



## MARKET RELEASE

**Xero Delivers H1 Revenue of \$506 Million with 3 Million Subscribers***Strong performance driven by continued adoption of cloud-based software and digital tools*

**WELLINGTON, 11 November 2021** - Xero Limited (ASX: XRO) today reports its half year earnings to 30 September 2021 (H1 FY22) that demonstrate the benefits of investments made in the areas of products, markets and people over a number of years, to support the execution of its global strategy.

**Performance highlights H1 FY22** (All figures are in NZD and comparisons are made against H1 FY21)

- Operating revenue was up 23% to \$505.7 million (26% in constant currency (CC))
- Total subscribers increased by 23% to 3.0 million
- Annualised monthly recurring revenue (AMRR) grew 29% to \$1,132 million
- Total subscriber lifetime value (LTV) grew by 61% to \$9.9 billion
- Free cash flow was \$6.4 million compared to \$54.3 million
- EBITDA of \$98.1 million decreased by 19% from \$120.8 million
- Gross margin increased by 1.4 percentage points to 87.1%

Xero delivered a strong performance; including operating revenue, which grew 23% (26% in CC) to \$505.7 million, subscribers, which increased by 23% to 3.0 million, and AMRR, which surpassed \$1 billion for the first time. While conditions varied across its markets, the strength of Xero's performance is evident in a number of Xero's Software as a Service (SaaS) metrics which trended positively over the period, including average revenue per user (ARPU), gross margin and churn. These contributed to a substantial increase in total LTV to \$9.9 billion.

Xero continues to monitor the macroeconomic environment, and is positive about the critical role small business will continue to play in the global economic recovery.

**Financial highlights**

| Six months ended 30 September                  | 2021      | 2020      | change |
|--|-----------|-----------|--------|
| Operating revenue (\$'000s)                    | 505,703   | 409,837   | 23%    |
| Subscribers                                    | 3,013,000 | 2,453,000 | 23%    |
| Net subscriber additions                       | 272,000   | 168,000   | 62%    |
| Average revenue per user (\$)                  | 31.32     | 29.81     | 5%     |
| Annualised monthly recurring revenue (\$'000s) | 1,132,465 | 877,551   | 29%    |
| EBITDA (\$'000s)                               | 98,080    | 120,765   | -19%   |
| Net profit/(loss) after tax (\$'000s)          | (5,922)   | 34,486    | NM     |
| Free cash flow (\$'000s)                       | 6,351     | 54,268    | -88%   |
| Total lifetime value of subscribers (\$b)      | 9.94      | 6.17      | 61%    |
| Gross margin percentage                        | 87.1%     | 85.7%     | 1.4pp  |

\*NM stands for not meaningful

\*\*pp stands for percentage points



## **Xero's H1 FY22**

Xero's H1 FY22 performance underscores its strong position within the small business economy, with operating revenue climbing 23% year on year to \$505.7 million. Core accounting revenue grew by 18%. Platform revenue more than doubled to account for 11% of total operating revenue in the period, up from 6% in H1 FY21, reflecting contributions from payments, payroll and recently acquired businesses.

EBITDA, net profit and free cash flow decreased versus H1 FY21 due to an increased level of investment spend across both sales and marketing and product development. The movement in these metrics reflects the heightened focus on cost management in response to the initial impacts of COVID-19 in the prior comparable period.

Total operating expenses (inclusive of acquisition integration costs) increased as a percentage of operating revenue to 83.4%, consistent with the previously provided guidance range for FY22 and levels seen in the pre-pandemic period.

Greater clarity and renewed confidence in the economic environment over the past 12 months drove increased reinvestment into customer growth opportunities. This included increased spend on subscriber addition initiatives and innovative brand awareness campaigns in a number of markets. Sales and marketing costs as a proportion of operating revenue, were largely consistent with H2 FY21 at 37%.

