



MARKET RELEASE

Xero's H1 FY24 Revenue up 21% to \$800 Million with 3.95 Million Subscribers*EBITDA increase of 90% from H1 FY23 and 13.3% free cash flow margin*

WELLINGTON, 9 November 2023 - Xero Limited (ASX: XRO) today reports its half year earnings to 30 September 2023 (H1 FY24). The results highlight continued strong revenue growth, which contributed to Xero's emerging profitability.

Xero delivered strong operating results with operating revenue up 21% (20% in constant currency (CC)) to \$799.5 million. This, along with disciplined cost management and restructuring outcomes, supported a 90% increase in EBITDA compared to H1 FY23, to \$206.1 million. This reflected Xero's ongoing focus on balancing growth and profitability, and resulted in free cash flow increasing to \$106.7 million, representing a free cash flow margin of 13.3% compared to 2.4% in the prior period. This focus was also reflected in Xero's net profit, which increased to \$54.1 million compared to a net loss of \$16.1 million in H1 FY23.

CEO Sukhinder Singh Cassidy said: "We've demonstrated good momentum this half. As we look forward, we're sharpening our focus on Xero's key levers of growth as we aspire to become a higher performing SaaS company. We will continue to balance growth and profitability, while delivering more value to our customers."

Financial highlights

Six months ended 30 September	2023	2022	change
Operating revenue (\$000s)	799,547	658,512	21%
Subscribers	3,945,000	3,496,000	13%
Average revenue per user (\$)	37.38	35.30	6%
Annualised monthly recurring revenue (\$000s)	1,769,524	1,480,912	19%
Net subscriber additions (six months ended 30 September)	204,000	225,000	-9%
EBITDA (\$000s)	206,090	108,551	90%
Adjusted EBITDA (\$000s)	204,522	123,709	65%
Operating income (\$000s)	67,413	20,721	NM*
Net profit/(loss) after tax (\$000s)	54,084	(16,130)	NM
Free cash flow (\$000s)	106,666	15,569	NM
Total lifetime value of subscribers (\$b)	14.8	13.0	14%
Gross margin percentage	87.5%	87.0%	0.5pp**

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

Xero's H1 FY24

Xero's total subscribers increased 13% since H1 FY23 to 3.95 million with annualised monthly recurring revenue (AMRR) growing by 19% to \$1.8 billion (22% in CC). Total lifetime value (LTV) grew 14% (17% in CC) to \$14.8 billion, as average monthly churn (0.94%) remained low and average revenue per user (ARPU) improved a further 6% (8% in CC). This highlights the value and trust customers place in Xero to help them manage their business in changing economic circumstances.



Xero's operating expense to operating revenue ratio was 79.1%, down from 83.9% in H1 FY23. The ratio in H1 FY24 included costs associated with Xerocon Sydney and support of the FIFA Women's World Cup 2023™. This lower ratio improved operating income — a measure that reflects underlying business performance — which grew to \$67.4 million.

Product design and development expenses increased by \$25.7 million from H1 FY23, but reduced as a percentage of operating revenue from 35.0% to 32.1% in H1 FY24. This reflected the impact of Xero's restructuring across H1 FY24 and disciplined cost management. Xero remains focused on delivering customer value through its product and technology investments. This includes expanding its use of artificial intelligence (AI), while continuing to invest in a multi-year platform modernisation strategy to improve long-term efficiency, scalability, productivity and speed to market.

In H1 FY24, Xero delivered several product updates and new features. This included the single client record, a new central client database across Xero Practice Manager, Xero HQ and Xero Tax (in Australia and New Zealand) to streamline advisor workflows and remove duplicates and data double-handling; short-term cash flow forecasting in Xero Analytics Plus now includes recurring invoice and bill payment predictions; new generative AI functionality in Xero's customer support and learning portal to deliver accurate support answers faster; machine learning to improve bank reconciliation; early US customer access to Xero's auto sales tax feature powered by Avalara; expanding Planday's offering in Australia; and migrating all customers to new reporting with enhanced flexibility and customisation.

Market highlights

Australia and New Zealand — Xero delivered 21% revenue growth (22% in CC) from H1 FY23 to \$456.3 million, outpacing subscriber growth of 13%, to bring total subscribers to 2.27 million. ARPU expanded 4% to \$36.99 but increased 9% on a constant currency basis, mainly from price rises. Australia revenue grew by 22% year on year, with 122,000 subscribers added in the half. New Zealand revenue increased by 15% and added 17,000 subscribers in the half. This is a great outcome in a region with high cloud accounting penetration.

