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## MARKET RELEASE

### Xero's FY23 Revenue Grows 28% to \$1.4 Billion with 3.74 Million Subscribers

*Highlights Included Strong Operating results and Free Cash Flow*

**WELLINGTON, 18 May 2023** - Xero Limited (ASX: XRO) today reports its full year earnings to 31 March 2023 (FY23). The strong operating result was delivered against a complex macroeconomic environment, underscoring the trust customers place in Xero, the resilience of Xero's business, and commitment to more disciplined, customer-focused growth.

Xero delivered revenue growth of 28% (25% in constant currency (CC)), contributing to an increase in adjusted EBITDA<sup>1</sup> of 45% compared to FY22 to \$301.7 million. This drove a significant increase in free cash flow to \$102.3 million, which reflects a free cash flow margin of 7.3% compared to 0.2% in FY22.

During FY23, Xero also incurred non-cash impairments and associated costs, and restructuring charges. This led to EBITDA decreasing 26% compared to FY22 to \$158.4 million. This includes a \$77.9 million impairment to Planday (mainly reflecting a reduction in market valuation multiples along with operational performance), \$48.5 million of impairments and other costs related to Waddle, \$34.7 million in restructuring costs, and non-cash accounting revaluation gains of \$17.9 million.

CEO Sukhinder Singh Cassidy said: "Xero's strong underlying operating result is underpinned by continued revenue momentum from both subscriber and ARPU growth. Our FY23 performance demonstrates Xero's resilience to the macroeconomic conditions of the past year, and the value we provided to small business customers in a challenging environment. We remain well positioned to take advantage of the significant long-term opportunity for cloud accounting and our small business platform as we prioritise disciplined, customer-focused growth."

#### **FY23 and Financial highlights** (All \$ figures are in NZD and comparisons are made against FY22)

Year ended 31 March	2023	2022	change
Operating revenue (\$'000s)	1,399,884	1,096,819	28%
Subscribers	3,741,000	3,271,000	14%
Net subscriber additions	470,000	530,000	-11%
Average revenue per user (\$)	34.61	31.36	10%
Annualised monthly recurring revenue (\$'000s)	1,553,803	1,231,087	26%
EBITDA (\$'000s)	158,399	212,661	-26%
Adjusted EBITDA (\$'000s)	301,689	208,720	45%
Operating income (\$'000s)	57,293	35,582	61%
Net loss after tax (\$'000s)	(113,532)	(9,114)	NM*
Free cash flow (\$'000s)	102,340	2,073	NM
Total lifetime value of subscribers (\$b)	13.4	10.9	23%
Gross margin percentage	87.3%	87.3%	0.0pp**

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

<sup>1</sup> Adjusted EBITDA is a non-GAAP financial measure and is calculated by adding back net finance expense, depreciation and amortisation, income tax expense, as well as certain non-cash, revaluation and other accounting adjustments and charges to net profit/(loss). Refer to page 71 of Xero's FY23 Annual Report for further detail



Operating revenue increased to \$1.4 billion, reflecting ongoing subscriber growth and average revenue per user (ARPU) improvement. This was driven by pricing and increased use of Xero's growth products, including payroll and payments. Annualised monthly recurring revenue (AMRR) grew by 26% to \$1.55 billion (23% in CC). Total LTV, which grew 23% (21% in CC) to \$13.4 billion, was driven by double digit subscriber growth across all regions - as average monthly churn (0.90%) remained low and ARPU improved a further 10% (8% in CC). This underscores the trust customers place in Xero to help them manage their businesses.

Xero's operating expense to operating revenue ratio for FY23 was 80.7% (excluding restructuring costs of \$34.7 million), consistent with guidance provided. This resulted in improved operating income<sup>2</sup>, a measure that reflects underlying business performance, which grew 61% to \$57.3 million. Excluding restructuring charges, operating income was \$92.0 million with an operating income margin of 6.6%. Along with reinvestment into strategic priorities, Xero is targeting an operating expenses to operating revenue ratio in FY24 of around 75%. This will improve operating income margin compared to FY23<sup>3</sup>.

