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## MARKET RELEASE

### **Xero announces US\$300m convertible notes offering**

**WELLINGTON, 26 September 2018** - Xero Limited (ASX: XRO) (“Xero”) today launches an offering of US\$300m guaranteed senior unsecured convertible notes due 2023 (the “Notes”) to be issued by its wholly-owned subsidiary, Xero Investments Limited (“the Issuer”), and guaranteed by Xero (the “Offering”).

Steve Vamos, Chief Executive Officer of Xero said: “Xero’s focus on financial and operating discipline has meant the business is capable of continuing to fuel strong organic growth whilst ensuring a foundation for further strategic investments that will benefit shareholders, small business customers, and accounting, bookkeeping and ecosystem partners.”

“We see the additional financial flexibility provided by this offering as supporting the significant opportunity we have to enhance and extend Xero’s small business platform and ecosystem capabilities, through the pursuit of complementary targeted acquisitions.”

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 (“Cash Settlement”) unless the Issuer elects to physically settle the conversion by having Xero issue ordinary shares to the relevant Noteholders (“Physical Settlement Election”).

It is intended that, after paying transaction costs, repaying certain existing term debt and funding the costs of the call option transactions (described below), the net proceeds will be used for potential acquisitions of, and investments into, strategic and complementary businesses and assets which are in line with Xero’s strategy to drive long-term shareholder value. There is no agreement or understanding with respect to any such acquisitions or investments at this time.

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

The Company and the Issuer also intend to enter into certain call option transactions (involving a lower strike call option, and an upper strike call option) with one or both of the JLMs (or their respective affiliates) (the “Option Counterparties”). The lower strike call option will have a strike price which is the same as the Initial Conversion Price of the Notes. The call option transactions are 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 call option transactions are expected

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

**Registered Address**  
19-23 Taranaki St  
Te Aro  
Wellington 6011

[www.xero.com](http://www.xero.com)

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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 of the call option transactions, the Option Counterparties expect 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 or the Notes otherwise prevailing at that time. If any such call option transactions fail to become effective, whether or not the Offering is completed, the Option Counterparties may unwind their hedge positions with respect to the ordinary shares.

In connection with the Offering:

- the JLMs intend to run a bookbuilding process of approximately 1.2 – 1.9 million ordinary shares (the "Delta Placement") to facilitate some or all of the hedging activity that may be executed in relation to the Notes and the call option transactions; it is expected that approximately 1.2 million ordinary shares of the placement made as part of the bookbuild process will be taken up by parties to certain call option transactions (including the JLMs and/ or their affiliates); the clearing price of such bookbuilding will be used as the Reference Share Price to determine the Initial Conversion Price of the Notes; and
- additionally, to support the Offering, Givia Pty Ltd, an existing holder of the ordinary shares of Xero ("Stock Lender") intends to enter into a stock lending agreement with an affiliate of Goldman Sachs (the "Stock Borrower") pursuant to which the Stock Lender will lend a certain number of ordinary shares to the Stock Borrower, and the Stock Borrower will be required to return the borrowed ordinary shares pursuant to the terms of the agreement ("Stock Borrow Facility"). The Stock Borrow Facility has a termination date matching the maturity of the Notes.

The Notes and the call option 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.

**Key terms of the Notes**

Issuer	Xero Investments Limited
Guarantor	Xero Limited
Expected Issue Size	US\$300 million
Ranking	Direct, unsubordinated, unsecured and unconditional
Maturity	On or about October 4, 2023 (5 years)
Coupon / Yield	[●]% p.a., on a semi-annual basis

Conversion Premium	30% over the Reference Share Price
Reference Share Price	The clearing price of the Delta Placement – see below
Fixed Exchange Rate	A\$1.00 = US\$0.72745
Delta Placement	<p>The JLMs will run a bookbuilding process to facilitate some or all of the hedging activity that may be executed by investors in the Notes and/or the Option Counterparties.</p> <p>The Delta Placement will be approximately 1.2 – 1.9 million ordinary shares, it is expected that approximately 1.2 million ordinary shares of the placement made as part of the bookbuild process will be taken up by parties to certain call option transactions (including the JLMs and/or their affiliates) and the clearing price will be used as the reference share price to determine the initial conversion price.</p>
Stock Borrow Facility	The Stock Lender intends to enter into a stock lending agreement with the Stock Borrower over 1,000,000 ordinary shares. The Stock Borrow Facility has a termination date matching the maturity of the Notes.
Cash Settlement	<p>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 delivery 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>
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

## **About Xero**

Born in the cloud, [Xero](#) is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.4 million subscribers in over 180 countries and a thriving ecosystem seamlessly integrating with 700+ apps. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the \$200 million+ segment. Xero won Technology Provider of the Year at the British Small Business Awards in 2016 and was rated by Canstar Blue as Australia's best accounting software four consecutive years, 2015-2018.

### **Contact:**

Xero Corporate Communications  
Karen Davis  
+61 409 933 103  
[Karen.Davis@xero.com](mailto:Karen.Davis@xero.com)

Xero Investor Relations  
Toby Langley  
+61 450 223 995  
[toby.langley@xero.com](mailto:toby.langley@xero.com)