International — Xero's International markets delivered 22% revenue growth (18% in CC) to \$343.2 million, with ARPU expanding 8% to \$37.91 (7% in CC). Total subscribers reached 1.67 million. Revenue growth was partly impacted by the absence of Xerocon revenue as no Xerocons took place in the International markets in H1 FY24. Excluding this, revenue growth was higher at 25% (21% in CC).

Xero's UK business continued to deliver strong revenue growth, which increased 23% (18% in CC) to \$215.6 million. Net subscriber additions were 40,000 in the half, with total subscribers up 13% year on year. Subdued subscriber growth largely reflected a lack of Making Tax Digital (MTD) demand, and accountants and bookkeepers managing undeployed inventory¹ which had limited impact on revenue growth due to the low ARPU of these subscriptions. Xero continues to see a strong opportunity to digitise small business cloud accounting in the UK, and remains focused on product and go-to-market initiatives.

In North America headline revenue growth was 9% (6% in CC), with underlying growth of 19% to \$47.3 million². Total subscribers grew 12% to 396,000, with net additions in the first half of 12,000.

¹ Undeployed inventory or idle subscriptions are those purchased by accountants and bookkeepers as part of their digitisation process, but are yet to be attached to an underlying small business

² Underlying revenue growth excludes revenue associated with Xerocon New Orleans and LOCATE in H1 FY23



Xero's US business has good momentum and delivered a good balance between subscriber growth and ARPU expansion. The subscriber outcome in Canada was disappointing. Xero has been working through changes to its teams and sales motions in this market. This translated to a good revenue outcome but impacted subscriber additions.

In the Rest of World markets, revenue grew 29%. Net subscriber additions were 13,000 in the half, with total subscribers up 10% year on year. The largest driver of subscriber growth was South Africa, where Xero continues to see good momentum.

Evolving Xero to deliver on our global aspirations

Xero is evolving to become more focused and customer centric, to achieve a better balance of growth and profitability, and to become a higher performing global SaaS company. In this next chapter, Xero will look to optimise its levers for growth and deepen customer engagement across its portfolio. As part of this evolution, Xero provides updates on four key areas:

1) Sharpening Xero's focus on segments and mix as a key lever for growth

Xero has a good understanding of its customers, how they use Xero, and how they work with accountants and bookkeepers. From small businesses with simpler needs, to those with more jobs to be done, Xero has a range of product offerings used by small business customers and the accountants and bookkeepers who support them. Going forward, Xero will sharpen its focus on customer segments and mix further. This means Xero will seek to achieve revenue growth with a better balance of subscriber volume and mix.

In reviewing segments and mix, Xero has identified a small pool of long idle³ lower value subscriptions, held by digitising accounting and bookkeeping practices, that it no longer expects to deploy in a reasonable timeframe. Removing these subscriptions will support an evolution of Xero's sales motions by allocating resources towards improving mix and working with accountants and bookkeepers to acquire and deploy their Xero inventory through smaller and more frequent sales motions.

Xero estimates this pool is between 150,000-200,000 subscriptions. The majority are located in Xero's International segment across North America and the UK with a smaller portion in Australia and Rest of World. Xero plans to remove these subscriptions after the end of FY24, during H1 FY25. Based on the midpoint of that range, at 30 September 2023 these subscriptions had an ARPU of approximately \$3.70 and, if they were removed at that date, group ARPU would increase by approximately 3-5%. These long undeployed subscriptions are a small percentage of the overall base and Xero expects their removal to have minimal impact on FY25 revenue.

2) US business review shows focused growth opportunity in two key segments with more consistent execution

Over the half, work was conducted to form a deeper and more nuanced US strategy and execution view. Xero continues to see a strong opportunity to deliver value for US customers.

³ Long idle subscriptions are those that have been undeployed for more than 24 months and that are not expected to be deployed in a reasonable timeframe



While its approach has varied over time, Xero's level of investment has been measured with average annual net investment in the US over the last 10 years of NZD ~\$30 million⁴, which it believes is comparable to US venture backed businesses. The review provided Xero with a better understanding of where it can add value, specifically within this large and complex market.

