



MARKET RELEASE

Xero grows H1 FY23 Revenue 30% to \$658.5 Million with 3.5 Million Subscribers*Continued strong growth momentum reflects value customers place in Xero*

WELLINGTON, 10 November 2022 - Xero Limited (ASX: XRO) today reports its half year earnings to 30 September 2022 (H1 FY23), highlighting continued strong revenue growth as more customers trust Xero's open platform to help them run their business and meet compliance needs within a complex environment.

CEO Steve Vamos said: "Our strong revenue growth momentum supports our strategy to invest, with discipline, to take advantage of the significant opportunity ahead as we continue to drive efficiencies in our business. This strong result underlines the quality of our business and the value we're generating as more customers join us, do more with our open platform and stay with us for longer."

Performance highlights H1 FY23 (All figures are in NZD and comparisons are made against H1 FY22)

- Operating revenue increased 30% to \$658.5 million (27% in constant currency (CC))
- Total subscribers increased 16% to 3.5 million
- Annualised monthly recurring revenue (AMRR) grew 31% to \$1.5 billion (23% in CC)
- Total subscriber lifetime value (LTV) grew \$3.1 billion or 30% to \$13 billion (23% in CC)
- Gross margin percentage decreased 0.1 percentage point to 87.0%
- EBITDA of \$108.6 million increased 11% from \$98.1 million
- Free cash flow was \$15.6 million compared to \$6.4 million

Xero delivered strong revenue growth across all regions with total revenue up 30% (27% in CC) and subscribers growing 16%. Xero's software as a service (SaaS) metrics remained strong in the half with LTV/CAC of 6.9, continued low monthly churn (0.91%), and an expansion in average revenue per user (ARPU) of 13% (6% in CC) to \$35.30. Total LTV increased 30% (23% in CC) to \$13 billion reflecting the combined strength of Xero's SaaS metrics.

Financial highlights

Six months ended 30 September	2022	2021	change
Operating revenue (\$'000s)	658,512	505,703	30%
Subscribers	3,496,000	3,013,000	16%
Net subscriber additions	225,000	272,000	(17%)
Average revenue per user (\$)	35.30	31.32	13%
Annualised monthly recurring revenue (\$'000s)	1,480,912	1,132,465	31%
Total lifetime value of subscribers (\$b)	13.0	9.9	30%
EBITDA (\$'000s)	108,551	98,080	11%
Net loss after tax (\$'000s)	(16,130)	(5,922)	172%
Free cash flow (\$'000s)	15,569	6,351	145%
Gross margin percentage	87.0%	87.1%	(0.1pp)*

*pp stands for percentage points



Xero's H1 FY23

Operating revenue grew 30% (27% in CC) year on year to \$658.5 million. Core accounting revenue increased 28%, driven by continued subscriber growth and ARPU improvement. Platform revenue increased 31% to account for 11% of total operating revenue. This was driven by further adoption and usage of Xero's financial services offerings and adjacent products.

Xero's EBITDA increased 11% against the comparative period to \$108.6 million. This result reflects the impact of a \$25.9 million non-cash impairment due to changed operational and market conditions for the Waddle business (see note 7 of the Financial Statements), which was partially offset by non-cash revaluation gains of \$10.8 million. Excluding these adjustments, EBITDA would have been \$123.7 million up 28% against the comparative period, reflecting strong revenue growth and cost discipline.

Total operating expenses increased slightly as a percentage of operating revenue from 83.4% to 83.9% due to the resumption of three Xerocon events. Excluding the impacts of three Xerocon conferences in the half, total operating expenses as a percentage of operating revenue would have been 82.0% for H1 FY23.

Product design and development expenses increased \$63.9 million from H1 FY22, increasing from 33.0% to 35.0% of operating revenue. This reflected Xero's investment in global product innovation and platform delivery, and the impact of new hires who joined in FY22, while managing inflationary cost pressures.

