New Zealand Shareholders Association Inc.

NZSA®

Many Investors, One Voice

19 August 2026

Xero (XRO)

Meeting Date: 11.00am Thursday 27 August 2026.

Venue: It will be a virtual only meeting. You can join the meeting online at this link.

Company Overview

The company was listed on the NZX in 2007 and subsequently moved its listing to the ASX. It is a provider of online accounting software to small business. It has 4.9 million customers in over 180 countries with offices in New Zealand, Australia, the United Kingdom, the United States, Canada, South Africa, and Singapore.

Current Strategy

The strategy for FY25-FY27 is built around *Winning on Purpose*. It has three key pillars: creating winning solutions for customers, consistently living the company's purpose, and purposefully allocating capital.

Previous Year Shareholder Meeting

NZSA recorded the following key items at last year's annual shareholder meeting:

1. The Chair and CEO both spoke to the previous year's impressive results.
2. The takeover of Melio in the US will see integration of that business, and its capabilities, into the Xero family and provide a growth platform for that market.
3. As one would expect, they are expanding the use of AI tools both in-house and within Xero customer tools.

The meeting report is available at this link.

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Key

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

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Governance

NZSA assessment against its key policy criteria is summarised below.

G ***Directors Fees***: Generally good disclosure, however it is not disclosed if special exertion payments are made. It would be helpful if this were clarified in future Annual Reports.

G ***Director Share Ownership:*** Directors are not required to own shares, a position supported by NZSA in the context of encouraging director diversity. NZSA encourages directors to own shares.

A ***CEO Remuneration:*** The company discloses its remuneration policy on its website, which includes an overview of the remuneration philosophy applicable to the company. The People and Remuneration Committee are responsible for implementing the policy. Xero offers a comprehensive remuneration report within its Annual Report.

Overall, the remuneration philosophy is more aligned to US practices than those normally experienced within Australia or New Zealand. This is unsurprising in the context of Xero's key strategic focus, but may feel confronting for NZ-based shareholders.

This includes a 'target' remuneration weighted heavily towards equity awards as part of incentive design.

Incentives: The CEO is paid a short-term incentive (STI), a long-term incentive (LTI) and has also been awarded share options on her appointment (currently, these are 'out of the money').

NZSA encourages fulsome disclosure in relation to any incentive payments made to the CEO, including disclosure of measures (or measure 'groups'), weightings, targets, and the level of achievement versus target for each component associated with any awards. Xero offers thorough disclosure.

50% of the STI is paid in cash. The other 50% is paid by way of restricted stock units (RSUs), vesting after one year.

Incentive (and total remuneration) is heavily weighted towards LTI, with the total LTI Award of US$14.12m more than 26 times Base Remuneration. An Award does not necessarily translate to all LTI Award being paid.

Long-term remuneration is awarded in two components:

- *Retention (Long-term equity):* An equity-based payment comprising 50% of the total Award ($7.06m), vesting in equal tranches each year over a three year period, conditional on continued tenure. This is essentially a retention incentive; NZSA considers this component of the overall LTI Award as a form of deferred Base Remuneration, with near-certainty of achievement should the CEO remain employed. There is no performance vesting hurdle.

- *Performance (Long-term incentive):* 50% of the long-term Award comprises restricted stock units, vesting after three years, to encourage the CEO to deliver long-term share price performance. This component of the Award is subject to "outperformance" of up to 150% (resulting in a maximum Award of US$10.59m).

Of this 50%, only 25% relates to a relative total shareholder return metric (rTSR), with the other 75% relating to revenue and free cashflow growth. While these operational metrics are likely to influence share price, NZSA would expect a greater proportion of this incentive to be tied to a TSR metric. We note the clear disclosure of the (US-based) comparator group in determining rTSR.

Vested Equity: The CEO received a total of NZ$5.978 million in vested LTI/LTE equity during the year, with most of this relating to the 'retention' component of LTI.