Product and technology investment in the period continued in line with Xero's long-term ambitions including core accounting and platform enhancements. Xero's product and technology teams continue to focus on supporting customer needs today while innovating for the long-term. Product design and development costs increased by 51% to \$166.8 million, representing 33% of operating revenue which is similar to H2 FY21.

Xero's people are critical to its long-term success and, in a competitive labour market, new hiring with a focus on product and technology teams has seen Xero's base of FTEs grow at a rate consistent with growth across the business. FTEs increased to 4,187, up 30% against the prior year period, or 22% excluding acquired businesses.

Xero's three recent acquisitions, Planday, Tickstar and Waddle, made good progress in the period. Collectively, these businesses contributed \$19 million of operating revenue. These acquisitions have added significant product and talent capabilities to Xero, as well as new revenue streams and entry into new categories.

CEO Steve Vamos said: "Small businesses around the world increasingly recognise the critical importance of digital tools to help them adapt to, and succeed in a changing operating environment. This is reflected in Xero's half year 2022 performance, where we delivered strong revenue and subscriber growth."



“We are committed to delivering the world’s most insightful and trusted small business platform to make life better for people in small business, their advisors and communities around the world. To support this, we continue to prioritise investment in product development and partnerships, and execute our strategy to meet our customers’ evolving needs in both the short and long term.”

“There are multiple drivers for cloud-based software adoption, including digitisation of tax compliance, innovation of financial services and an imperative for small businesses to prepare for the future. These, combined with our commitment to purpose, relationship with customers and partners, and proven history of innovation all point to exciting opportunities ahead for Xero.”

### Market highlights

**Australia** revenue increased by 22% (24% in CC) to \$224.9 million with 124,000 net subscriber additions in the half to reach a total of 1.24 million subscribers. Given higher levels of adoption in Australia, Xero continues to invest in promotion of additional products and services such as payroll, payments and add-ons like Xero Analytics Plus, to help drive growth.

**New Zealand** revenue increased by 13% to \$72.0 million with 34,000 net subscriber additions to reach a total of 480,000 subscribers. In a market where cloud adoption is relatively high, Xero delivered double digit subscriber growth which points positively to the potential of other markets.

**UK** revenue increased by 24% (25% in CC) to \$132.8 million with 65,000 net subscriber additions taking total subscribers to 785,000. While deadlines for the implementation of Making Tax Digital (MTD) for Income Tax were deferred, Xero continues to invest in readiness for upcoming phases of MTD which are expected to impact millions of UK small businesses.

**North America** revenue increased by 5% (14% in CC) to \$30.1 million, with 23,000 net subscriber additions to reach a total of 308,000 subscribers. Xero continues to focus on developing the partner channel in North America and signed with a number of US and Canadian accounting firms to make Xero a preferred solution for their practices.

**Rest of World (ROW)** revenue increased by 72% (85% CC) to \$45.9 million, helped by the first time inclusion of Planday, and subscribers increased to 201,000 with 26,000 net subscriber additions during the half. In particular, Xero continues to see strong progress within Xero’s South Africa business which is scaling a large base of subscribers. Singapore has also continued to be a strong performer within ROW.



### **LOCATE Inventory acquisition**

Alongside today's results announcement, Xero announces it is acquiring LOCATE Inventory (LOCATE), a US cloud-based inventory management provider, to better support the inventory needs of small business and enhance its ecommerce capability. Further details of this announcement have been provided in a separate ASX release.

The acquisition will embed LOCATE's inventory and ecommerce talent and capability within Xero to enhance Xero's inventory management offering. This will help meet increased small business demand for inventory and cash flow management tools.

### **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 all the acquisitions announced since the start of 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's earnings webcast**

Xero's H1 FY22 earnings webcast at 11:15am AEDT on 11 November 2021 can be accessed at:

<https://webcast.openbriefing.com/7886/>

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](http://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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### **About Xero**

[Xero](http://xero.com) is a cloud-based accounting software platform for small businesses with over 3 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



Beautiful business

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.

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