



Beautiful business

MARKET RELEASE

## FY23 Annual Results Investor Presentation

**WELLINGTON, 18 May 2023** - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its FY23 Annual Results Investor Presentation.

*Authorised for release to the ASX by the Chair of the Board and the Chair of the Audit and Risk Management Committee.*

### 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](#).

### Xero Limited (XRO)

NZ Company no. 1830488

ARBN 160 661 183

### Registered Address

19-23 Taranaki St

Te Aro

Wellington 6011

New Zealand

[www.xero.com](http://www.xero.com)



# Investor briefing

Full year results to 31 March 2023

18 MAY 2023

xero

Beautiful business





# Important notice

This presentation is given on behalf of Xero Limited (Xero) (ASX:XRO) (Company number NZ 183 0488, AU ARBN 160 661 183)

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, or purchase of, or a recommendation to invest in, Xero securities
- should be read in conjunction with, and is subject to, Xero's latest and prior interim and annual reports, including Xero's annual report for the period ended 31 March 2023, and Xero's market releases on the ASX
- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control – Xero's actual results or performance may differ materially from these statements
- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance
- may contain information from third parties believed to be reliable, but no representations or warranties are made as to the accuracy or completeness of such information
- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero's financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed

All information in this presentation is current at 31 March 2023, unless otherwise stated.

All currency amounts are in NZ dollars, unless otherwise stated.

Due to rounding, numbers in this presentation may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

See page 40 for a glossary of the key terms used in this presentation.

# Agenda

01

**Introduction  
& summary of  
results**

02

**Financial results**

03

**Observation  
from new CEO  
& outlook**

04

**Q&A**



**Sukhinder Singh Cassidy**  
CHIEF EXECUTIVE OFFICER



**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER

# Introduction & summary of results



**Sukhinder Singh Cassidy**  
CHIEF EXECUTIVE OFFICER



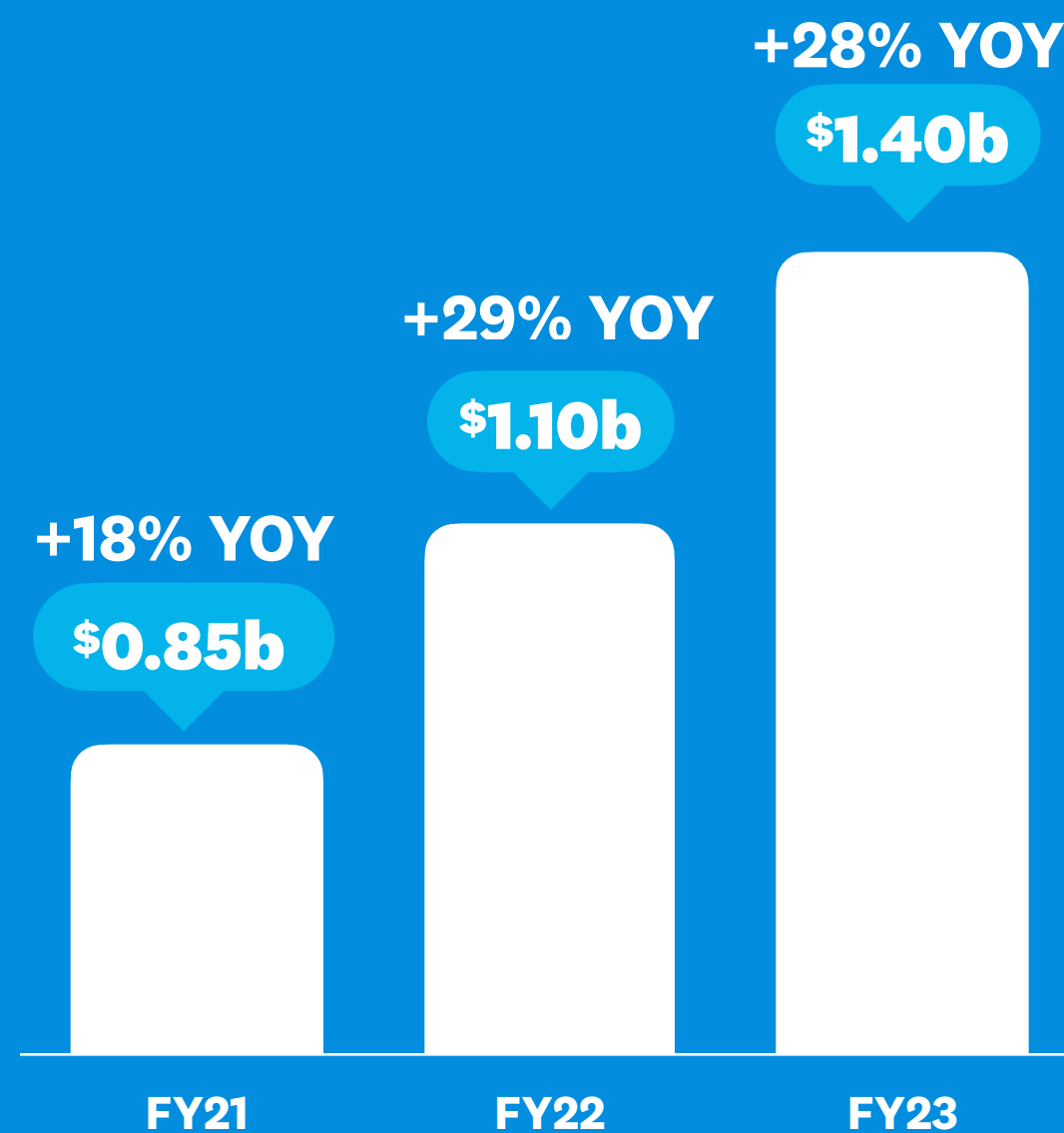
# FY23: Strong operating result drives free cash flow generation

Financial and operating performance highlights for the year ended 31 March 2023

## OPERATING REVENUE

**\$1,399.9m**

+ **28% YOY** (25% in constant currency)



## ADJUSTED EBITDA

**\$301.7m**

+ **\$93.0m YOY**

## EBITDA

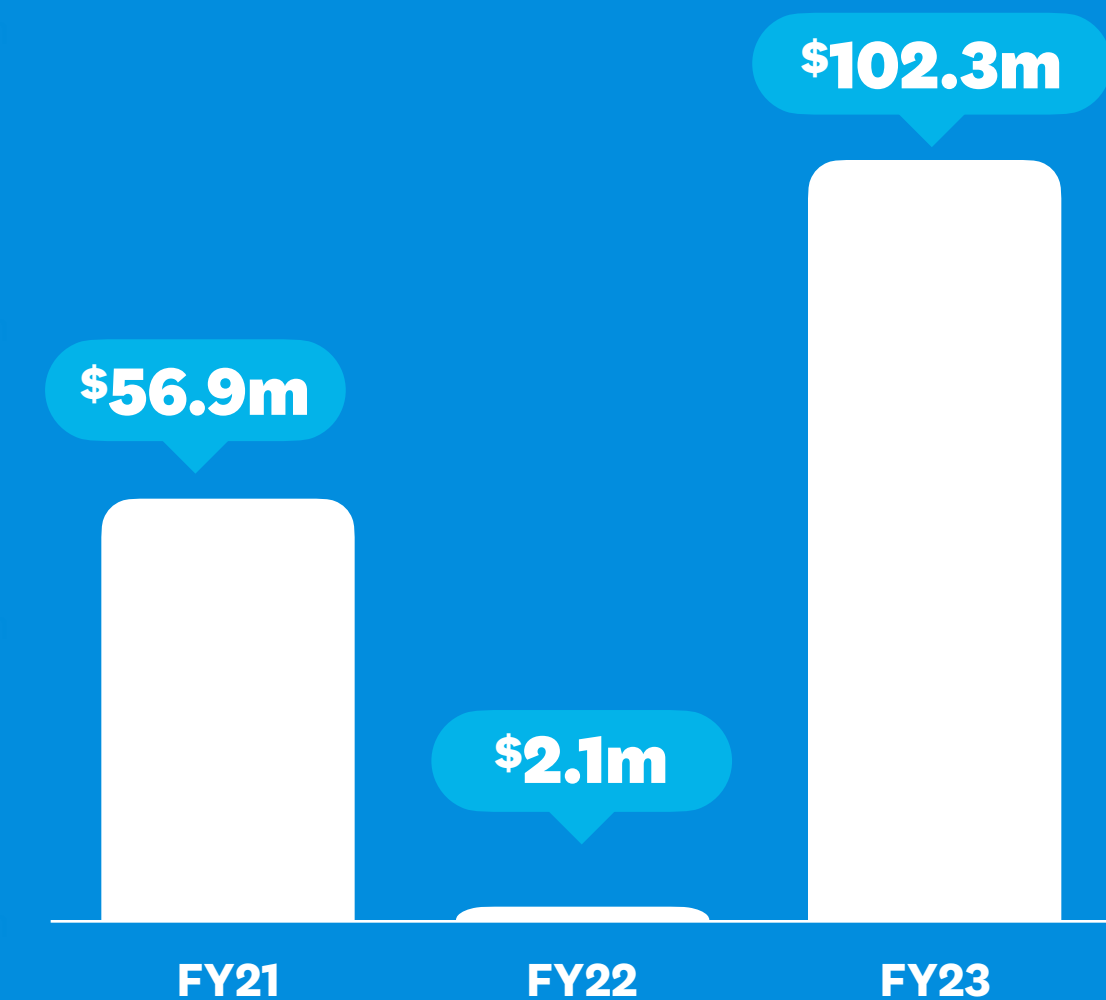
**\$158.4m**

- **\$54.3m YOY**

## FREE CASH FLOW

**\$102.3m**

+ **\$100.2m YOY**



# Key Themes

## FY23 performance

### Macro resilient business generating strong growth

- Strong revenue growth (revenue up **28%** YOY, **25%** CC) through both net subscriber adds (subscribers up **14%** YOY) and Xero's high value proposition (ARPU up by **10%** YOY, **8%** CC)

### Xero has more subscribers than ever and they're staying with us longer

- In a challenging environment Xero has more subscribers than ever. Total subscribers reached **3.74m**, and churn remained low at **0.90%**

### Growing with efficiency: improved operating leverage drives increase in operating income margin

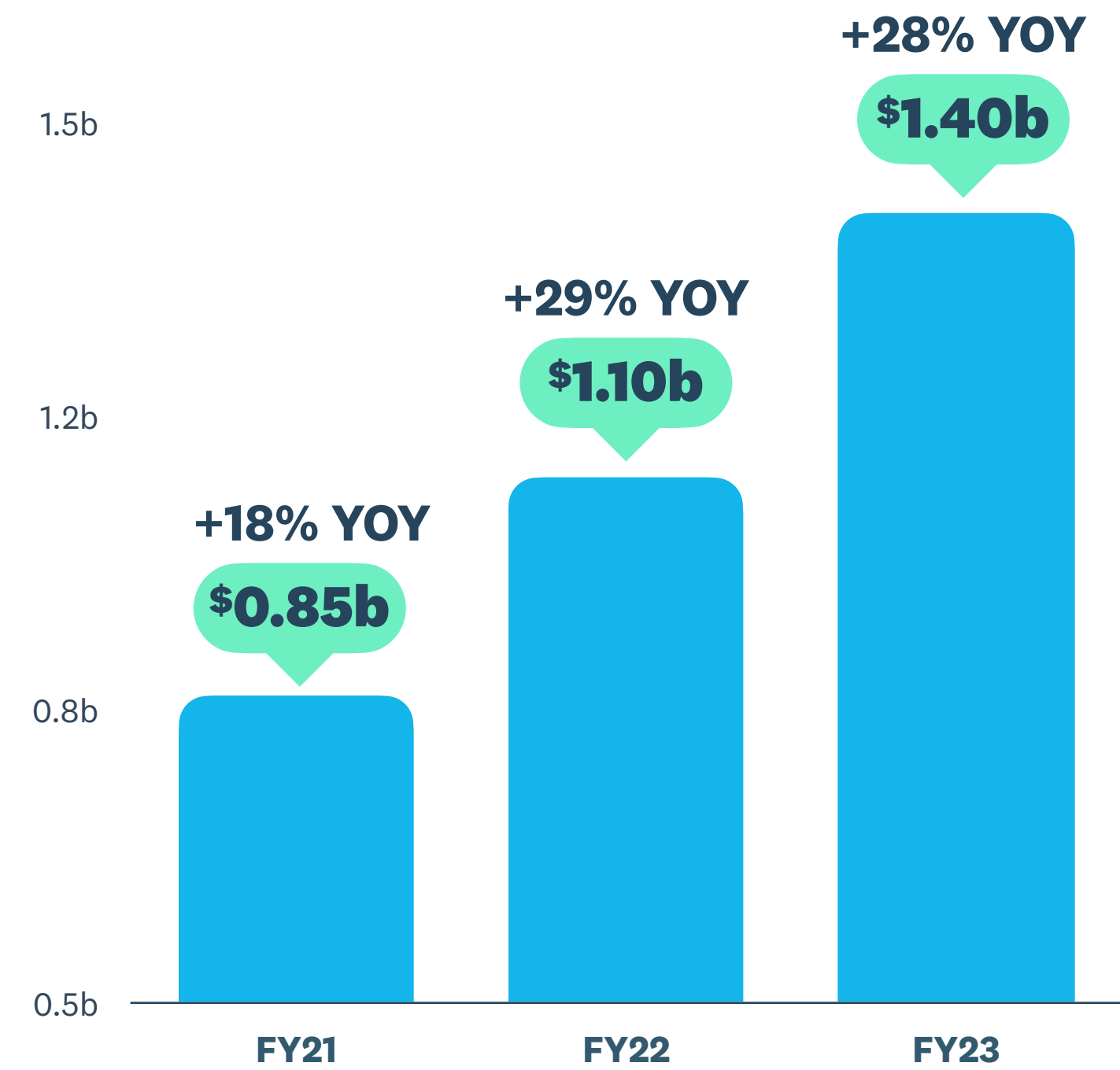
- Improving efficiency alongside continued revenue momentum drove **operating income margin higher**
- Targeting an operating expense to operating revenue ratio in **FY24 of around 75.0%, this will improve operating income margin compared to FY23<sup>1</sup>**

1. This applies both including and excluding restructuring charges

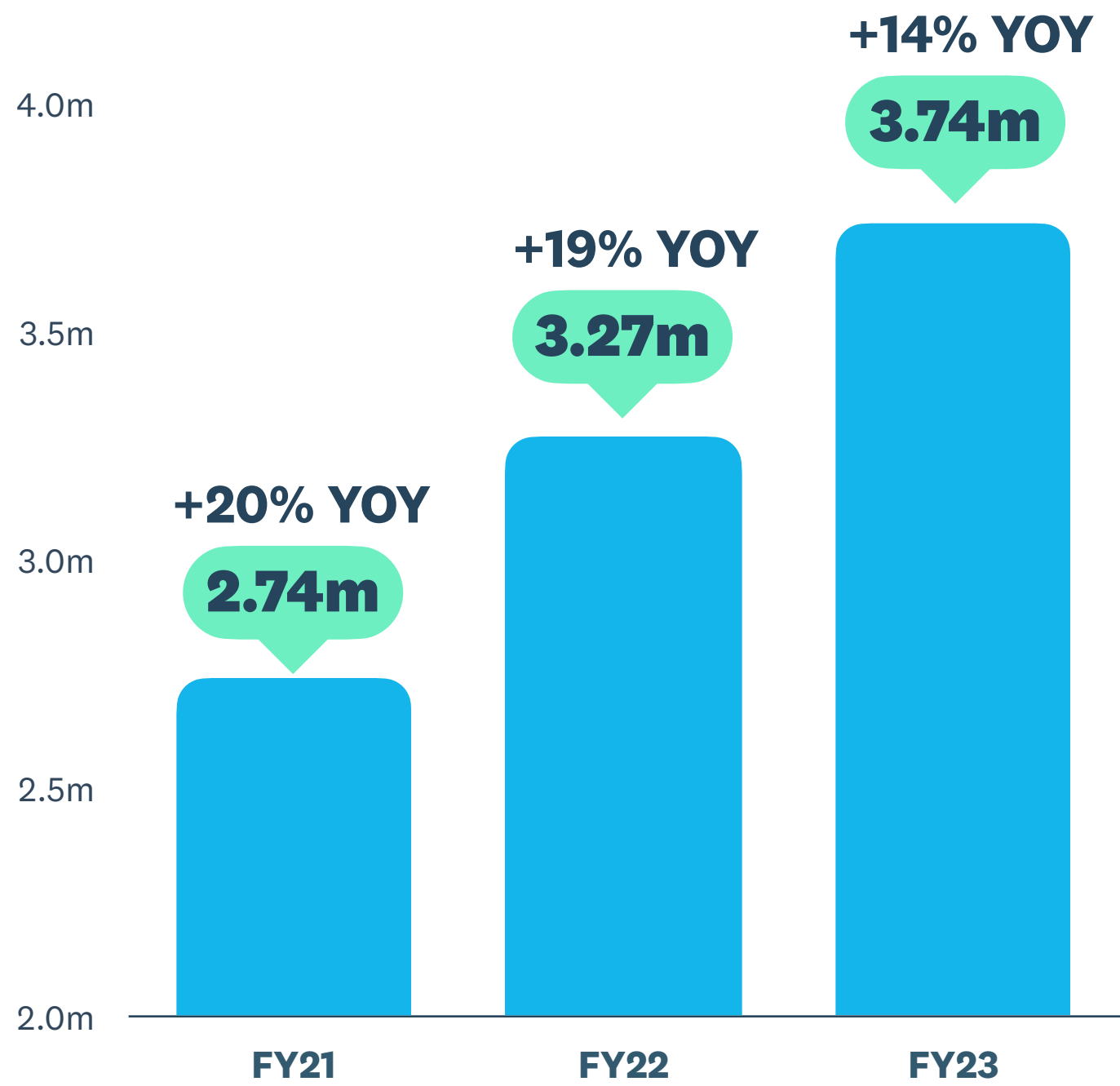
# Macro resilient business generating strong growth