Xero clearly discloses measures and weightings that comprise the STI and LTI, and the level of achievement – including the relationship of Xero's share price performance relevant to its comparator benchmarks.

We have commented previously on how the level of absolute payment related to LTI vesting has potential to create reputational risk, and that we would encourage Xero to consider applying caps on the value (or number of options) associated with its share-based payments. However, we also note that Xero's CEO remuneration framework is likely to be comparable with similar companies in the US market.

Golden Parachutes: The CEO received an Initial Equity Grant of 463,308 Options upon commencing employment in November 2022. The Options vest / lapse in three tranches at the one year, two year and three-year anniversary of employment.

NZSA does not support such payments as they reward tenure rather than actual performance. We also note, however, that such an award structure is common in US-based companies as a form of remuneration.

The company offers excellent disclosure around the employment conditions and the treatment of incentives upon the cessation of employment.

Non-financial metrics: The FY26 Sustainability Report discloses a median gender pay gap of 7.3%, down from 7.4%, and a median gender pay-equity gap of less than 1% in favour of women.

The CEO/employee remuneration ratio is not disclosed.

G ***Director Independence:*** All Directors are independent.

A ***Board Composition:*** The Annual Report includes a *collective* skills matrix, but it does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company.

The nature of the company's board and operations indicates a strong commitment to thought, experiential and social diversity, with relevant experience for Xero. We also note the geographic diversity of XRO's directors, appropriate for the business.

G ***Director Tenure:*** NZSA looks for evidence of ongoing succession or 'staggered' appointment dates that reduce the risks associated with effective knowledge transfer in the event of succession. We also prefer a term maximum of 9-12 years, unless there are exceptional circumstances that may apply.

Directors' appointment dates range from 2017-2023 indicating a commitment to good succession planning. NZSA has discussed director succession plan methodologies with XRO and is comfortable with the company's approach.

A ***ASM Format:*** Xero is holding a virtual meeting. NZSA expects companies to hold a hybrid meeting (i.e., physical, and virtual) as a way of promoting shareholder engagement while maximising participation.

We recognise the widespread nature of both the Board, shareholders, and executive management. In this context, we would encourage the company to consider a hybrid meeting format, rotated in centres around the world where their shareholders reside. NZSA has raised this with XRO, who note poor physical attendance at prior shareholder meetings, the "virtual first" culture of the company and the widespread geographic nature of the company's Board and executive.

G ***Independent Advice for the Board & Risk Management*****:** NZSA looks for evidence, through disclosures, that a Board has access to appropriate internal and external expertise to support board assurance activities. We also look for evidence that Boards are across their risk management responsibilities.

Directors can, with the consent of the Chair, seek independent external professional advice. The Company Secretary has direct access to the Board and is accountable to the Board through the Chair on matters relating to proper Board functioning, but reports to the CEO. This could have a limiting impact on assurance advice. We would prefer the Company Secretary is appointed by and reports directly to the Board. The GM Assurance reports to the Executive GM Centre of Excellence and Transformation, but also has direct access to the Chair of the ARM Committee.

Xero provides excellent disclosure on its risk management framework, highlighting the key role played by independent reviews within this framework. There is good disclosure of financial, operational, and business risks provided.

Audit

NZSA assessment against its key policy criteria is summarised below.

G ***Audit Independence****:* Good disclosure.

A ***Audit Rotation:*** The company ensures the Lead Audit Partner is rotated at 5 years and disclosures their appointment date. There is no disclosure as to the tenure of the current Audit Firm.

Environmental Sustainability

Overall approach: Xero provides climate-related disclosures within its Sustainability Report rather than a standalone climate statement. As an ASX-listed, New Zealand-incorporated company that is not subject to mandatory New Zealand climate reporting requirements, Xero reports climate information voluntarily and states that its disclosures are progressively aligned with IFRS S2. The report covers governance, strategy, risk management, and metrics and targets in a structured and transparent manner. From an NZSA perspective, the disclosures are comprehensive and informative.