The review also highlighted that Xero's value proposition is strong in two key US customer segments: small businesses with multiple jobs to be done, and accountants and bookkeepers with a focus on Client Advisory Services (CAS). Xero is increasingly focused on aligning its go-to-market approach to these customer segments and mix. Xero's open ecosystem and partnering approach also continues to be a key differentiator for customers wanting app stack choice.

Looking ahead, Xero will be targeted and invest at a reasonable rate relative to top line growth generated, with a focus on investment in the right products, for the right segments, with the right go-to-market motions. This approach includes a revised operating structure, to better respond to North America needs with: US and Canadian country heads reporting directly to the new Chief Revenue Officer; and enhancing product and technology localisation efforts with more US-based product and engineering support.

Xero believes this targeted approach will enable more focused growth, while delivering value to the right customers.

3) Evolving Xero's executive leadership team to manage a global portfolio

Xero has made executive leadership team and structure changes to bring new capabilities to the company. Recent appointments complement the existing, tenured and deeply experienced executive leadership team to help deliver Xero's global aspirations. These changes include:

- Ashley Grech (previously Square and Recharge) joined as Chief Revenue Officer in August to manage go-to-market functions, including global sales and operations, ecosystem and partnerships, and customer experience
- Michael Strickman (previously Uber and TripAdvisor) joined as Chief Marketing Officer in October to drive performance marketing, brand marketing and communications globally
- Diya Jolly (previously Okta and Google) joined as Chief Product Officer in April to manage product management, product marketing, and user experience globally. In September, Diya assumed additional responsibilities for the global product engineering team, with support from Chris Patalano (previously Realtor.com and Pandora) who joined Xero in October
- More detail on Ashley, Michael, Diya and Xero's executive leadership team can be found at: www.xero.com/team

Rachael Powell, Chief Customer Officer; Mark Rees, Chief Technology Officer; and Chris O'Neill, Chief Growth Officer, decided to leave Xero to pursue new opportunities. Xero thanks them for their contributions to the company and its customers.

4) AI - a key part of Xero's current offerings and opportunity to invest and experiment further

Xero remains committed to innovating to help businesses streamline time consuming and manual processes, while delivering useful and timely insights to help them make more informed decisions. AI

⁴ Net investment refers to direct Sales and Marketing, and Product Design and Development costs in the US business netted off against the Gross Profit of the US business



is a core technology that delivers on this commitment and already powers many Xero products. Xero's approach to AI, including the opportunity with generative AI, is focused on:

- Helping customers reduce toil and run their businesses more efficiently and effectively by automating and streamlining repetitive, time-consuming work
- Using AI powered insights to deliver customers the right insights at the right time
- Introducing conversational or next-generation interfaces to better assist customers and improve their experience with Xero
- Increasing the productivity of Xero's teams to deliver faster for customers

Security, safety and trust remain core to Xero's AI approach. Xero is excited by the opportunity to expand its use of AI into the future to create beautiful customer experiences.

Further updates on Xero's evolution and aspirations will be shared at its Investor Day in February 2024. This will also be an opportunity for investors to meet the full leadership team.

CEO commentary

"We're pleased to deliver this strong operating result. Xero provides a product customers love and value, as shown by our continued revenue growth and improving profitability. We are committed to evolving our business to deliver our global aspirations. The opportunity ahead is significant and we remain focused on being the world's most insightful and trusted small business platform," said Singh Cassidy.

Outlook

Along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%. This will improve operating income margin compared to FY23.

Xero's long-term aspiration is to continue to improve its operating expense ratio and its operating income margin, although a specific timeline has not been set. These ratios, and their component parts, may vary from period to period as we identify opportunities for disciplined, customer-focused growth.

Xero's earnings webcast

Xero's H1 FY24 earnings webcast at 10:30am AEDT on 9 November 2023 can be accessed at:

<https://webcast.openbriefing.com/xro-hyr-2024/>

Pre-registration for the event is encouraged at the above link. 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 the Chair of the Board & Chair of the Audit and Risk Management Committee

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Beautiful business

About Xero

[Xero](#) is a global small business platform with 3.95 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. Xero is a [FIFA Women's Football partner](#).

About subscribers

Xero measures subscribers as each unique subscription to a Xero-offered product that is purchased by a user (e.g. 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.