew by 43% (36% in CC).

Outlook

While Xero has performed strongly in FY20, trading in the early stages of FY21 has been impacted by the COVID-19 environment. The continued uncertainty surrounding COVID-19 means it would be speculative for us to say anything more at this time on its 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.

Xero earnings webcast

Xero's FY20 earnings webcast at 10.30am AEST on 14 May 2020 can be accessed at:

<https://webcast.openbriefing.com/5947>

Pre-registration for the event is encouraged. A replay of the webcast will be available on Xero's Investor Centre: www.xero.com/about/investors

Authorised for release to the ASX by resolution of the Board.

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About Xero

[Xero](#) is a beautiful and easy-to-use cloud-based business platform for small businesses and their advisors around the world. Xero connects more than two million subscribers with an ecosystem of over 800 third-party apps and 200 plus connections to banks and financial service providers. The IDC MarketScape recognised Xero as a Leader in the Worldwide SaaS and Cloud-Enabled Small Business Finance and Accounting Applications 2020 Vendor Assessment. On the 2020 Financial Times' High-Growth Companies Asia Pacific list, Xero was the largest company by revenue to come from New Zealand or Australia. Xero has also been included in the 2020 Bloomberg Gender-Equality Index.

About Subscribers

Xero measures subscribers as 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.

About 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 lifetime value are based on exchange rates at

31 March 2019.

About 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.

About Liquid Resources

Includes cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities.