

MARKET RELEASE

Xero Grows Subscribers to 2.74 Million & Delivers Revenue of \$849 Million

Record second half year subscriber additions reflect focus on customer needs during COVID-19 impacted year

WELLINGTON, 13 May 2021 - Xero Limited (ASX: XRO) today reports full year earnings to 31 March 2021 (FY21) that demonstrate it is well positioned to meet fast-evolving customer needs in an environment where cloud-based software and integrated digital tools are increasingly important.

COVID-19 impacted Xero's top line progress in the first six months of FY21 (H1 FY21), however in the second half Xero delivered its strongest ever half year subscriber numbers with 288,000 net additions. Total revenue increased by 18% to \$848.8 million (18% in constant currency (CC)).

The FY21 result reflected continued momentum in Australia and New Zealand together with a notable recovery across Xero's International markets in the second half of the year (H2 FY21). International net additions in H2 FY21 of 155,000 more than trebled compared to H1 FY21. Over the full year, total global subscribers increased by 456,000 or 20% to reach 2.74 million.

Performance highlights FY21 (All figures in NZD. Comparisons are made against FY20)

- Operating revenue increased by 18% to \$848.8 million (18% in CC)
- Annualised monthly recurring revenue (AMRR) grew 17% to \$963.6 million (18% in CC)
- Total subscribers increased by 20% to 2.74 million
- Total subscriber lifetime value (LTV) grew by 38% (37% in CC) to \$7.65 billion
- Free cash flow was \$56.9 million, with total available liquid resources rising to \$1.3 billion
- EBITDA of \$191.2 million, an increase of 39% compared to \$137.7 million
- Net profit of \$19.8 million, an increase of \$16.4 million

Financial highlights

Year ended 31 March	2021	2020	change
Operating revenue (\$000s)	848,782	718,231	18%
Subscribers	2,741,000	2,285,000	20%
Net subscriber additions	456,000	467,000	-2%
Average revenue per user (\$)	29.30	29.93	-2%
Annualised monthly recurring revenue (\$000s)	963,597	820,557	17%
EBITDA (\$000s)	191,228	137,743	39%
Net profit (\$000s)	19,774	3,336	NM
Free cash flow (\$000s)	56,946	27,105	110%
Total lifetime value of subscribers (\$b)	7.65	5.53	38%
Gross margin percentage	86.0%	85.2%	0.8pp*

*pp stands for percentage points



Xero's 20% subscriber growth contributed to a 17% increase in AMRR to \$963.6 million. Growing awareness among small businesses of the benefit of digital tools and cloud technologies contributed to lower churn and a 38% increase in total lifetime value to \$7.65 billion.

Over FY21, Xero's EBITDA, free cash flow and net profit reflect top-line growth together with close management of expenses and considered capital allocation. However, the two halves of the year were markedly different. The impact of COVID-19 was most heavily felt during the first few months of FY21 and we adopted a responsive spending approach characterised by lower sales and marketing spend.

As conditions improved during the year, Xero progressively increased sales and marketing spend which contributed to higher subscriber net additions in the second half.

Growth in product investment continued at a more steady pace during the year, as Xero balanced prioritising short term customer needs and investing for the long-term. Product spend increased from 31.4% of operating revenue in FY20 to 36.7% in FY21.

CEO Steve Vamos said: "As well as responding to our customers' needs during the pandemic, we continued to execute our strategy, with strong revenue and subscriber growth, completion of a significant capital raise, and the acquisitions of Planday, Tickstar and Waddle."

"The past year has brought home to many people in small business the need to understand in real-time their financial position and how it may change. The value and importance our customers place on their subscription and connection to the broader Xero community is increasing."

"Looking ahead we believe small business will be a major driver of economic recovery in a post-pandemic world. Small businesses make up more than 90% of businesses in the markets Xero operates in, and represent a significant contribution to economic activity, jobs, and the community."

Market highlights

Australia subscribers grew by 22% in FY21 to reach 1,115,000. Revenue was up 20% (18% in CC). Good demand for Xero's revised Starter plan and increased partner channel adoption helped drive Australia's best ever year for subscriber growth.

UK subscribers grew by 17% to 720,000. Revenue grew by 22% (23% in CC). A marked recovery in H2 FY21 (the UK's second strongest half year period ever) resulted in net subscriber additions for the year of 107,000.

New Zealand subscribers grew by 14% in the year to 446,000. Revenue increased by 12%. This marked the best full year net subscriber performance in three years and demonstrates continued opportunity to move to the cloud, particularly in the partner channel.

North America subscribers grew by 18% in the year to 285,000 with a notable recovery in net additions in H2 FY21. Revenue increased by 2% (6% in CC) reflecting the loss of revenue from bundling Hubdoc into Xero Business Edition subscriptions in late FY20 and the absence of any Xerocon-related revenue in FY21.

Rest of World subscribers grew by 40% to 175,000, the largest annual increase this market has delivered to date. The largest contributors to subscribers were South Africa and Singapore. Revenue grew by 27% (32% in CC).

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 (excluding acquisition integration costs) as a percentage of operating revenue for FY22 are expected to be in a range of 80-85% which is consistent with levels seen in the second half of FY21 and the pre-pandemic period. Integration costs, relating to the three acquisitions announced during FY21, are expected to increase total operating expenses as a percentage of operating revenue by up to 2% for FY22.

As previously stated, the acquisition of Planday is expected to contribute approximately three percentage points of additional operating revenue growth in FY22.

Xero earnings webcast

Xero's FY21 earnings webcast at 10.30am AEST on 13 May 2021 can be accessed at the following link - pre-registration for the event is encouraged: <https://webcast.openbriefing.com/7324>. 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 and the Chair of the Audit and Risk Management Committee.

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About Xero

[Xero](http://xero.com) is a cloud-based accounting software platform for small businesses with over 2.7 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 1,000

third-party apps and 300 plus connections to banks and other financial partners. In 2020 and 2021, Xero was included in the Bloomberg Gender-Equality Index and in 2020, Xero was recognised by [IDC MarketScape](#) as a leader in its worldwide SaaS and cloud-enabled small business finance and accounting applications vendor assessment.

About Subscribers

Xero measures subscribers as 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.