Product design and development expenses increased by 32% to \$490.0 million, up slightly as a proportion of operating revenue to 35.0%, as indicated in Xero's H1 FY23 announcement. Xero remains focused on delivering ongoing value for customers through its product and technology efforts each year, while continuing to invest in a multi-year platform modernisation strategy to unlock long term efficiency, scalability, productivity and speed to market improvements.

In FY23, Xero delivered a number of product updates and new features for customers. This included practice tools updates to provide a single source of truth for client data across Xero Practice Manager, Xero HQ and Xero Tax; launching Xero Go in the UK to meet the less complex needs of self-employed businesses and their advisors; a partnership in the US with cloud-based tax compliance automation provider Avalara, to build an integration that automates sales tax compliance from within Xero; updates to Xero Payroll in Australia to help customers manage compliance for the Single Touch Payroll (STP) Phase 2 transition; and South African Rand (ZAR) billing to help customers and partners to consistently plan for subscription costs in their local currency. In April 2023 Planday launched in Australia, supporting its first two awards - Retail and Clerks.

## Market highlights

**Australia and New Zealand** - Australia and New Zealand revenue increased by 26% (23% in CC) to \$798 million, ARPU increased 7% to \$34.24 and total subscribers grew to 2.13 million. Australia continued to drive strong growth, delivering 222,000 net subscriber additions to reach a total of 1.57 million subscribers. New Zealand added 55,000 net subscribers, in a complex economic environment including the impact of natural disasters, to reach a total of 567,000 subscribers.

Australia and New Zealand continue to lead the world in small business cloud accounting adoption. Xero maintains its focus on driving the adoption of higher value products and increasing the use of add-ons, such as payments, to deepen customer relationships in this region. The continued growth in Australia and New Zealand demonstrates the value Xero can drive in highly penetrated markets.

<sup>2</sup> Operating income is a non-GAAP financial measure. Xero defines it as gross profit (total operating revenue, less cost of revenues), less total operating expenses

<sup>3</sup> This applies both including and excluding restructuring charges



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**International** - Xero's international markets performance grew, with revenue increasing 30% (27% in CC) to \$602 million, ARPU increasing 15% to \$35.10 and subscribers growing to 1.6 million.

The UK delivered strong growth in H2 FY23, adding 76,000 subscribers, this was above H2 FY22 and in line with guidance. In FY23, the UK added 120,000 net subscribers to take total subscribers to 970,000. In North America, Xero added 30,000 subscribers in H2 FY23, in line with H2 FY22 and with guidance. In FY23, Xero added 45,000 net subscriber additions in North America to reach a total of 384,000 subscribers. Rest of World (ROW) subscribers increased to 254,000 with 28,000 net subscriber additions in FY23.

Xero remains focused on localising its product to meet customer needs and further strengthening its relationships with accountants and bookkeepers to take advantage of the large and underpenetrated opportunity in its international markets. As more small businesses digitise, Xero continues to drive and aspire to strong revenue and subscriber growth, and deeper usage of its broader product set.

### CEO commentary

"We're pleased to deliver a strong operating result - supported by our program to improve operational efficiency and effectiveness. This gives us greater ability to deliver better value for all stakeholders and take advantage of the significant opportunity ahead."

"We're positive about the multiple levers Xero has to deliver growth - including driving further adoption of cloud accounting and deepening customer engagement - as we strive to deliver 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<sup>4</sup>.

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 FY23 earnings webcast at 10:30am AEST on 18 May 2023 can be accessed at:

<https://webcast.openbriefing.com/xro-fyr-2023/>

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 and the Chair of the Audit and Risk Management Committee*

<sup>4</sup> This applies both including and excluding restructuring charges



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## Contacts

Kate McLaughlin - Communications

Mobile: +64 27 533 4529

[kate.mclaughlin@xero.com](mailto:kate.mclaughlin@xero.com)

Nicole Mehalski - Investor Relations

Mobile: +61 400 947 145

[nicole.mehalski@xero.com](mailto:nicole.mehalski@xero.com)

## About Xero

[Xero](#) is a global small business platform with 3.7 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 four consecutive years (2020-2023) Xero was included in the Bloomberg Gender-Equality Index. In 2021 and 2022, 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](#).

## 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.