Product expenses as a proportion of operating revenue for FY23 are now expected to be slightly higher than in FY22. However, Xero remains committed to its FY23 operating expenses outlook and will continue to manage its cost base to invest with discipline to scale the platform.

Xero continues to invest in and enhance its technology, platform and open ecosystem to take advantage of the significant opportunity ahead. This next evolution of Xero's technology platform is focused on improving efficiency and scalability, building new features, increasing speed to market and investing in areas to deliver value in the future.

Xerocon returned in London, New Orleans and Sydney after almost three years, reaffirming Xero's commitment to working closely with its accounting and bookkeeping partners to bring the benefits of cloud technologies to more small businesses around the world. These events contribute to a positive impact on partner engagement and brand awareness across these important markets.

"More small business customers around the world trust Xero to help them run their business and meet their compliance needs, while navigating a changing environment. Our performance underscores how much our customers and partners benefit from Xero and the important role we are playing to help digitise the small business economy."



“We’re focused on delivering the world’s most insightful and trusted small business platform by driving cloud accounting adoption, growing the small business platform and building for global scale and innovation. We remain committed to investing for the short and long term opportunity and supporting customer needs while maintaining a disciplined cost focus,” said Vamos.

Market highlights

Australia revenue increased by 31% (25% in CC) to \$294 million with 126,000 net subscriber additions, a record for any Xero region in a six month period, to reach a total of 1.47 million subscribers.

New Zealand revenue increased by 16% to \$84 million with 24,000 net subscriber additions to reach a total of 536,000 subscribers.

Australia and New Zealand lead the world in the penetration of small business cloud accounting adoption and the momentum Xero has generated in these markets demonstrates the value its offering can continue to deliver.

UK revenue increased by 32% (34% in CC) to \$175 million with 44,000 net subscriber additions taking total subscribers to 894,000. Subscriber net additions were affected by slower than expected uptake of MTD for VAT, and partner sales approach changes which are expected to benefit partners and small businesses in the long term. Xero expects momentum in subscriber additions in the UK to improve over the remainder of FY23, with performance in H2 FY23 expected to be similar or better than the prior comparable period.

In July, Xero announced the early release of Xero Go, a new mobile solution for UK customers with less complex accounting needs. Xero remains well positioned in the UK and, with a large and underpenetrated opportunity, continues to drive and aspire to strong revenue and subscriber growth.

North America revenue increased by 44% (30% in CC) to \$44 million, with 15,000 net subscriber additions to reach a total of 354,000 subscribers. Subscriber growth in North America reflected some seasonality associated with tax year end timing. Xero expects momentum in subscriber additions in North America to improve over the remainder of FY23, with performance in H2 FY23 expected to be similar or better than the prior comparable period.

In the US and Canada, Xero maintains its focus on localising its product to meet customer needs and further strengthening relationships with accountants and bookkeepers. Xero announced a strategic partnership with Avalara, an automated tax compliance software specialist, to improve the sales tax workflow for US customers. A beta trial of the product will be available next year to a limited number of users, before the official release.

Rest of World (ROW) revenue increased by 35% (25% CC) to \$62 million and subscribers increased to 242,000 with 16,000 net subscriber additions. The Singapore Government’s Smart Nation initiative, its approach to digitise government, the economy and society, remains a key opportunity. In South Africa,



Beautiful business

Xero will soon launch South African Rand billing to assist customers and partners to consistently plan for subscription costs in their local currency.

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 (including acquisition integration costs) as a percentage of operating revenue for FY23 are expected to be towards the lower end of a range of 80-85%.

Xero's earnings webcast

Xero's H1 FY23 earnings webcast at 10:30am AEDT on 10 November 2022 can be accessed at:

<https://webcast.openbriefing.com/9226/>

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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About Xero

[Xero](https://xero.com) is a global small business platform with 3.5 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. For three consecutive years (2020-2022) Xero was included in the Bloomberg Gender-Equality Index. In 2021, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero is a [FIFA Women's Football partner](#) under FIFA's new commercial structure.

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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