Xero is a macro resilient business, generating strong growth through both net subscriber additions and our high value proposition

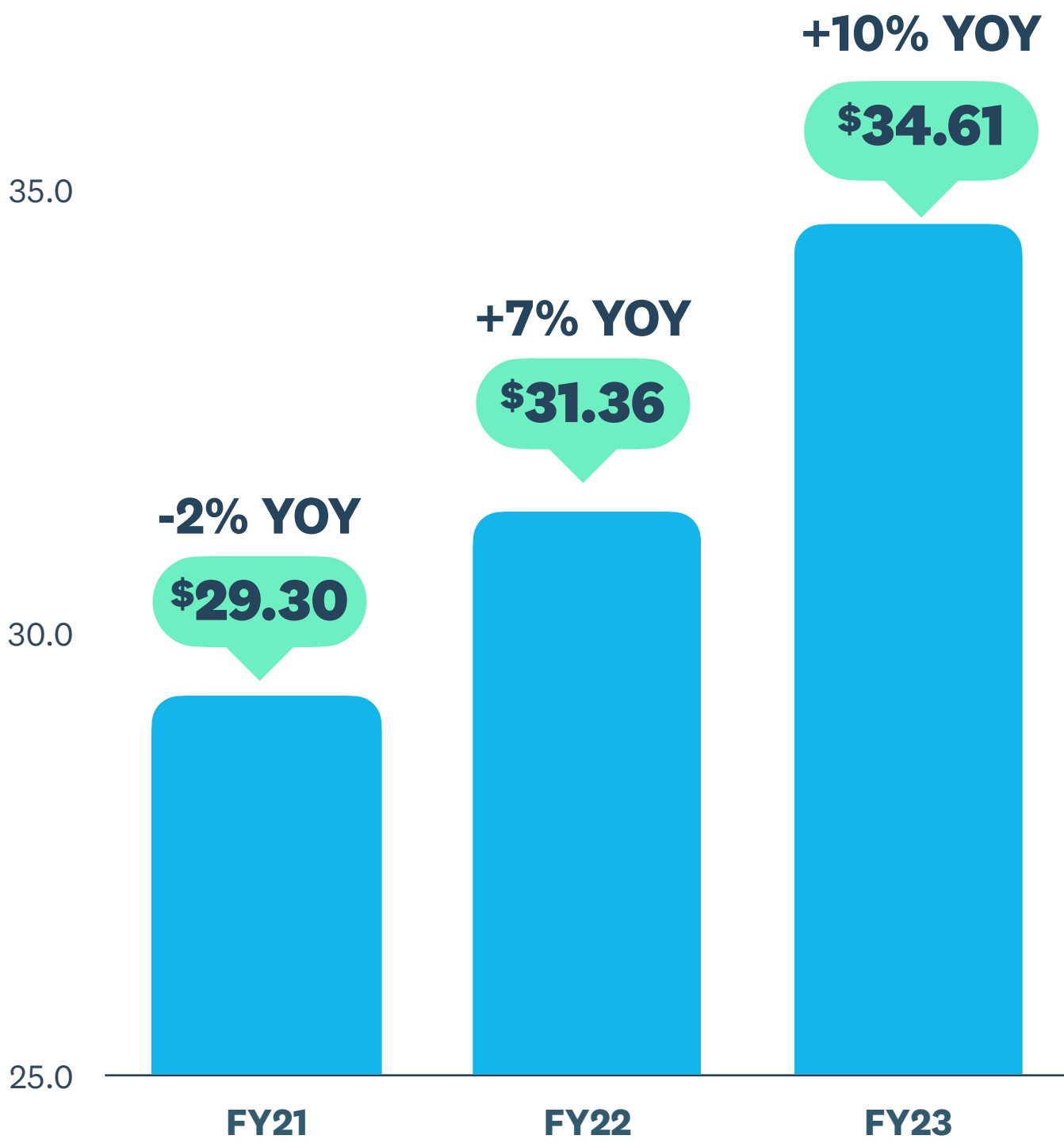
Revenue (\$)



Subscribers



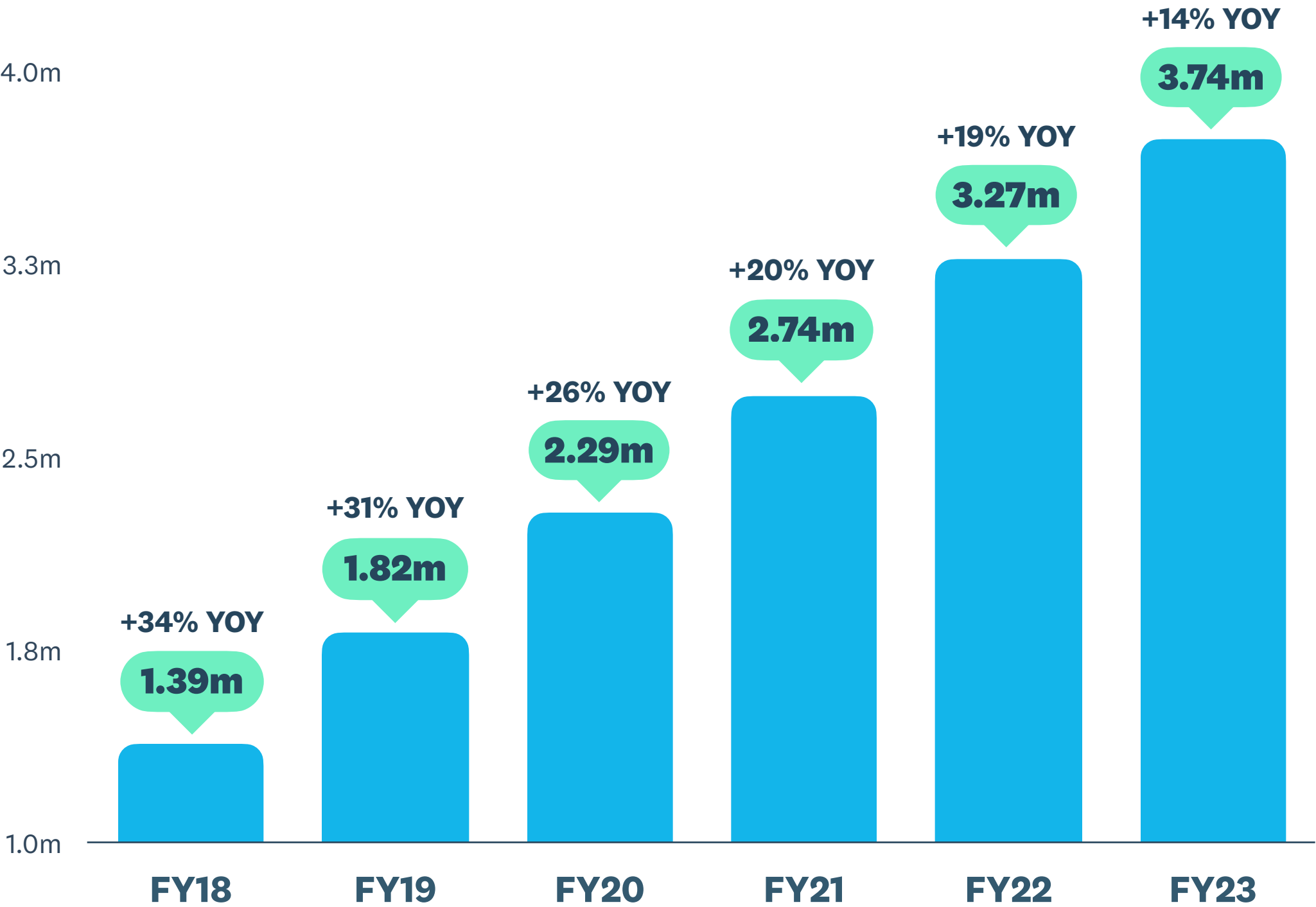
ARPU (\$)





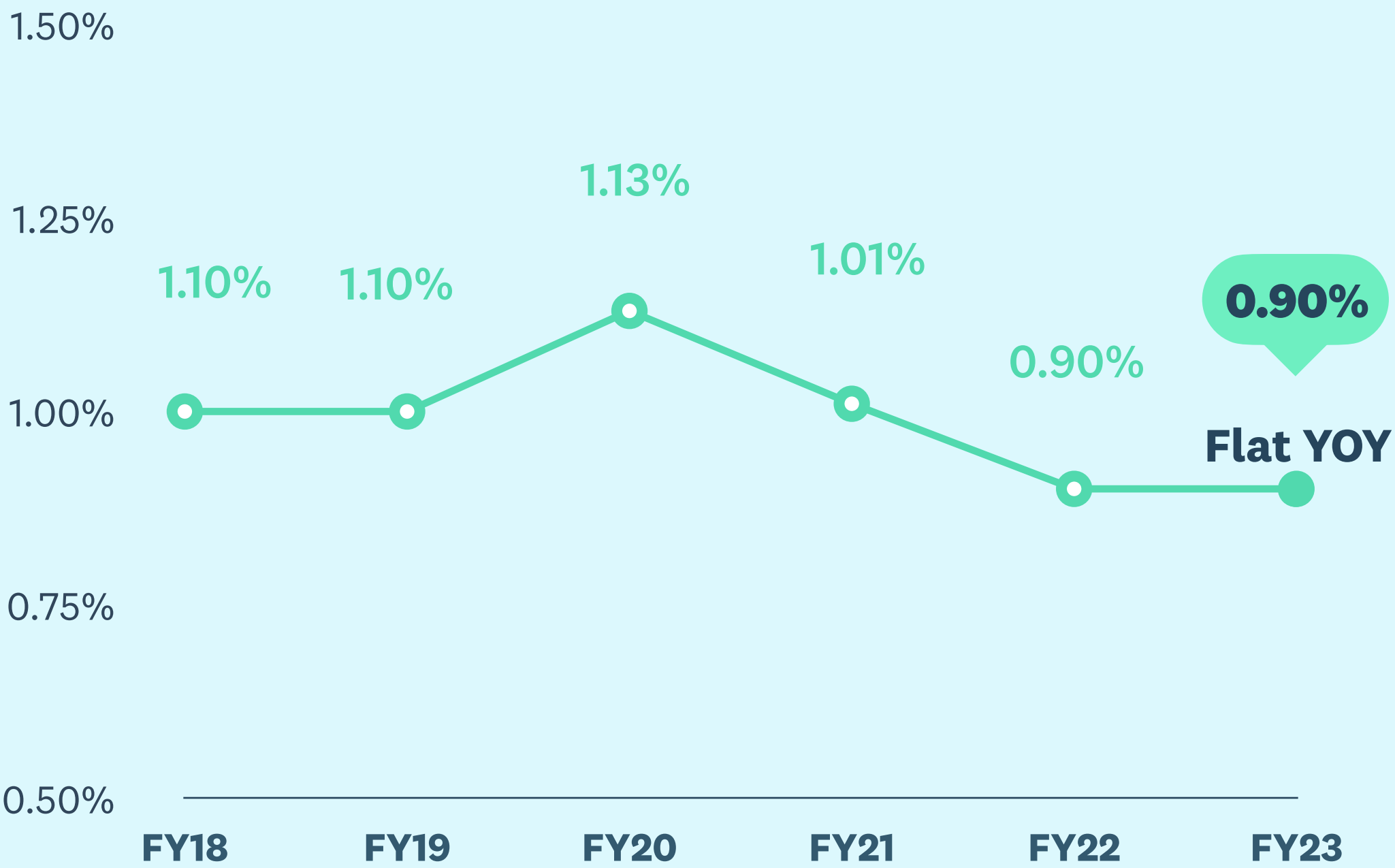
# Xero has more subscribers than ever and they're staying with us longer

## Total Subscribers



## Churn

Churn has remained consistently below pre-COVID-19 pandemic levels



# Providing more value for our customers

## Examples of product range delivered

Evolving our practice management tools so we can create a single source of truth for client data across **Xero Practice Manager**, **Xero HQ** and **Xero Tax**

Providing **South African Rand billing** to help customers and partners to consistently plan for subscription costs in their local currency

Updated **Xero Payroll** in **Australia** to comply with **Single Touch Payroll (STP) Phase 2** transition

Launched **Planday for Australian** small businesses who pay staff under Retail and Clerks awards

Launched closed beta with **Avalara** for **US sales tax** compliance



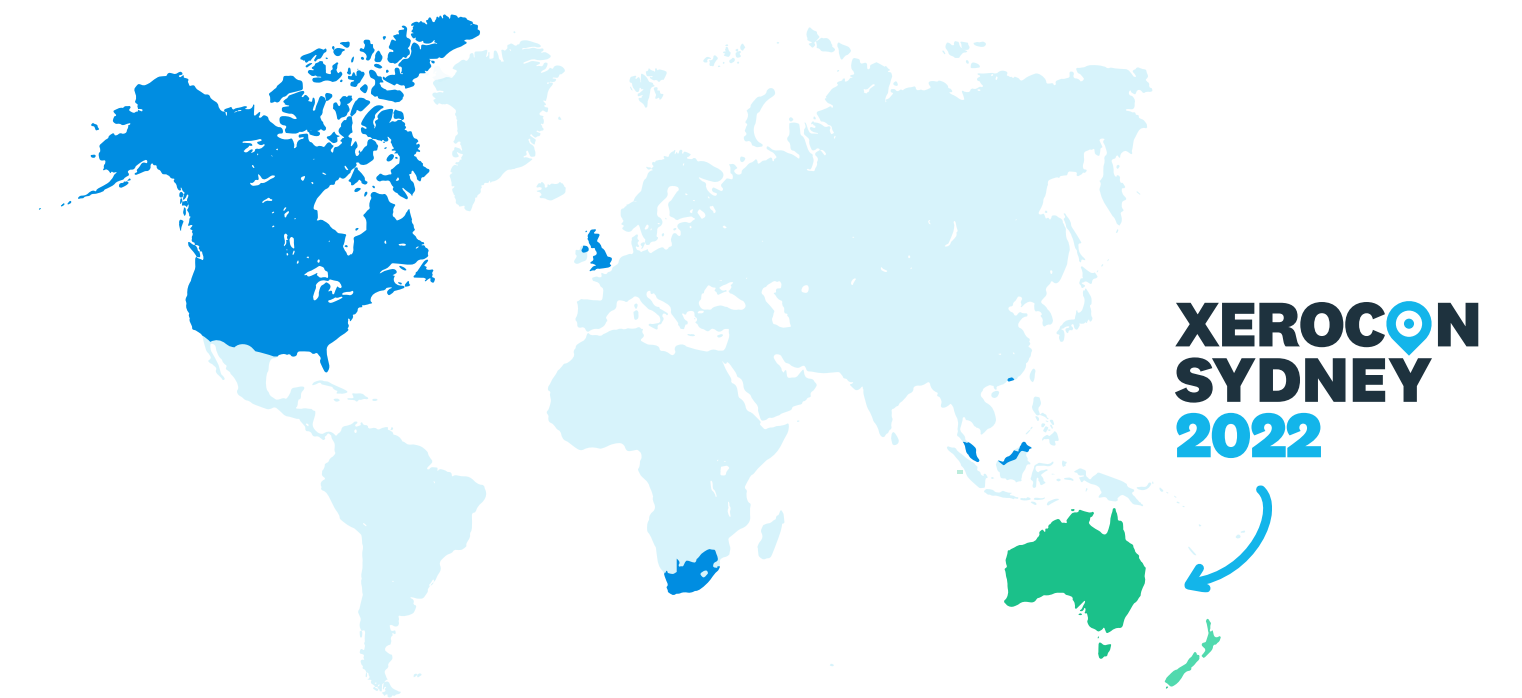
Hosted **Xerocons** in London, New Orleans and Sydney

Resumed **roadshows** and face to face partner engagement activities to **reconnect** with accountants and bookkeepers to help **educate** small businesses across all our key geographies

Continued to **invest** in evolving the **support experience** within the Xero product and **improving real time status** monitoring to be more informative and timely for customers

## Customer experience

# ANZ: Continued strong progress



**\$798M REVENUE** (+26% YOY, 23% YOY constant currency)

**2.13M SUBSCRIBERS** (+15% YOY, 277k net additions)

**\$34.24 ARPU** (+7% YOY, 7% YOY constant currency)

**Continued progress in subscriber and revenue growth as accountants and bookkeepers drive further adoption**

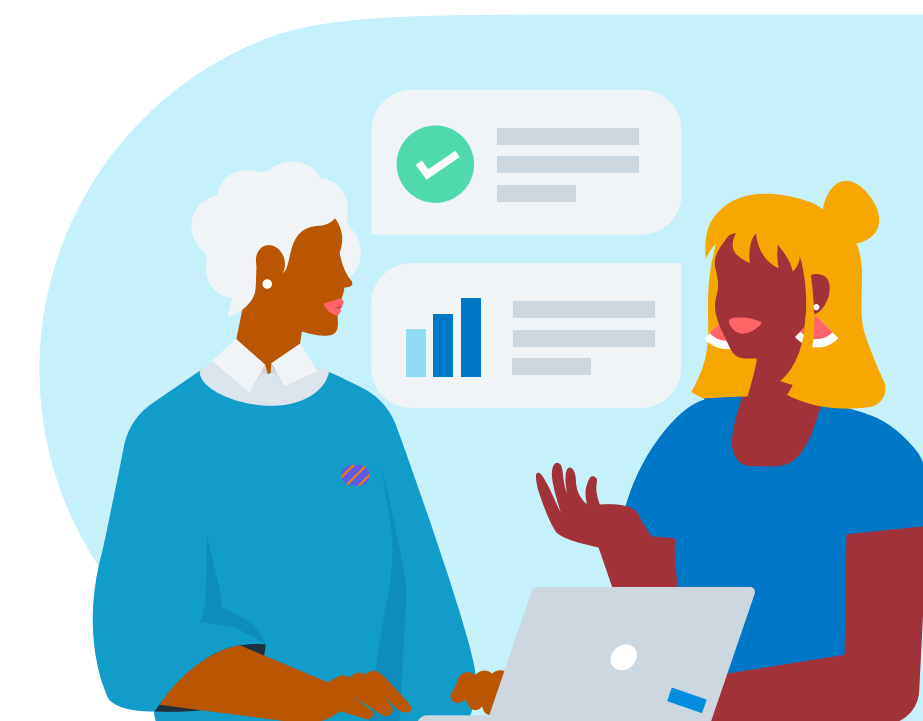
- Double digit growth in revenue and subscribers
- Strong performance reflects strength of offering in Australia and NZ, pleased with resilience of NZ business in challenging circumstances with natural disasters
- Continued ARPU expansion through pricing<sup>1</sup> and platform revenues
- Xerocon Sydney held in September 2022, scheduled again for August 2023

## Australia

	FY23	Δ YOY	
Revenue	\$624m	+29%	+25% YOY constant currency
Subscribers	1.57m	+17%	+222k net additions in FY23

## New Zealand

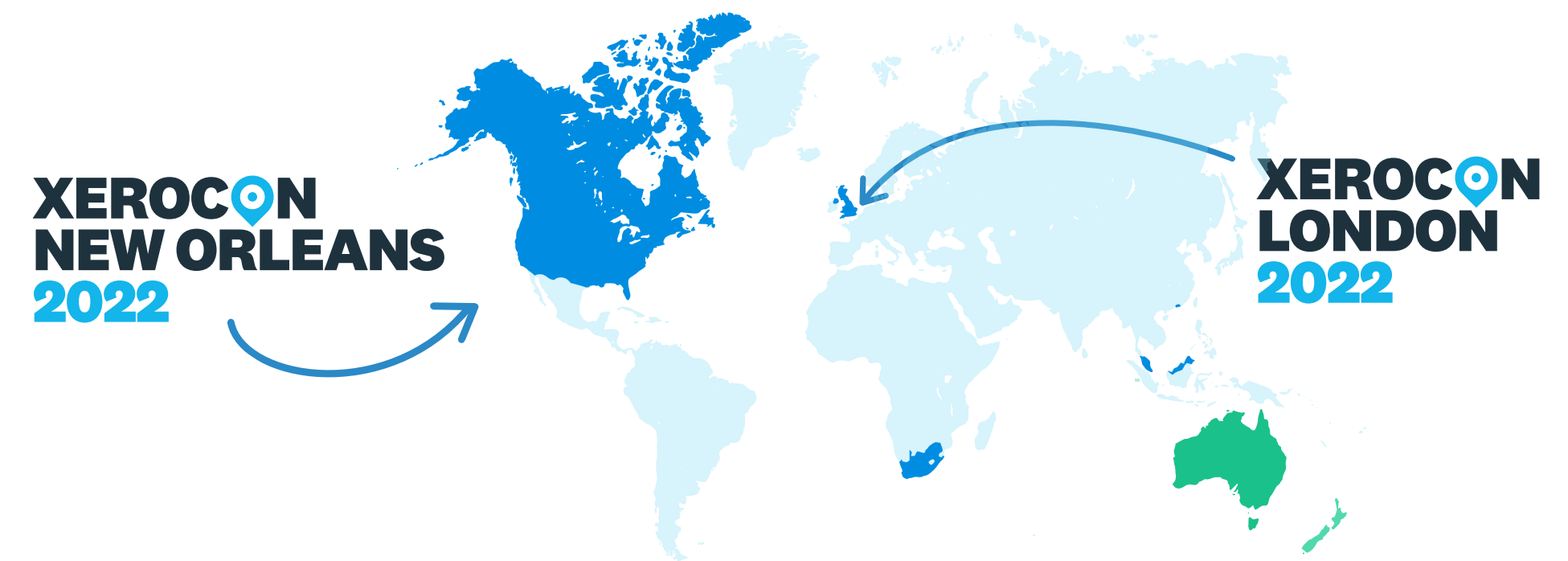
	FY23	Δ YOY	
Revenue	\$174m	+16%	+16% YOY constant currency
Subscribers	567k	+11%	+55k net additions in FY23



1. Business Edition (BE) price changes effective September 2022, Partner Edition price changes effective March 2023



# International: Momentum returned in second half



**\$602M REVENUE** (+30%YOY, 27% constant currency)

**1.61M SUBSCRIBERS** (+14% YOY, 193k net additions)

**\$35.10 ARPU** (+15% YOY, 9% YOY constant currency)

## Positioned for the long term opportunity across our international segments

- Strong revenue growth and ARPU contribution across UK, North America and ROW<sup>1</sup>
- UK H2 FY23 net additions of 76k, above H2 FY22 and in line with guidance. Reflects flow through of embedding our partner sales channel changes, final stage of MTD for VAT and continuing digitisation of small businesses
- North America H2 FY23 net additions of 30k, similar to H2 FY22 and in line with guidance reflecting seasonality and improved partner sales channel performance
- ROW performance was subdued reflecting emerging nature of these businesses

### United Kingdom

	FY23	Δ YOY	
Revenue	\$371m	+27%	+29% YOY constant currency
Subscribers	970k	+14%	+120k net additions in FY23

### North America

	FY23	Δ YOY	
	\$96m	+32%	+21% YOY constant currency
	384k	+13%	+45k net additions in FY23

### Rest of World

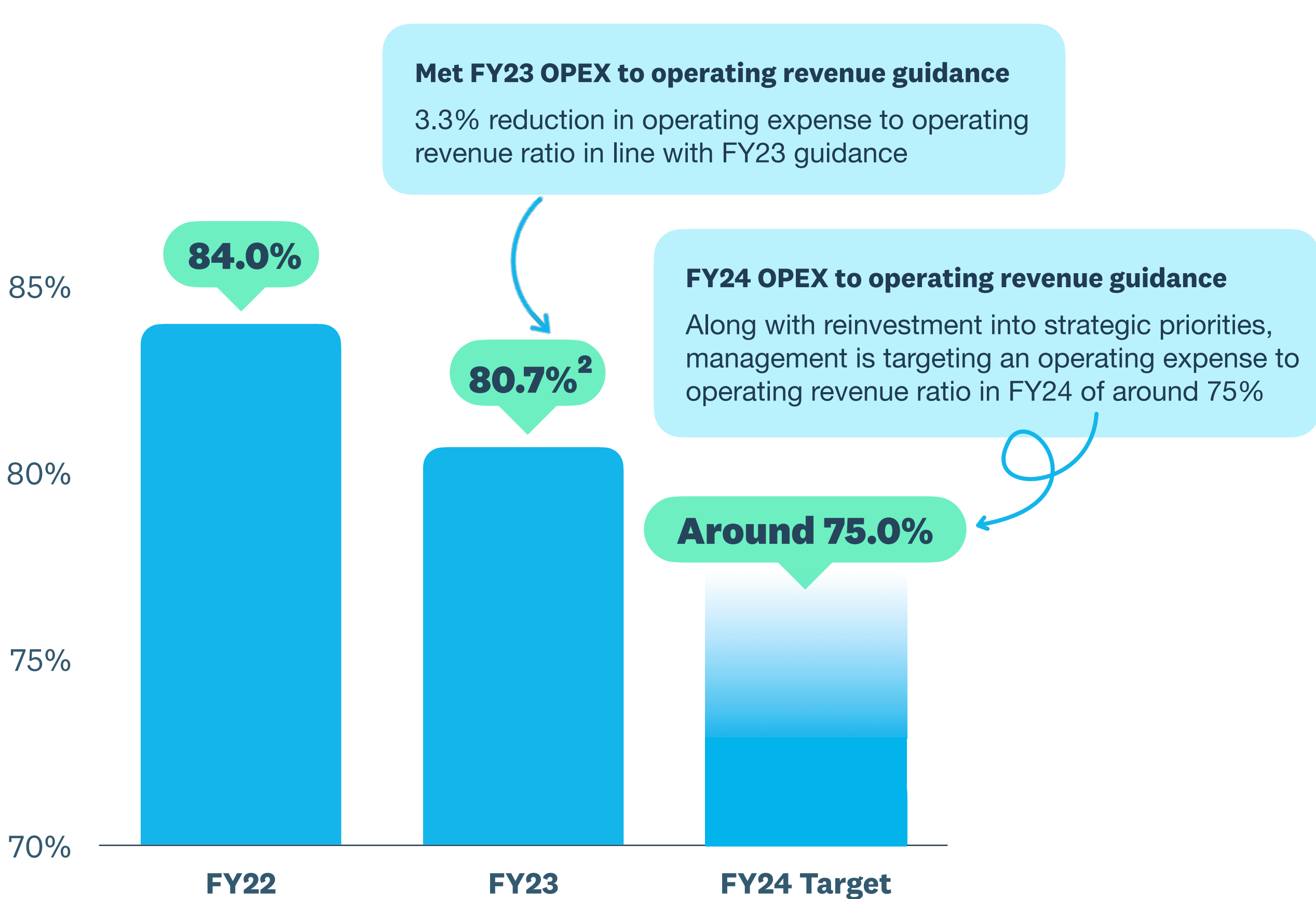
	FY23	Δ YOY	
	\$136m	+36%	+26% YOY constant currency
	254k	+12%	+28k net additions in FY23

1. UK Business Edition (BE) price changes effective September 2022, Partner Edition price changes effective March 2023. Business Edition price changes for North America and ROW effective November 2022

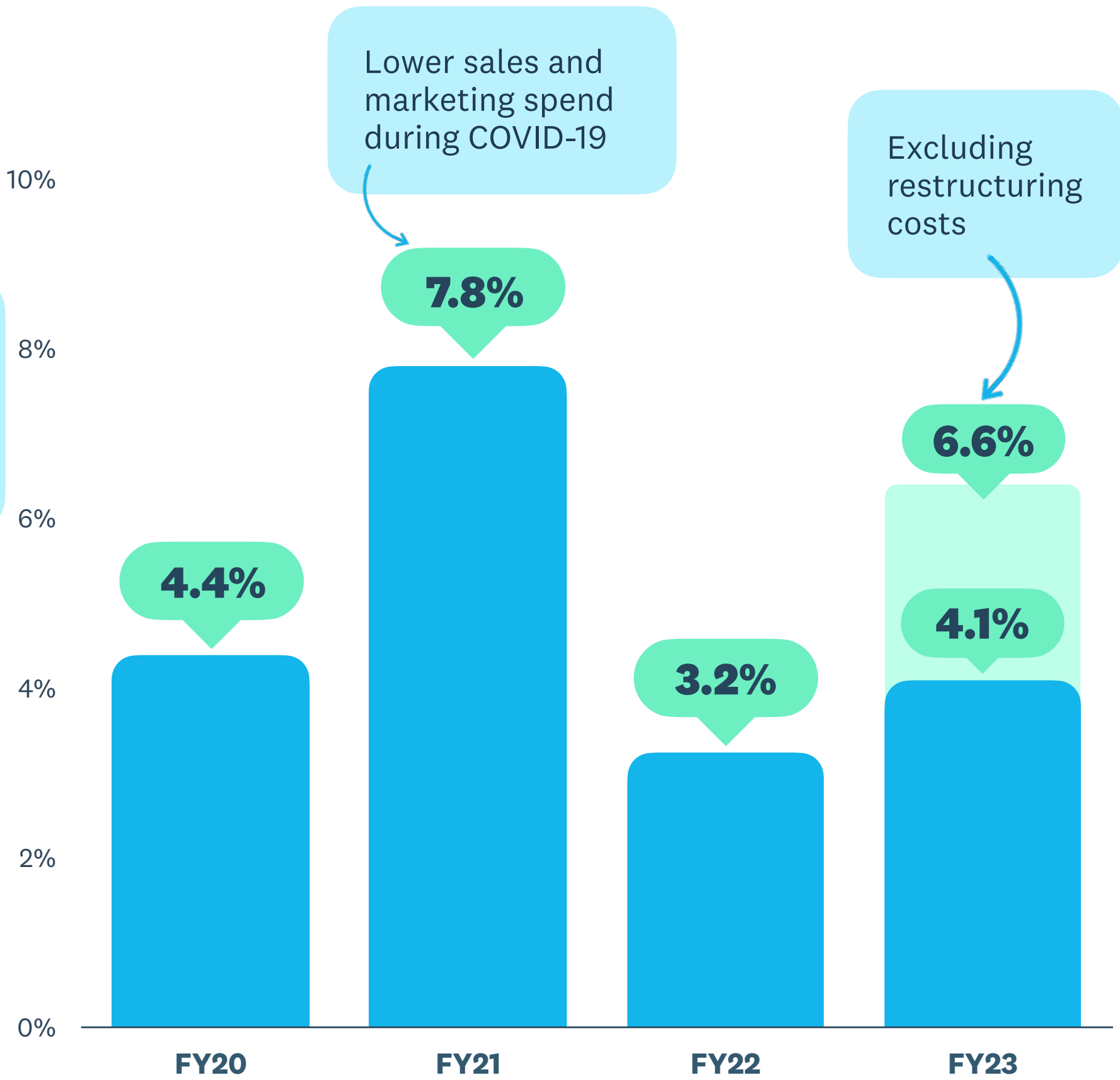
# Growing with efficiency: Improved operating leverage drives increase in operating income margin

Improving efficiency alongside continued revenue momentum drove operating income margin higher. Targeting an operating expense to operating revenue ratio in FY24 of around **75.0%**, **this will improve operating income margin compared to FY23<sup>1</sup>**

Operating expenses as a % of operating revenue



Operating Income Margin<sup>3</sup>



1. This applies both including and excluding restructuring costs  
2. Excluding \$34.7m of restructuring costs 3. Operating Income is a non GAAP financial measure. Xero defines it as gross profit (total operating revenue less cost of revenue), less total operating expenses



# Financial results

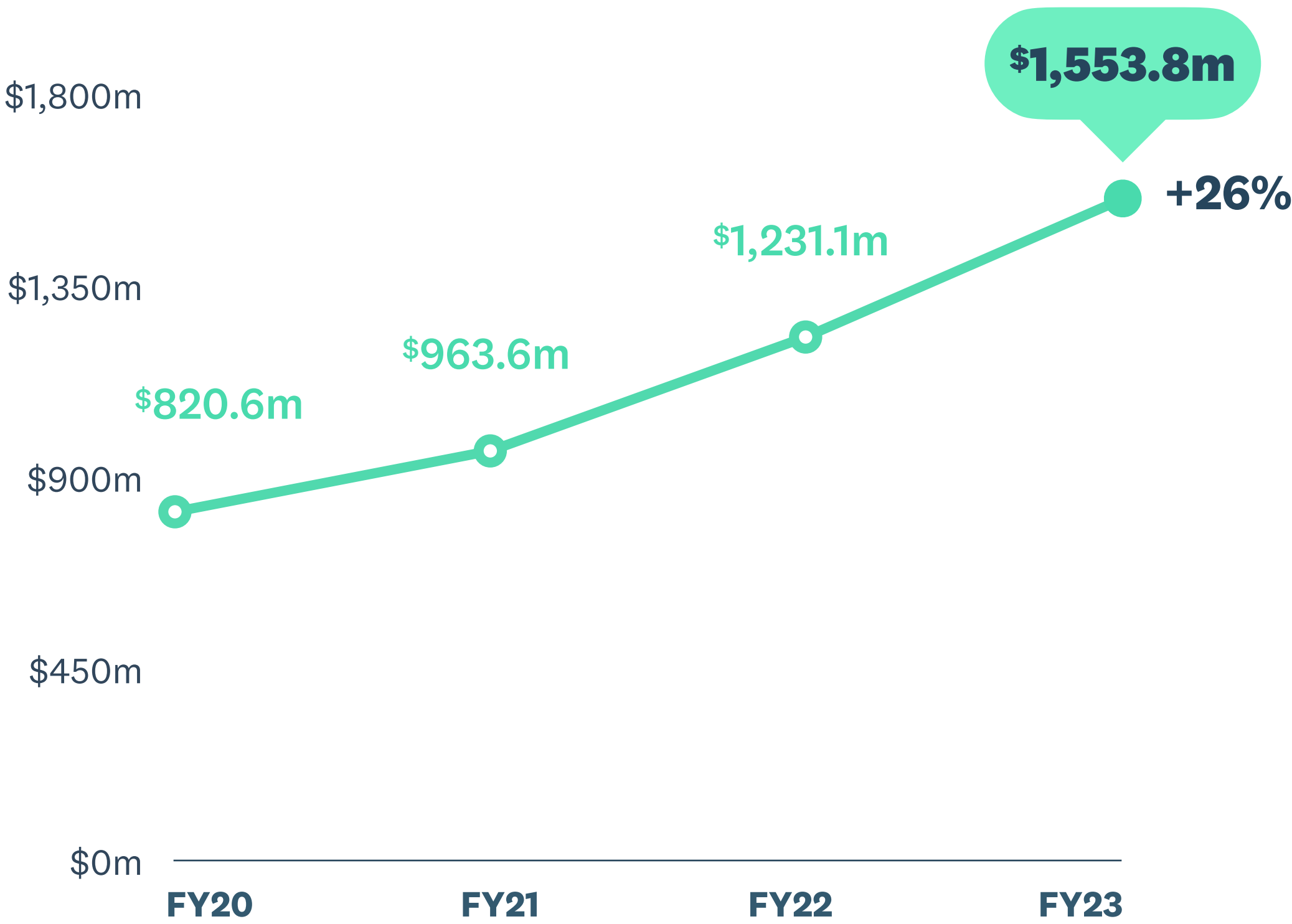


**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER



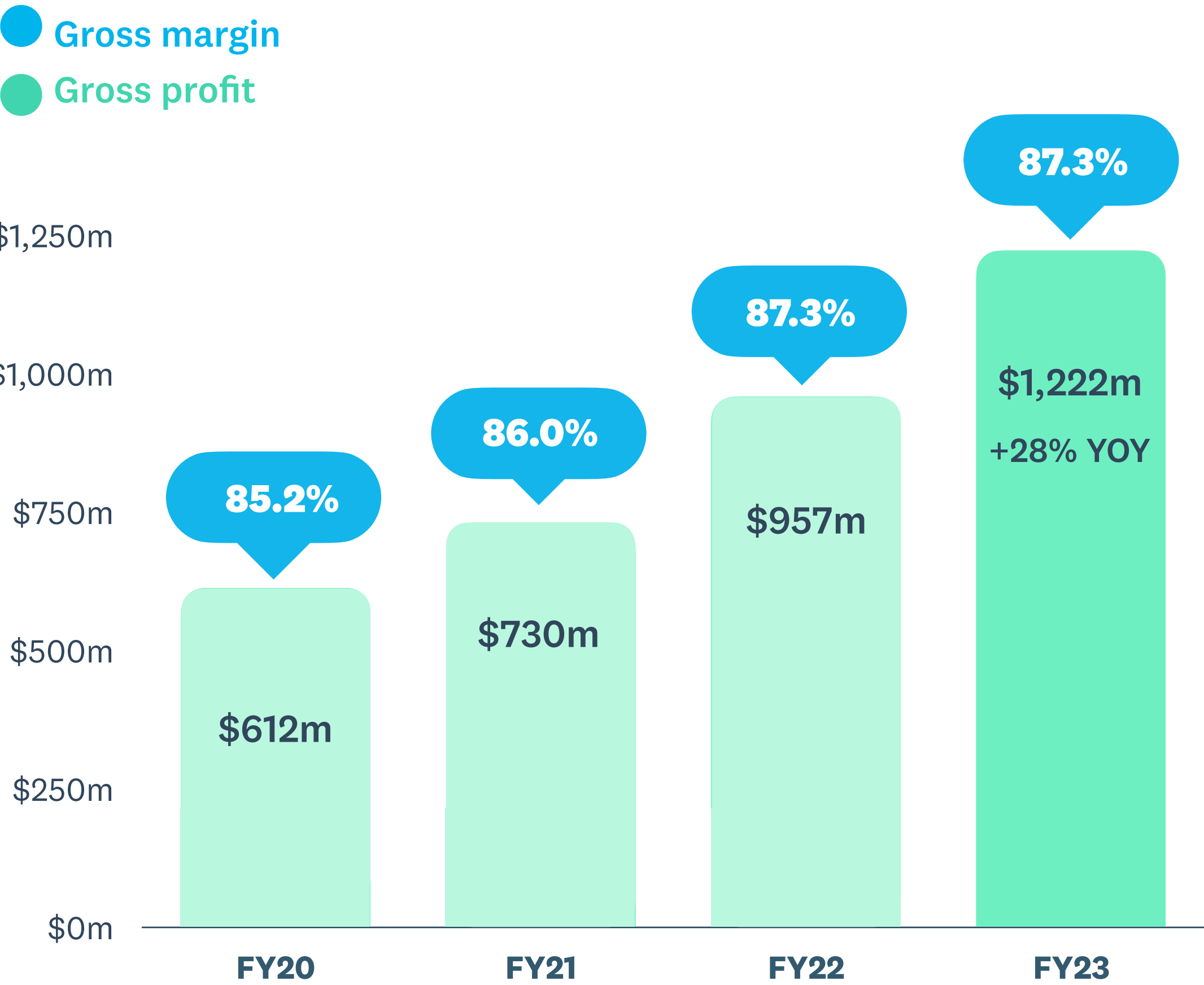
# Continued top line momentum reflects macro resilience

## AMRR



Growth in AMRR of **\$322.7m** or **26%** YOY (**23%** in constant currency) reflects subscriber growth of 14%, and ARPU expansion of **10%** YOY (**8%** in constant currency)

## Gross profit and gross margin

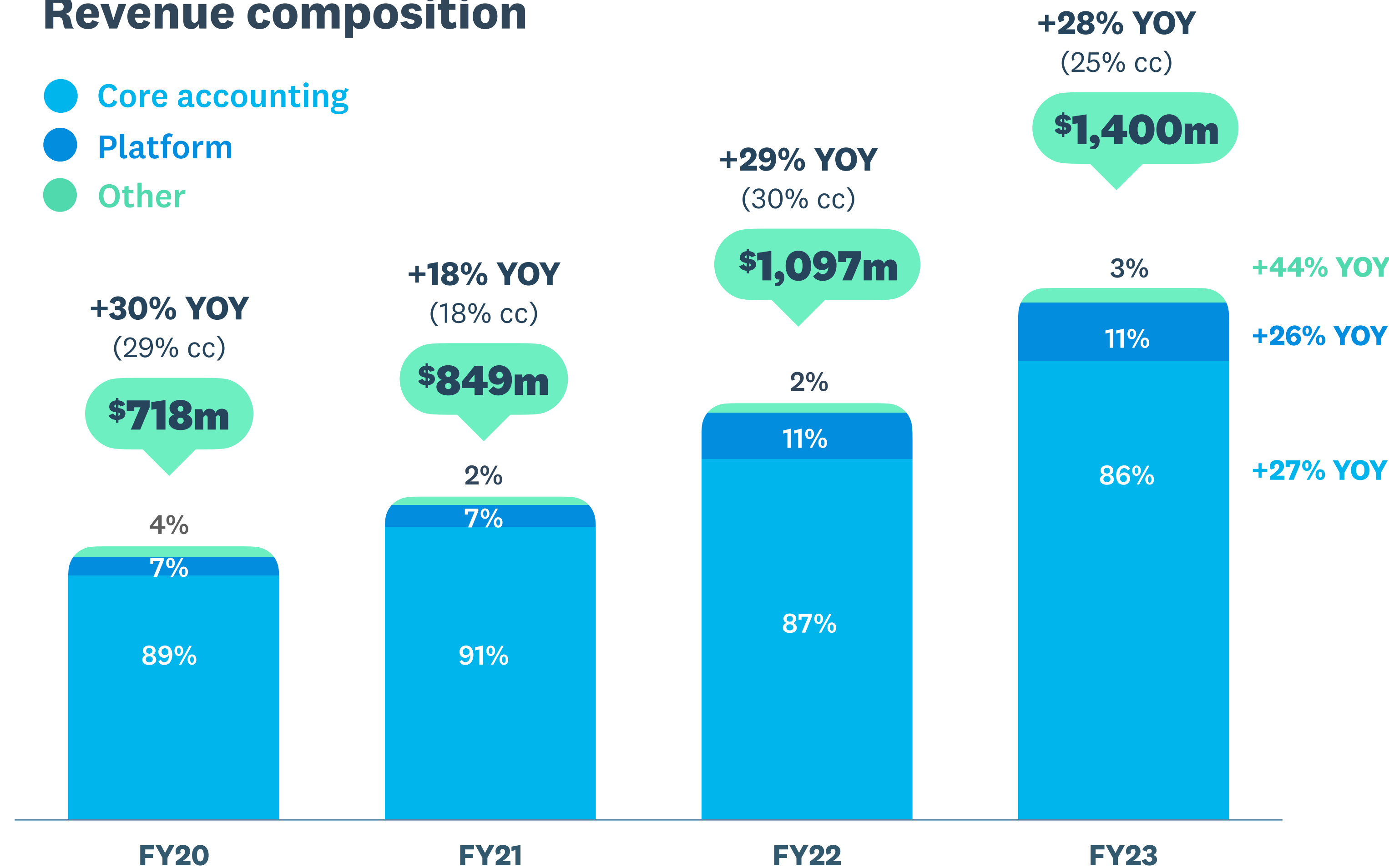


Gross Profit increased by **\$264.5m** or **28%** YOY, reflecting **28%** revenue growth and a flat gross profit margin as cost of revenue was well managed

# Strong revenue growth from our portfolio of businesses

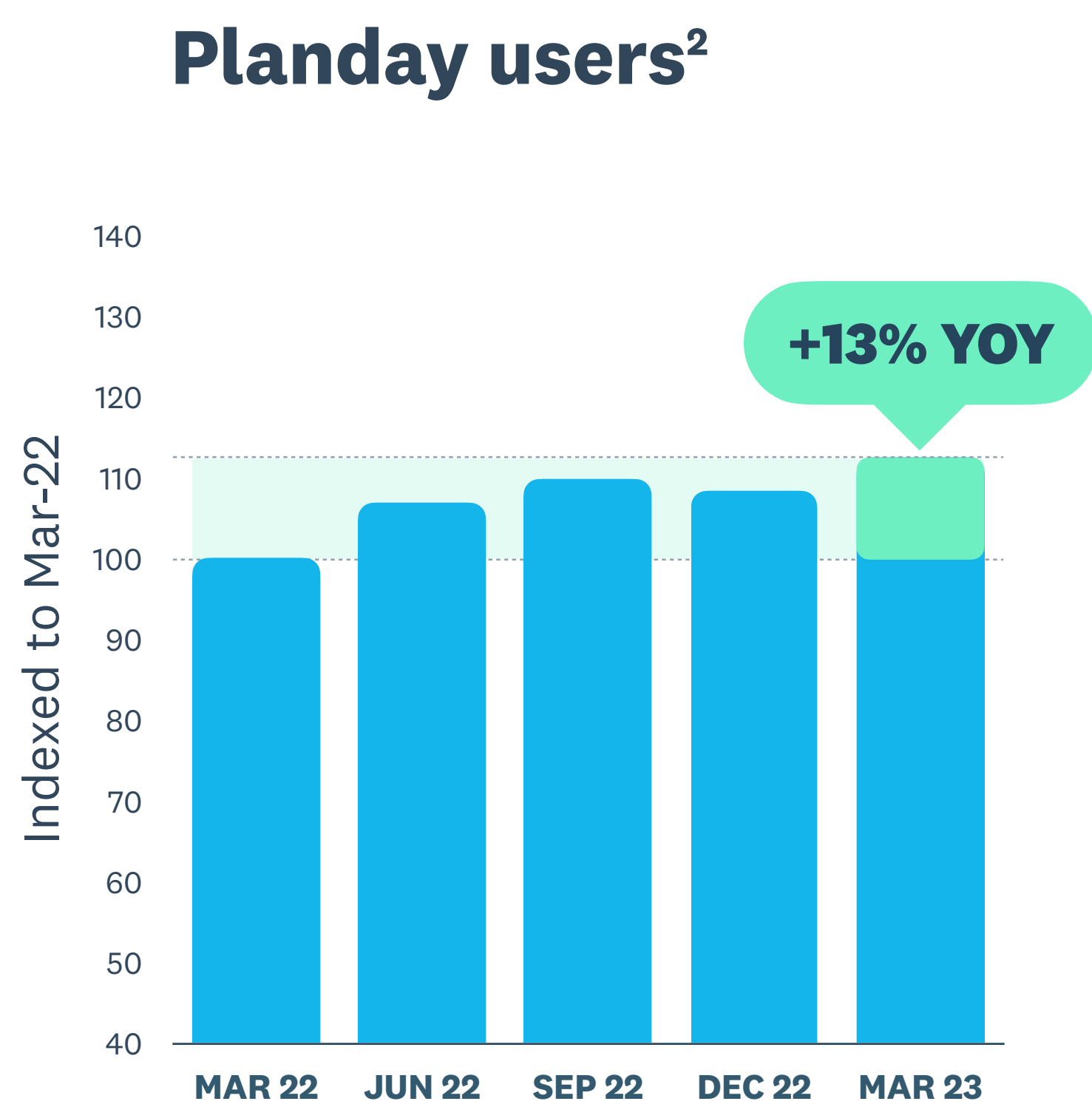
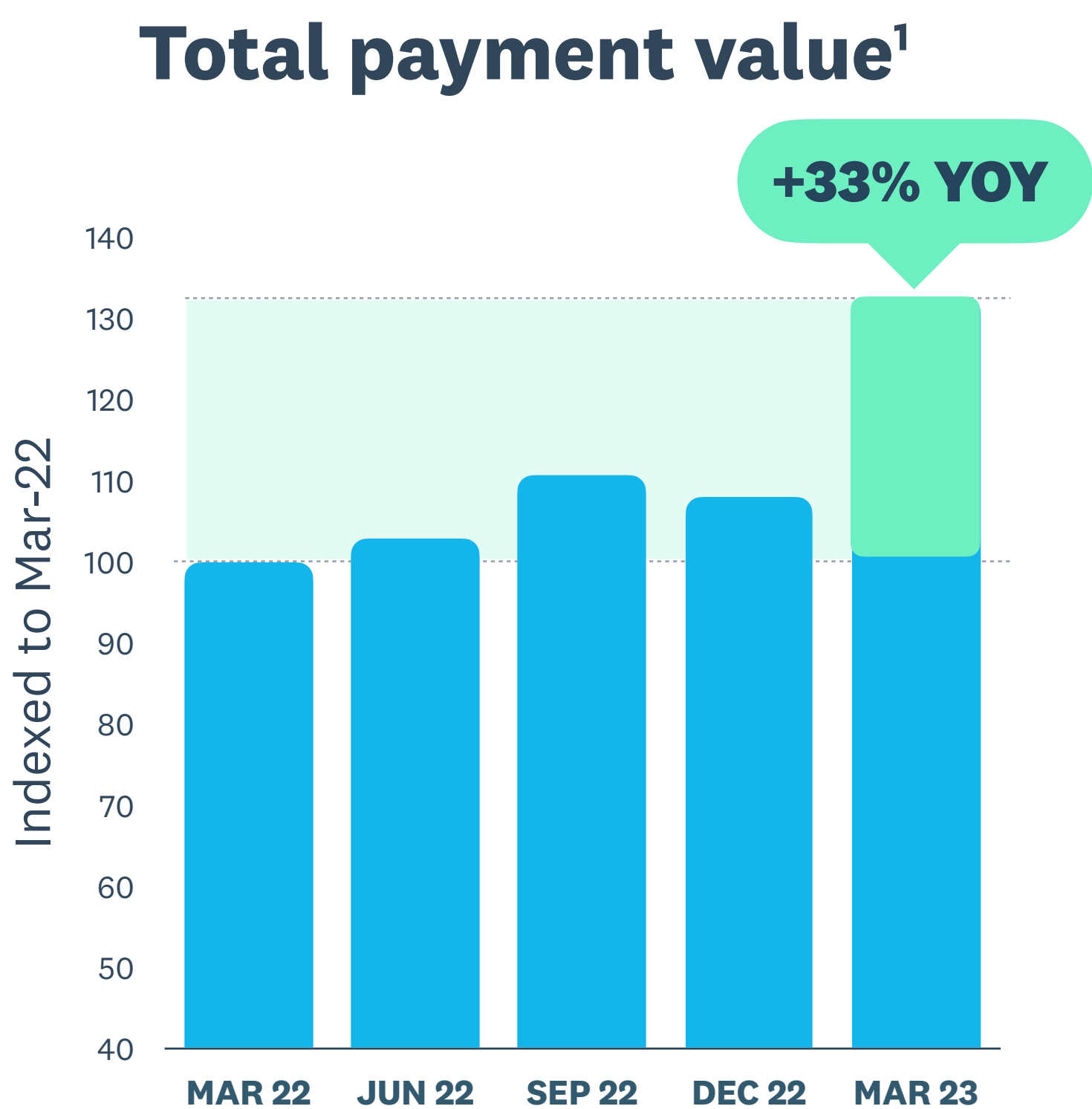
## Revenue composition

- Core accounting
- Platform
- Other



- **Group operating revenue** grew 28% YOY or 25% in constant currency
- **Core accounting revenues** grew 27% YOY or 24% in constant currency, driven by subscriber growth and price changes
- **Platform revenues** increased by 26% YOY or 25% in constant currency
- **Other revenues** increased 44% YOY or 7%, excluding Xerocon revenue

# Core components of platform revenue



1. Total invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform

2. Employee users of Planday

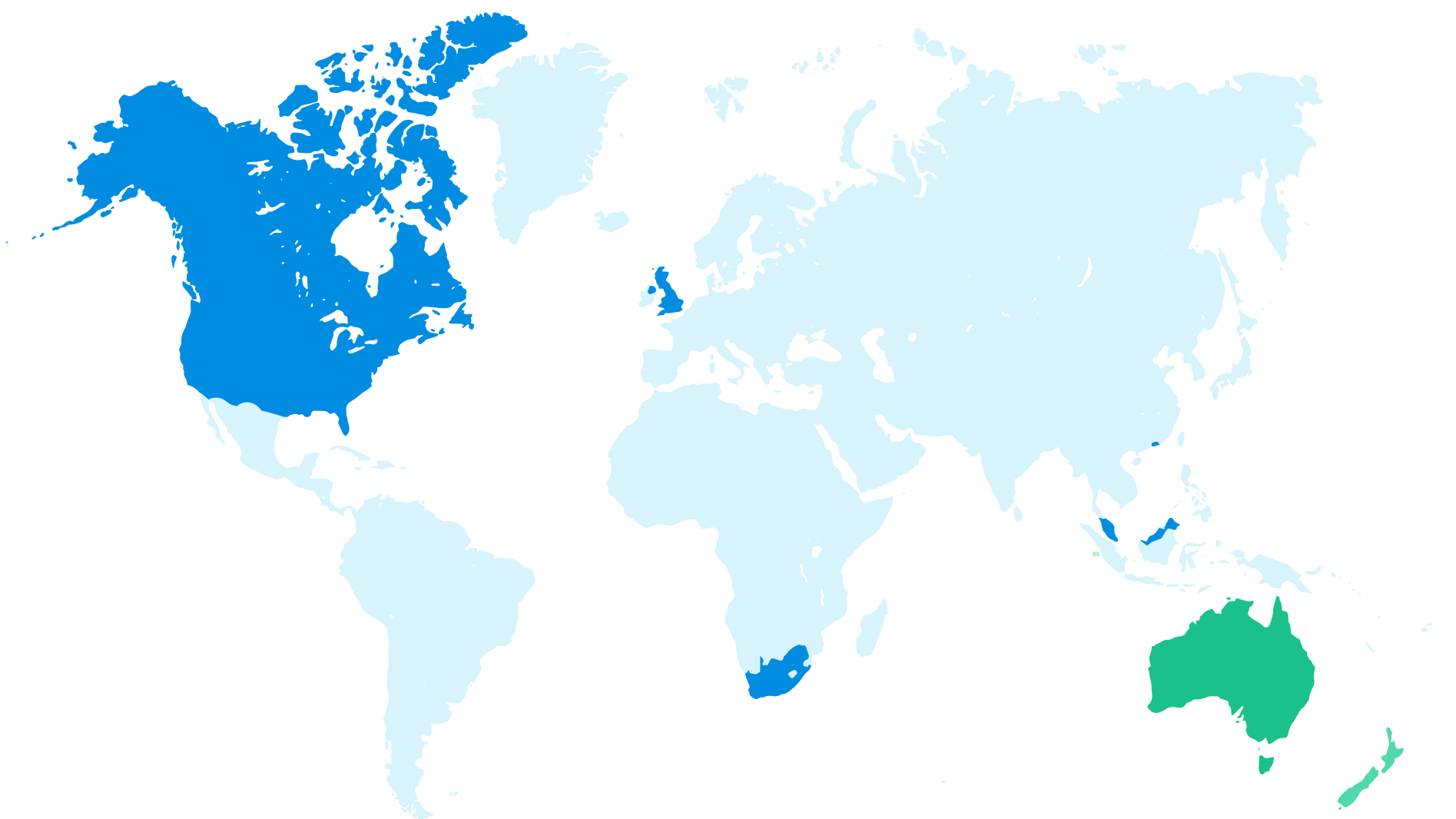
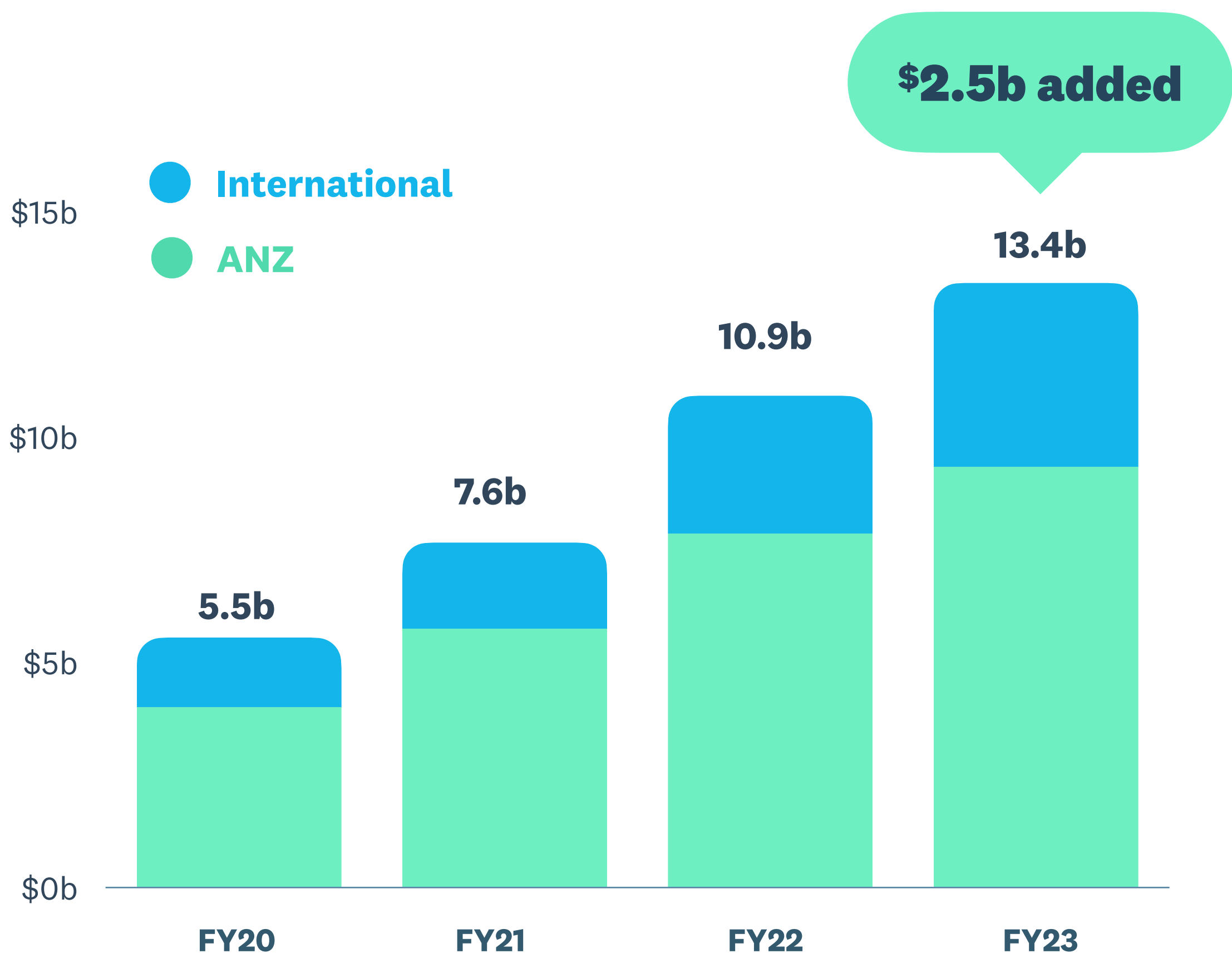
3. Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)



# SaaS metrics reflect consistent value creation

## Total LTV over time

- LTV 3 year CAGR 33% for ANZ and 38% for International
- Average subscriber lifetime of 9.3 years

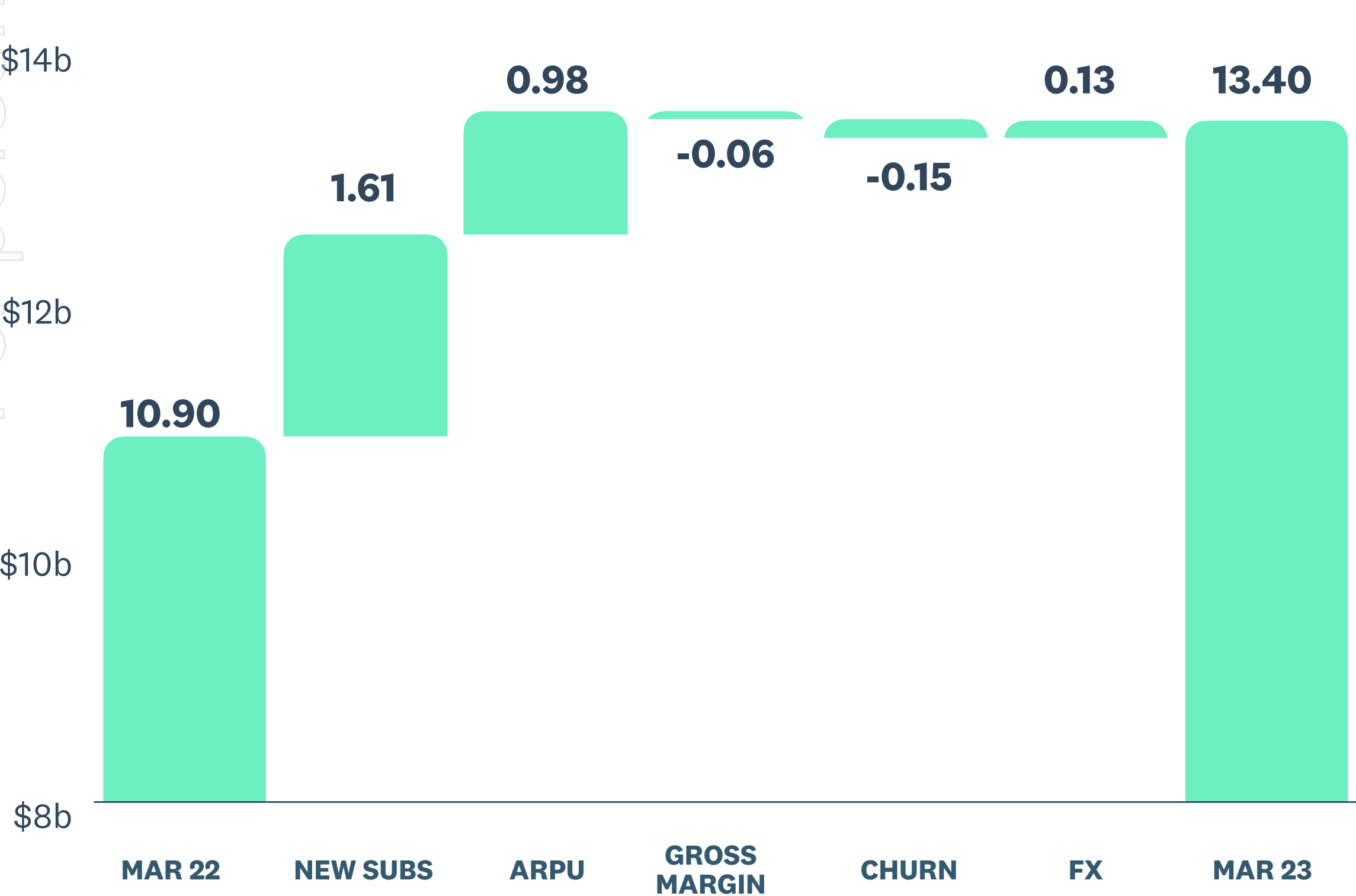


	ANZ	International	Group
ARPU	\$34.24	\$35.10	\$34.61
Churn	0.68%	1.21%	0.90%
LTV/CAC	14.0	3.1	6.5

# Continued uplift in lifetime value of subscribers

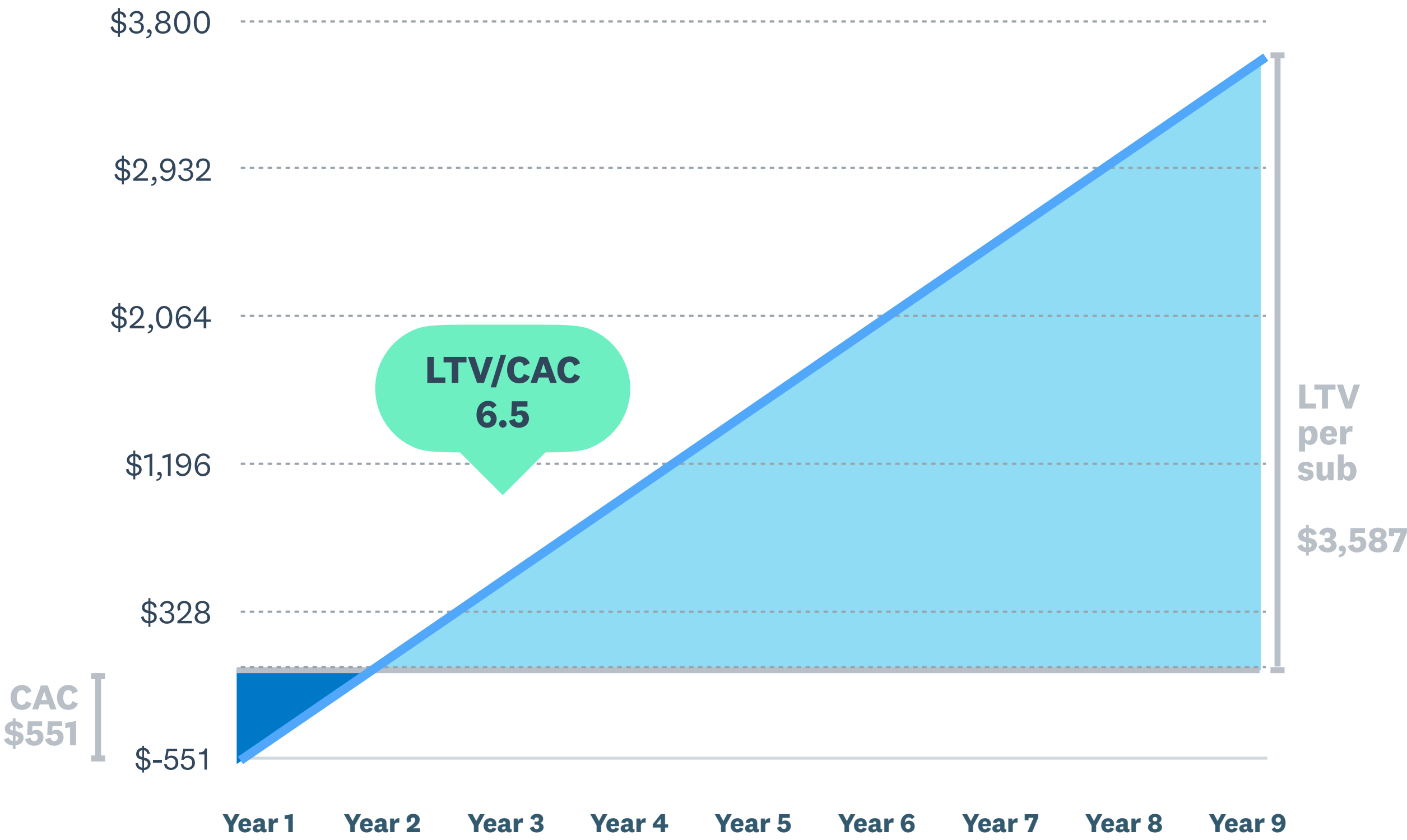
## LTV movements by driver

From 31 March 2022 to 31 March 2023



## Value of a Xero subscriber

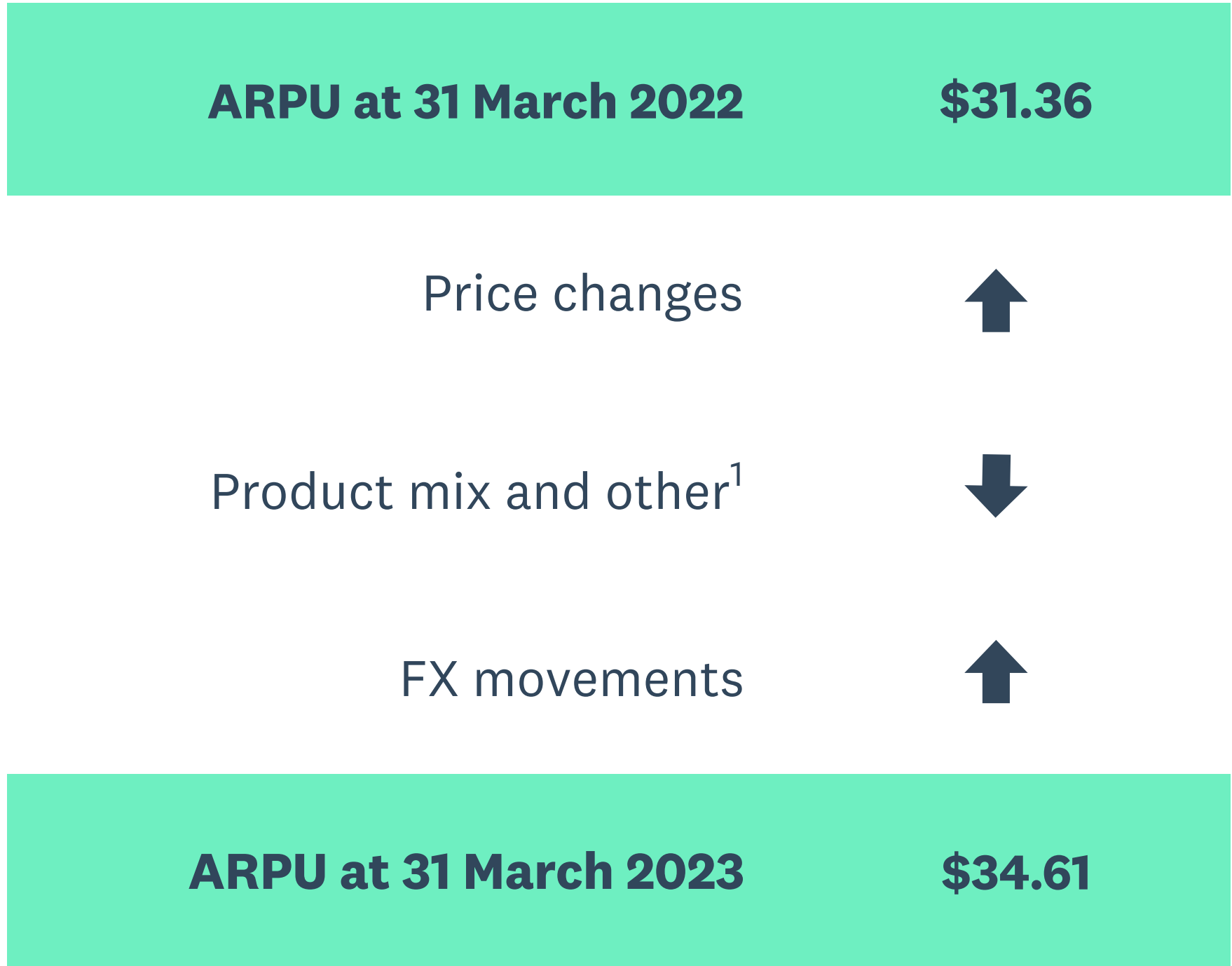
At 31 March 2023



# Higher ARPU, continued low churn

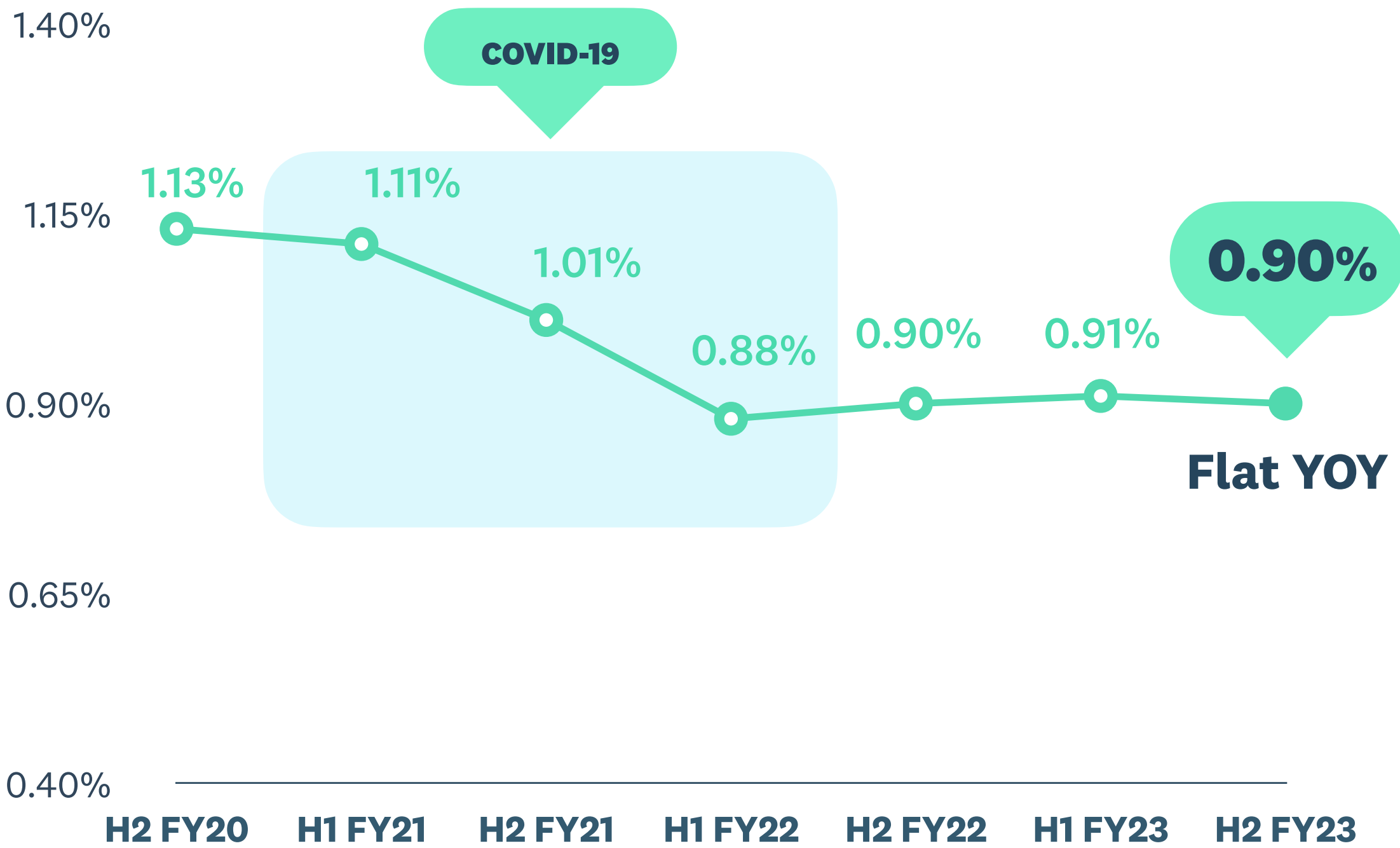
## ARPU movement contributors

ARPU has increased by \$3.25 since 31 March 2022



## Churn

Churn has remained consistently below pre-COVID-19 pandemic levels

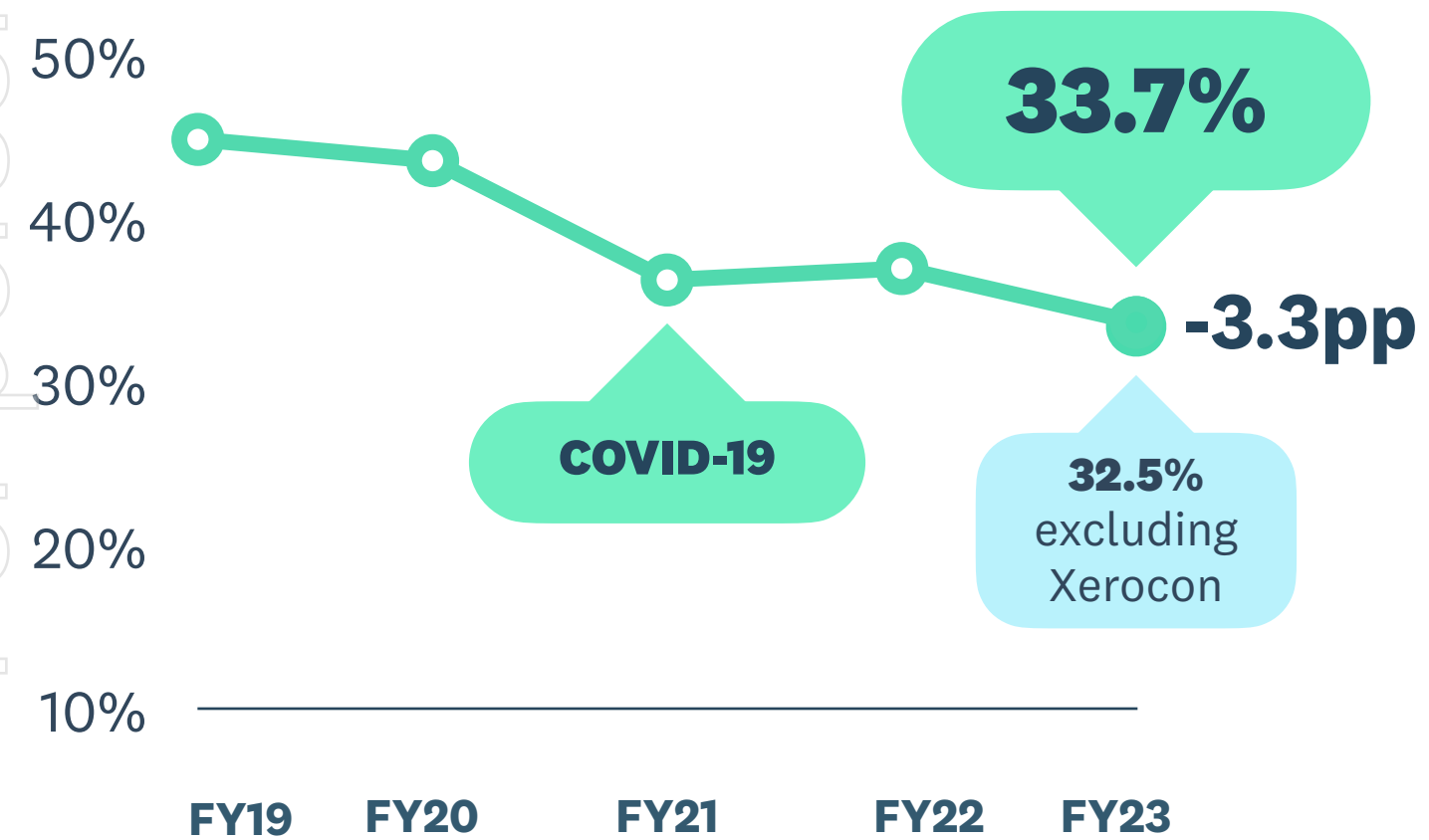


1. Other includes platform revenues



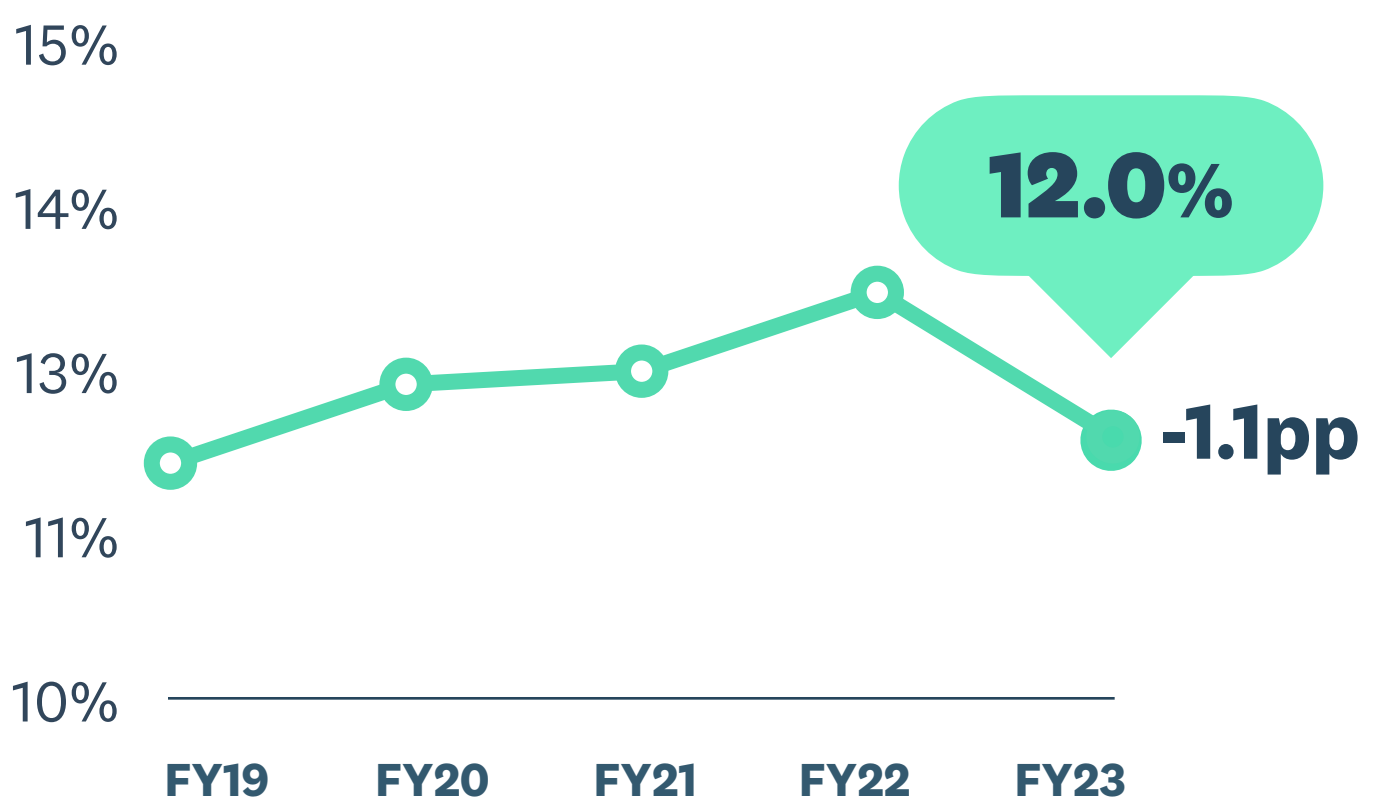
# Balancing cost discipline with long term investment

## Sales & marketing as a % of revenue



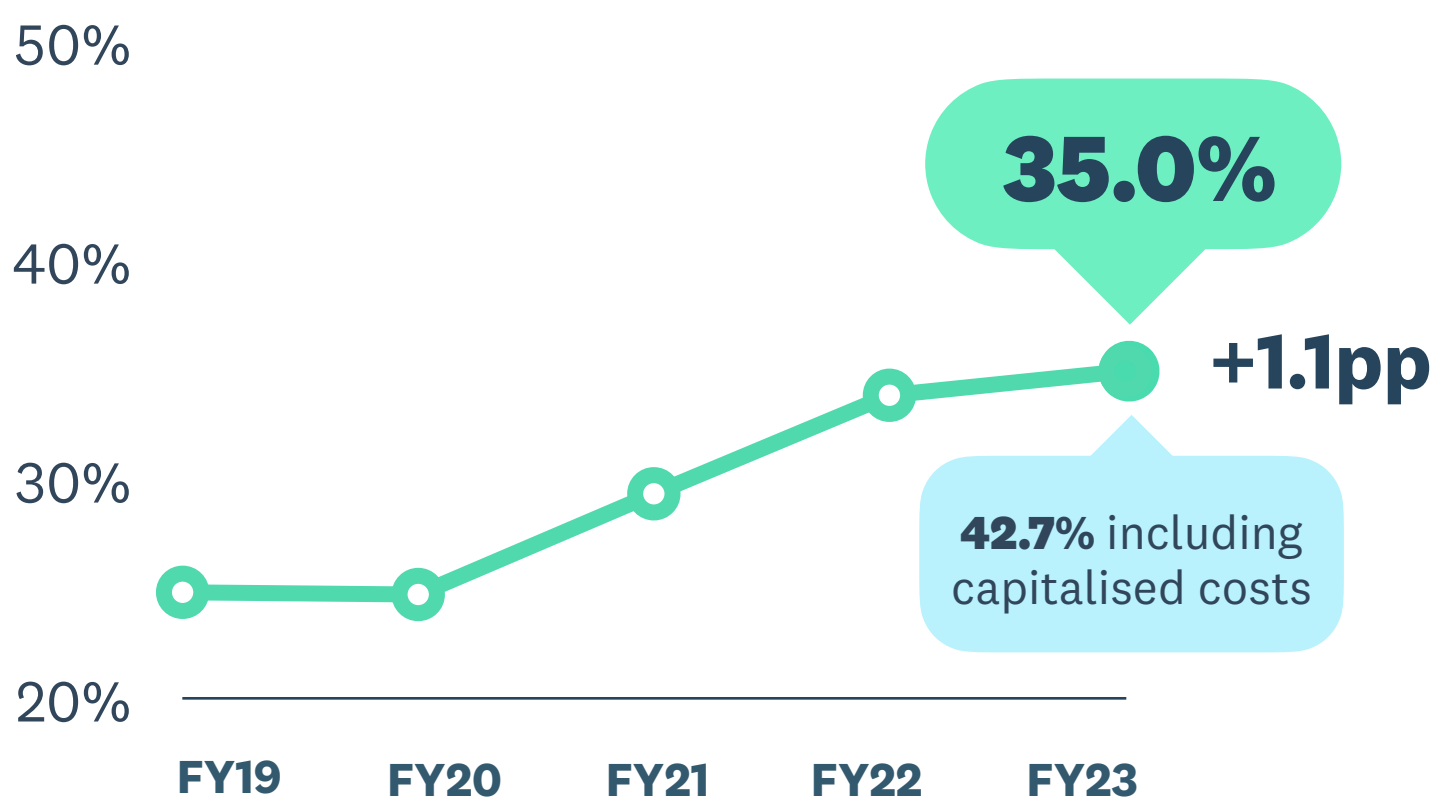
Sales and marketing costs increased by 16% YOY which was lower than the growth in operating revenue in FY23. This resulted in a 3.3pp improvement in CAC as a percentage of revenue. Excluding Xerocon, this ratio falls to 32.5% of revenue

## General & administration as a % of revenue



General and administration costs increased by 17% YOY which was lower than the growth in operating revenue in FY23. This resulted in 1.1pp improvement in G&A as a percentage of revenue YOY

## Product design & development as a % of revenue



Product design and development costs increased 32% YOY, higher than the growth in operating revenue in FY23. This reflected continued investment in global product innovation and platform delivery while managing inflationary cost pressures. This resulted in a 1.1pp increase in these costs as a percentage of revenue YOY

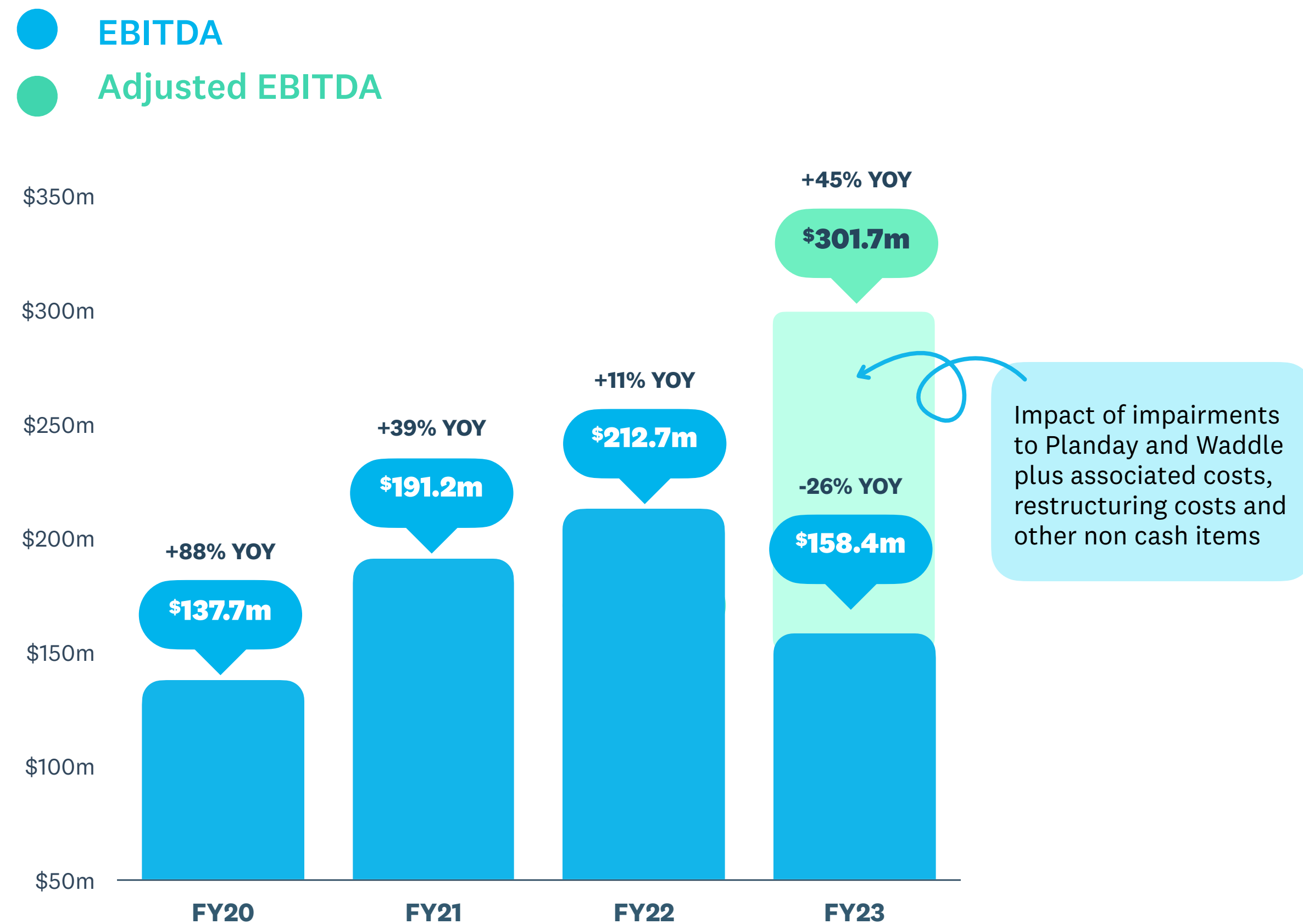
# Strong operating performance

	FY22 (\$000s)	FY23 (\$000s)		FY22 (\$000s)	FY23 (\$000s)	Δ YOY (%)
<b>EBITDA</b>	212,661	<b>158,399</b>	Total operating revenue	1,096,819	<b>1,399,884</b>	28%
Add back: restructuring costs	-	<b>34,692</b>	Cost of revenue	(139,388)	<b>(177,943)</b>	28%
Add back: Non-cash impairments of Planday	-	<b>77,927</b>	Gross profit	957,431	<b>1,221,941</b>	28%
Add back: Non-cash impairments and other costs relating to the exit of Waddle	<b>22,122</b>	<b>48,527</b>	<b>Gross margin</b>	<b>87.3%</b>	<b>87.3%</b>	<b>0.0pp</b>
Add back: Non-cash revaluations	<b>(26,063)</b>	<b>(17,856)</b>	Total operating expenses excluding restructuring costs	(921,849)	<b>(1,129,956)</b>	23%
<b>Adjusted EBITDA</b>	208,720	<b>301,689</b>	Restructuring costs	-	<b>(34,692)</b>	NM
			Total operating expenses including restructuring costs	(921,849)	<b>(1,164,648)</b>	26%
			<b>Operating Income</b>	<b>35,582</b>	<b>57,293</b>	<b>61%</b>
			Asset impairments and other income & expenses	6,392	<b>(117,090)</b>	NM
			EBIT	41,974	<b>(59,797)</b>	NM
			<b>EBITDA</b>	212,661	<b>158,399</b>	-26%
			<b>EBITDA margin</b>	<b>19.4%</b>	<b>11.3%</b>	<b>-8.1pp</b>
			<b>Net loss</b>	(9,114)	<b>(113,532)</b>	NM

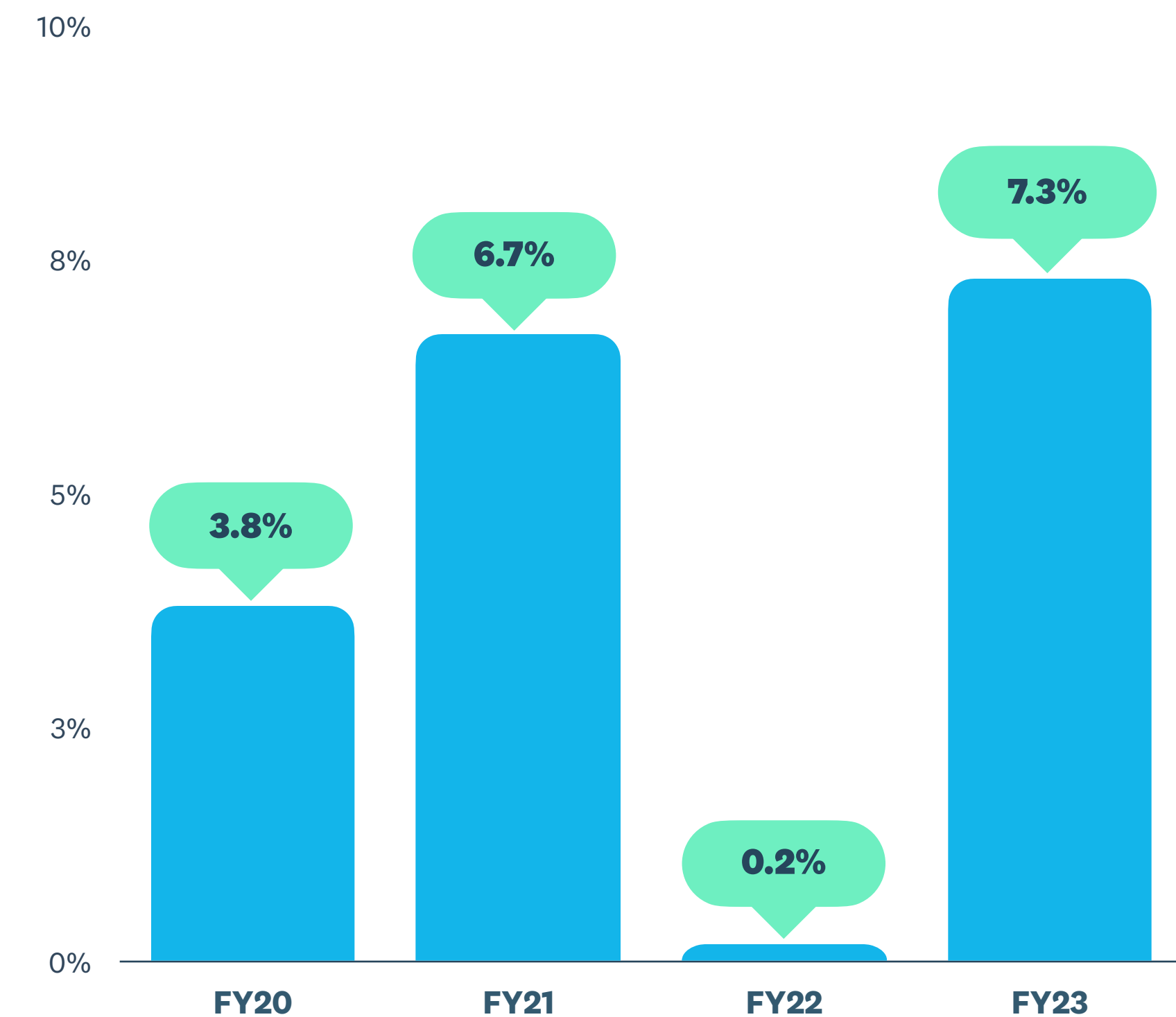
- **Operating income** is a non GAAP financial measure that has been included to demonstrate the operating performance of the business. Xero defines operating income as gross profit (total operating revenue less cost of revenue) less total operating expenses
- **EBITDA** impacted by impairments to Planday and Waddle, restructuring costs and other non-cash items. **Adjusted EBITDA** provides a view on underlying business performance and is calculated by adding back certain non-cash, revaluation and other accounting adjustments and charges to EBITDA