Sustainability Governance: Governance of climate-related matters is established, with oversight provided by the Board and its committees, supported by dedicated sustainability, finance, and risk teams. Climate-related responsibilities are integrated into governance and enterprise risk management processes. However, the report does not disclose a collective Board skills matrix.

Strategy and Impact: Climate considerations are integrated into Xero's business strategy through emissions reduction initiatives, supplier engagement, renewable electricity procurement, and product innovation. The company outlines initiatives and actions to support its climate objectives and demonstrates how climate-related activities contribute to long-term business resilience and value creation

Risk and Opportunity: Xero provides comprehensive disclosure of climate-related risks and opportunities, supported by climate scenario analysis and integration into its enterprise risk management framework. Climate-related risks and opportunities are assessed, monitored, and reported, including risks associated with data centres, operations, supply chains, and changing customer expectations. Given the nature of Xero's software business and relatively limited direct environmental footprint, the disclosures are appropriately focused on the climate issues most relevant to the company.

Metrics and Targets: Xero reports comprehensive Scope 1, Scope 2, and Scope 3 greenhouse gas emissions together with emissions intensity metrics and progress against climate-related targets. The company has approved science-based targets covering Scope 1, Scope 2, and Scope 3 emissions, alongside supplier engagement targets. Progress against these targets is disclosed.

Assurance: Xero obtained independent limited assurance from EY over its Scope 1, Scope 2, and Scope 3 greenhouse gas emissions disclosures. From an NZSA perspective, the external assurance enhances the credibility and reliability of the company's reported emissions data.

Ethical and Social

NZSA assessment against its key policy criteria is summarised below.

G ***Whistleblowing:*** Good disclosure.

G ***Political Donations**:* The company does not make political donations.

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Financial & Performance

Policy Theme	Assessment
Capital Management	G
Takeover or Scheme	n/a

Xero's share price fell from AU$178.40 to AU$74.85 (as of 7th July 2026) over the last 12 months – a 58% decrease. This compares unfavourably with the NZX 50 which rose 8% in the same period. The capitalisation of XRO is AU$12.8b.

XRO is a NZ company that trades on the ASX. Its share price is listed in AUD; however, its financials are all in NZD.

Metric	2022	2023	2024	2025	2026	Change
Revenue	$1,097m	$1,400m	$1,714m	$2,102m	$2,753m	31%
Gross Profit	$957m	$1,222m	$1,511m	$1,872m	$2,309m	23%
Operating Income	$41.9m	-$59.8m	$239.6m	$355.7m	$316.1m	-13%
NPAT	-$9.1m	-$113.5m	$224.1m	$227.8m	$167.4m	-27%
EPS[1]	-$0.061	-$0.75	$1.47	$1.483	$0.981	-34%
Customers	3.27m	3.74m	4.16m	4.41m	4.92	11%
Capitalisation	$12.9b	$18.8b	$19.7b	$26.8b	$12.8b	-52%
PE Ratio	n/a	n/a	96	129	92	
Current Ratio	5.45	4.95	6.62	1.24	1.09	-12%
Debt Equity (adjusted)	1.27	1.36	1.12	0.76	0.68	-10%
Operating CF	$236.4m	$390.4m	$591.8m	$811.6m	$933.1m	15%
NTA Per Share[1]	$0.50	$0.60	$2.68	$6.62	-$3.02	n/a
Equity Per Share[1]	$6.91	$6.96	$9.14	$14.29	$31.67	122%

[1] *per share figures based off actual shares at balance date (not weighted average)*

Although well established, cash flow positive and profitable, XRO continues on a path of growth.

During the year, the company raised $2b via an institutional placement of shares and spent $3.9b acquiring businesses.

Revenues continued their long-term trend, up 31% to $2,753m and an improved *Gross Profit* of $2,309m (up 23%) was recorded. The company saw an 11% increase in customers to 4.92m.

XRO continues to invest in sales and marketing, and *operating income* of $316.1m was reported.

NPAT was down 27% to $167.4m and EPS were $0.981 due to the lower reported profit and additional shares on issue. Much of the profitability impact is driven by the acquisition of Melio, with the company expecting Melio to be breakeven during FY28. *Operating cashflows* increased by 15% to $933.1m ($5.47 / share).

The company is in sound financial position, with a solid *current ratio* and a low *debt-equity* ratio of 0.68. The company also has debt of $2.0b and has over $1.9b in cash and short-term deposits. The company holds long-term convertible debt with a 1.625% coupon, with $1.3 billions (out of $1.9 billion) classified as a current liability.

The company continues its policy of not paying dividends.

The company has a negative *NTA.* Acquisitions have added $4.7b of intangibles to the asset side of the balance sheet. Total equity per share rose 122% to $31.67. XRO trades on high premiums to its NTA, on the back of future earnings expectations.

Page 22 of an investor presentation provides forward looking projections and the company expects FY27 operating revenue to be between $3,620m and $3,730m, and expect Adjusted-EBITDA to be between $860m and $920m.

The top 20 shareholders hold 85.75% of shares.

Resolutions

1. That the Board is authorised to fix the auditor's remuneration for the coming year.

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

2. To re-elect Mark Cross as an Independent Director.

Mark Cross was appointed to the Board in April 2020. He is Chair of Chorus and Vocus and is a Director of Fisher & Paykel Healthcare Ltd. He was previously a Director of Z Energy and Chair of Milford Asset Management.

We will vote undirected proxies **IN FAVOUR** of this resolution.

3. To increase the Directors Fee Pool by $1,000,000 (30%) to $4,300,000.

The current fee pool was approved by shareholders at the 2023 ASM. The Notice of Meeting and the Remuneration Report in the Annual Report sets out the methodology for reviewing and benchmarking fees. We note it is not intended to increase individual fees in FY27. The Notice of Meeting sets out the reasons the Board is seeking an increase in the Fee Pool.

We recognise the role of an increased Director Fee Pool in enabling director succession and appointing additional directors (likely, from the US). The fee increase will support significant 'headroom' between actual director fee payments and the total fee pool.

We also note the statement in the Notice of Meeting that "*Xero will not increase individual director fees during FY27*."

An over-riding factor for NZSA's assessment is less the rationale for any fee increase, and more the timing of the proposal. As noted above, Xero's share price has fallen significantly over the last 12 months. In this context, NZSA does not consider it appropriate for the Board to be seeking an increase in the Fee Pool at this time.

An independent report has not been prepared supporting the increase, although the Annual Report contains the companies used as benchmarks in assessing Director Remuneration. NZSA notes (and supports) the variable benchmarking approach used for directors operating in different jurisdictions.

On balance, we will vote undirected proxies **AGAINST** this resolution.

4. To re-approve the US incentive scheme.

This resolution relates to the incentive scheme for certain XERO United States employees where the company grants options to purchased shares in the company. Approval increases the securities allocation limit from 8.8m to 13.2m (+4.4m) and extends the scheme term to 13 May 2036.

Security laws in California and US tax laws requires shareholders' approval for such schemes. The scheme was last approved in 2023. Full details are set out in the Notice of Meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

5. To approve the Remuneration Report.

This is a non-binding resolution. The full details are set out in the Notice of meeting.

We will vote undirected proxies **IN FAVOUR** of this resolution.

Proxies

You can vote online or appoint a proxy at https://au.investorcentre.mpms.mufg.com/Login/Login

Instructions are on the Proxy/voting paper sent to you.

Voting and proxy appointments close **11.00am Tuesday 25 August 2026.**

Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.

The Team at NZSA