# Strong operating result drives free cash flow generation, EBITDA impacted by impairments and restructuring

## EBITDA and Adjusted EBITDA



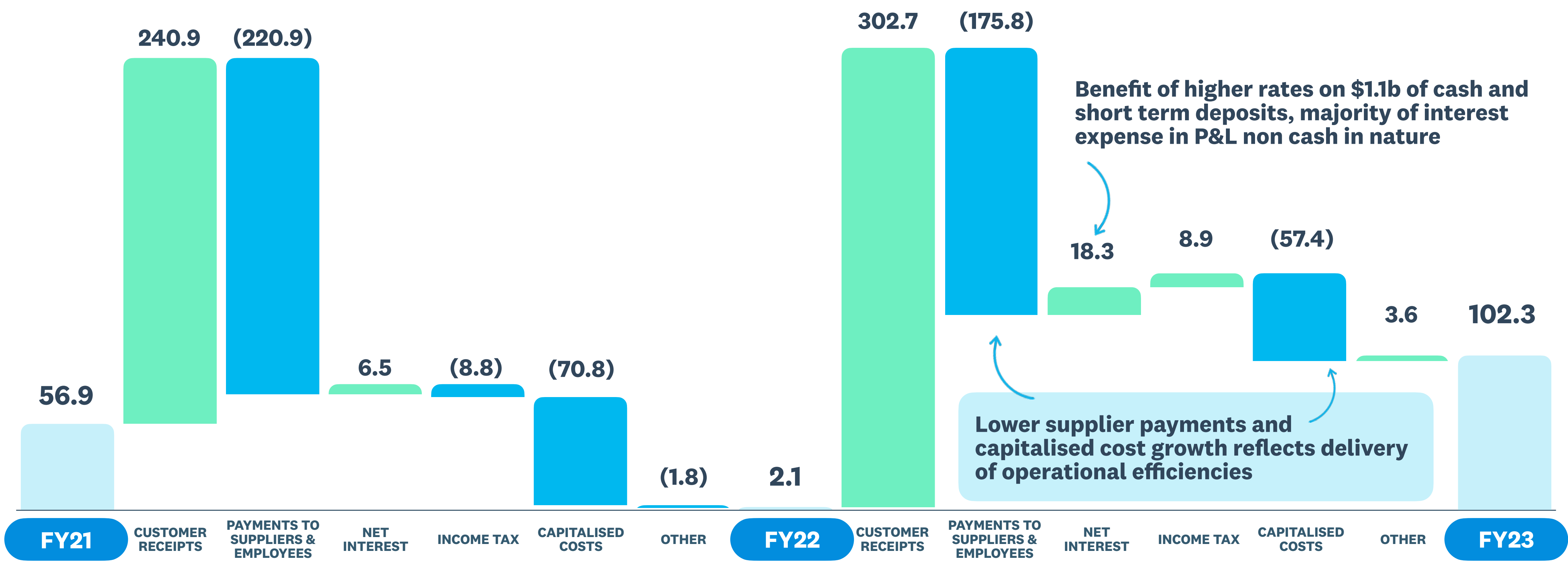
## Free Cash Flow Margin





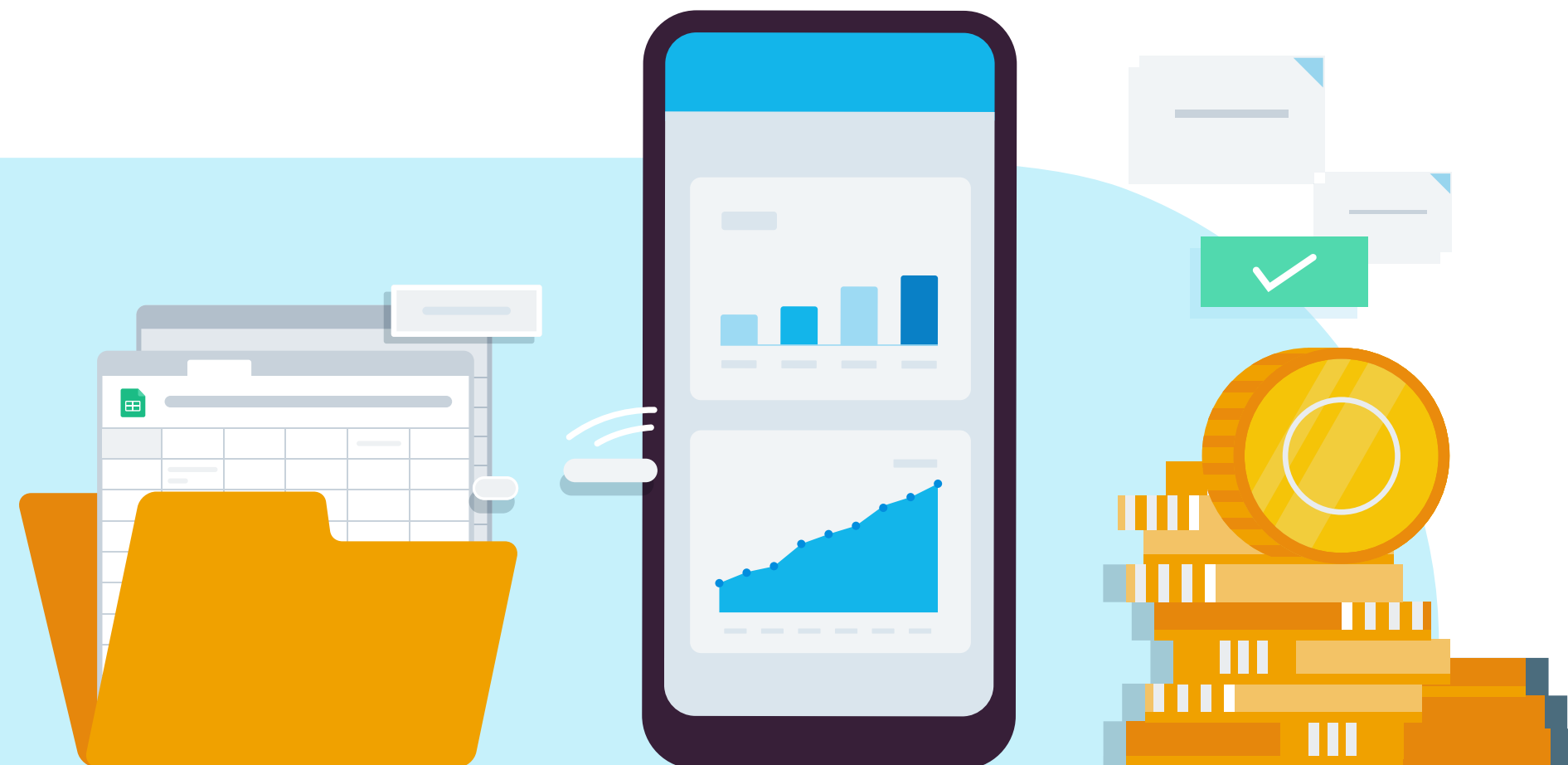
# Improved Free Cash flow generation in FY23

Movements in Free Cash Flow (\$ million)



# Total liquid resources of \$1.1 billion

- Net cash position increased by \$46.2m YOY to \$97.4m at 31 March 2023
- Total available liquid resources at 31 March of \$1.1bn
- Change in convertible note carrying value due to USD/NZD exchange rate movements
- Improved positive free cash flow contributed to improved net cash position YOY



## Movement in net cash position

	FY22 (\$000s)	FY23 (\$000s)	Δ YOY (\$000s)
Cash and cash equivalents	404,192	<b>230,624</b>	(173,568)
Short-term deposits	531,866	<b>886,563</b>	354,697
<b>Total cash and short-term deposits</b>	<b>936,058</b>	<b>1,117,187</b>	<b>181,129</b>
Convertible notes – term debt liability	(884,839)	<b>(1,019,794)</b>	(134,955)
<b>Net cash</b>	<b>51,219</b>	<b>97,393</b>	<b>46,174</b>



# Observations from new CEO and Outlook



**Sukhinder Singh Cassidy**  
CHIEF EXECUTIVE OFFICER



## Observations from new CEO

## Areas to touch on



## North America

**Continued confidence** that North America is a critical market. **Xero is providing value** to partners and small businesses. Doing a **deeper review on current execution and strategy** against the opportunity



## Planday

**Impairment** of \$77.9m mainly reflects a **reduction in market valuation multiples along with an element of operational performance**. Year of **transition**: Opportunity with **new CEO, AU product launch**, and focus on the **small business segment**



## Modernisation

Continued **multi year journey** which will help us modernise, drive greater productivity and **realise further efficiency**, balanced with near term delivery to **add customer value** and benefits for the long term



# Key Themes

## Observations from new CEO

### Well positioned for significant long term opportunity

- The **long term opportunity for cloud accounting adoption is significant** across our portfolio of businesses (**TAM of 45m<sup>1</sup>**) and we are well positioned

### Multiple levers for growth available to Xero

- We have multiple levers to deliver growth including **deepening customer engagement** and driving **further cloud accounting adoption**

### We will be more disciplined and customer focused in the way we manage resources and capital

- We will become **more focused on customers**, we will **be more dynamic in short term** capital allocation, and **more measured on long term** investment and returns
- We will be **more balanced** and look to **Rule of 40<sup>2</sup>** as a useful performance evaluation measure in managing the balance of growth and profitability

1. Estimated TAM across English speaking cloud accounting markets that Xero has a presence in, based on publicly available data of number of small businesses

2. Rule of 40 is defined as the sum of annual revenue growth percentage and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

Observations from new CEO



# Well positioned for significant long term opportunity

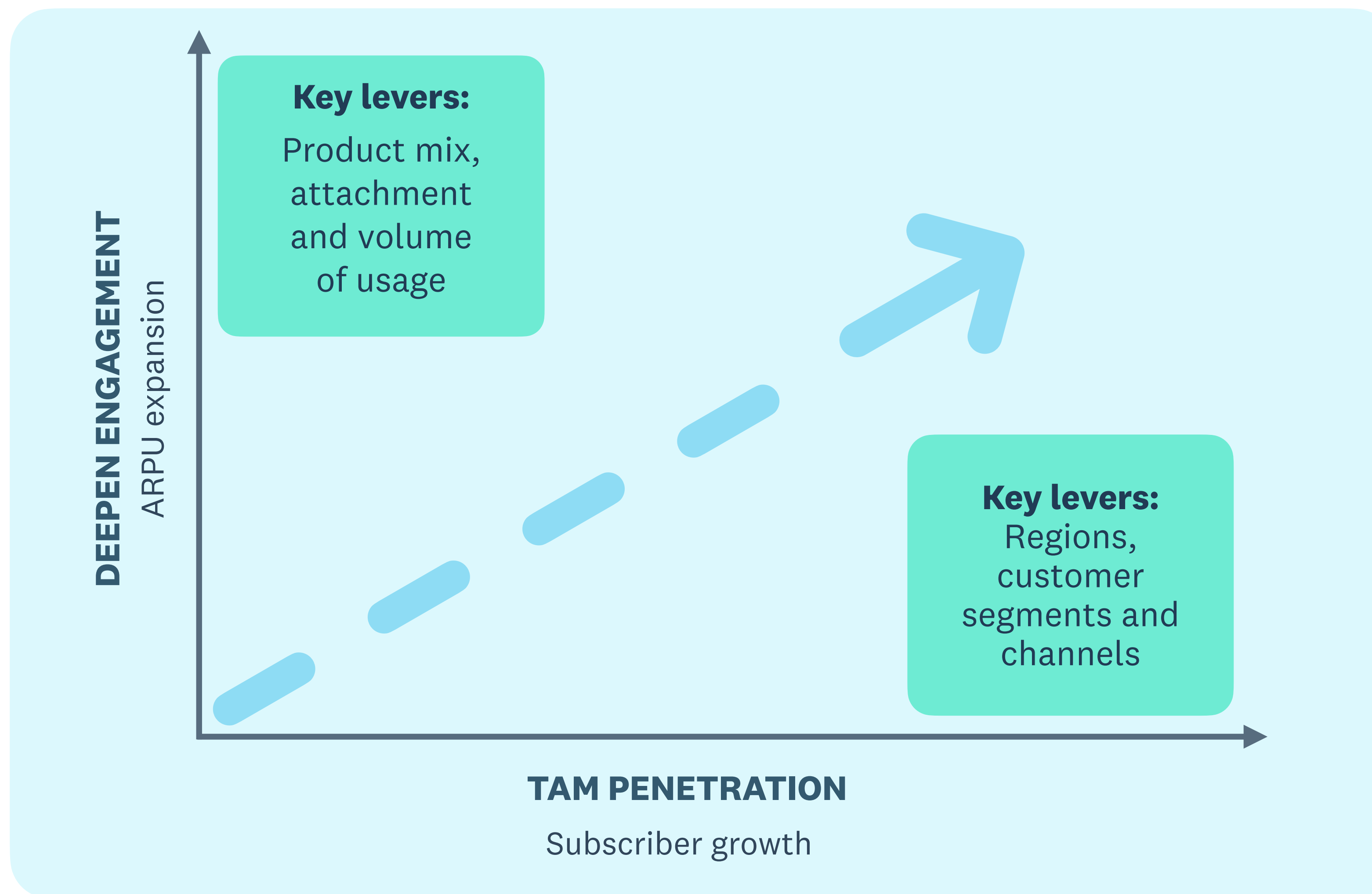
The long term opportunity for cloud accounting adoption is significant across our portfolio of businesses (TAM of **45m<sup>1</sup>**). We are well positioned and have multiple levers to deliver growth including deepening customer engagement and driving further cloud adoption

Subscribers	Australia				New Zealand		United Kingdom		North America		Rest of World	
	FY23	Δ YOY	FY23	Δ YOY	FY23	Δ YOY	FY23	Δ YOY	FY23	Δ YOY	FY23	Δ YOY
	1.57m	+17%	567k	+11%	970k	+14%	384k	+13%	254k	+12%		
TAM: 45m <sup>1</sup>	3.7m				5.5m		34.5m		1.3m			
	ANZ: leads the world in small business cloud accounting adoption and continues to demonstrate strong growth. The attractive unit economics we generate in this well developed market reflects the strength of the Xero franchise				UK: Changes to our partner sales approach in the UK have been bedded down and we are confident in the growth opportunity ahead of us		North America: Growth market with room for multiple winners, doing a deeper review on execution and strategy		Rest of World: Amalgamation of small emerging businesses, South Africa and Singapore are key markets			

1. Estimated TAM across English speaking cloud accounting markets that Xero has a presence in, based on publicly available data of number of small businesses

Observations from new CEO

# Multiple levers for growth available to Xero<sup>1</sup>



1. Chart included is for illustrative purposes only

# We will be more disciplined and customer focused in the way we manage resources and capital to grow

## Being more focused...

...on serving our customers and adding value for them



## Being more dynamic...

...in our short term allocation of resources to maximise yield



## Being more measured...

...and clear on our investment returns to drive long term value creation for shareholders



## Being more balanced...

...Xero will look to “**Rule of 40**” as a useful performance evaluation measure in managing the balance of growth and profitability<sup>1</sup>



1. Rule of 40 is defined as the sum of annual revenue growth percentage and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

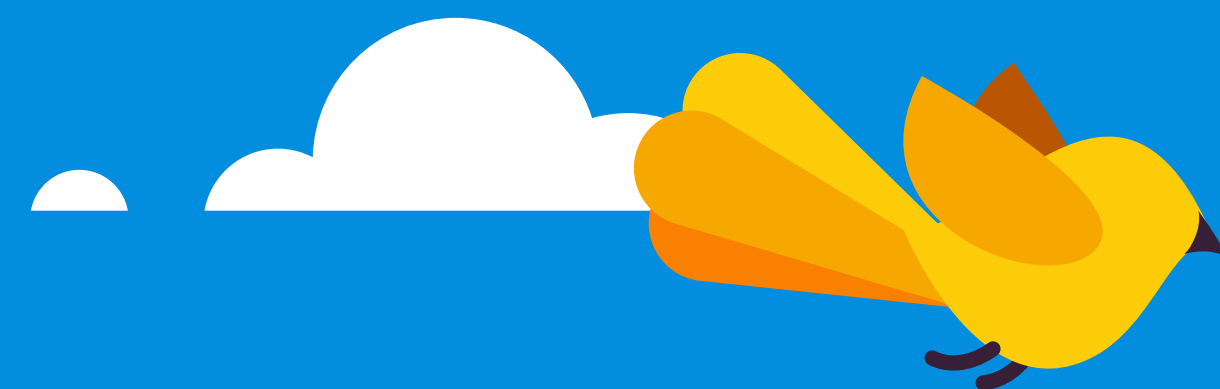


# Outlook









Xero will seek to balance growth and profitability in its approach to capital allocation, subject to investment criteria and market conditions, to drive long-term shareholder value

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



# Evolution of Xero's financial profile

EXPENSE RATIO	FY23	FY24 EXPECTATION	LONG TERM ASPIRATION	
SALES & MARKETING	33.7% of revenue	Expected ratio trend vs FY23: Flat to down		
PRODUCT DESIGN & DEVELOPMENT	35.0% of revenue	Expected ratio trend vs FY23: Down		
GENERAL & ADMINISTRATION	12.0% of revenue	Expected ratio trend vs FY23: Down		
TOTAL OPERATING EXPENSES	80.7% <sup>1</sup> of revenue	Along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%		

1. Excluding \$34.7m of restructuring costs



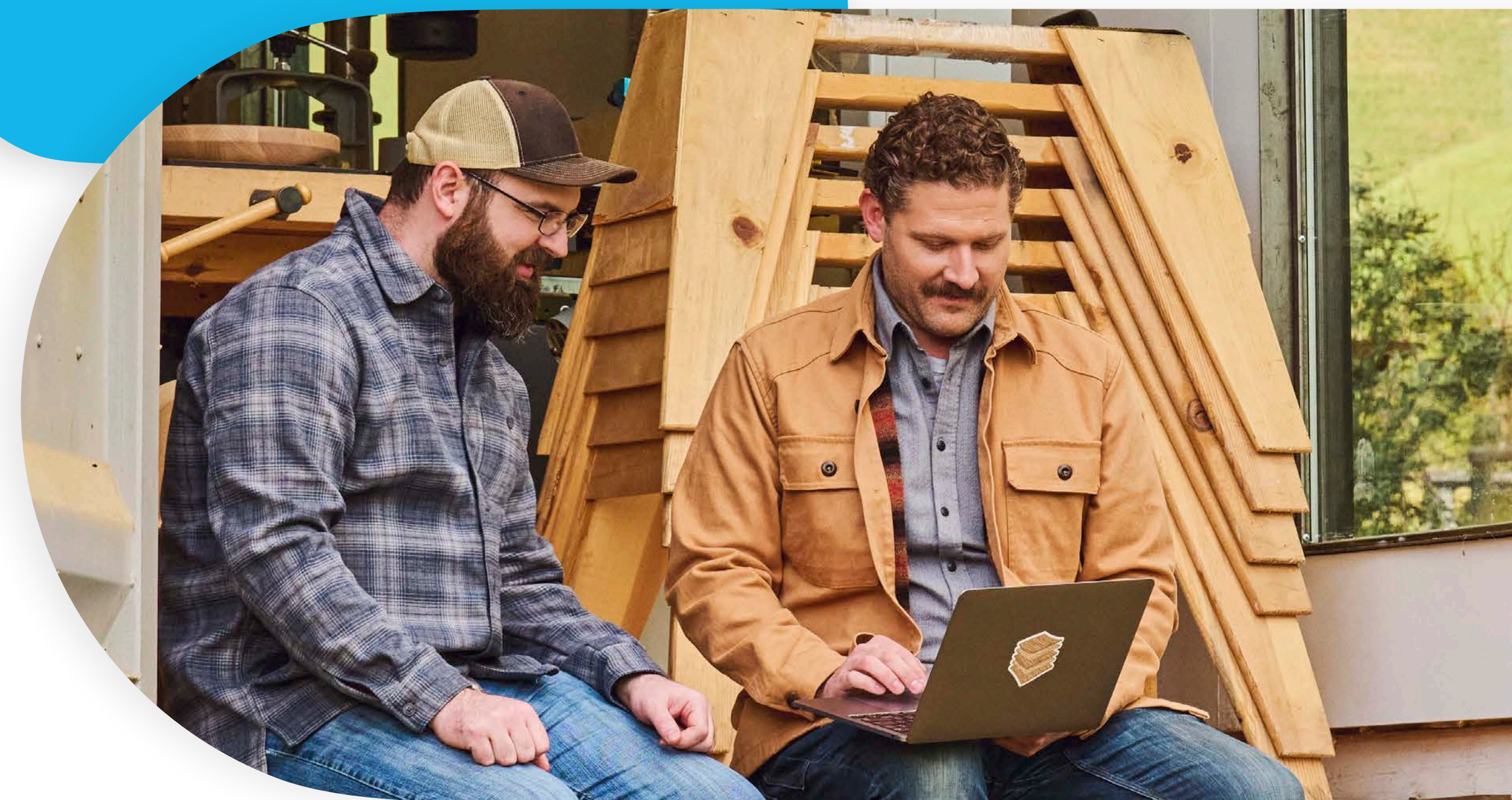
# Q&A



**Sukhinder Singh Cassidy**  
CHIEF EXECUTIVE OFFICER

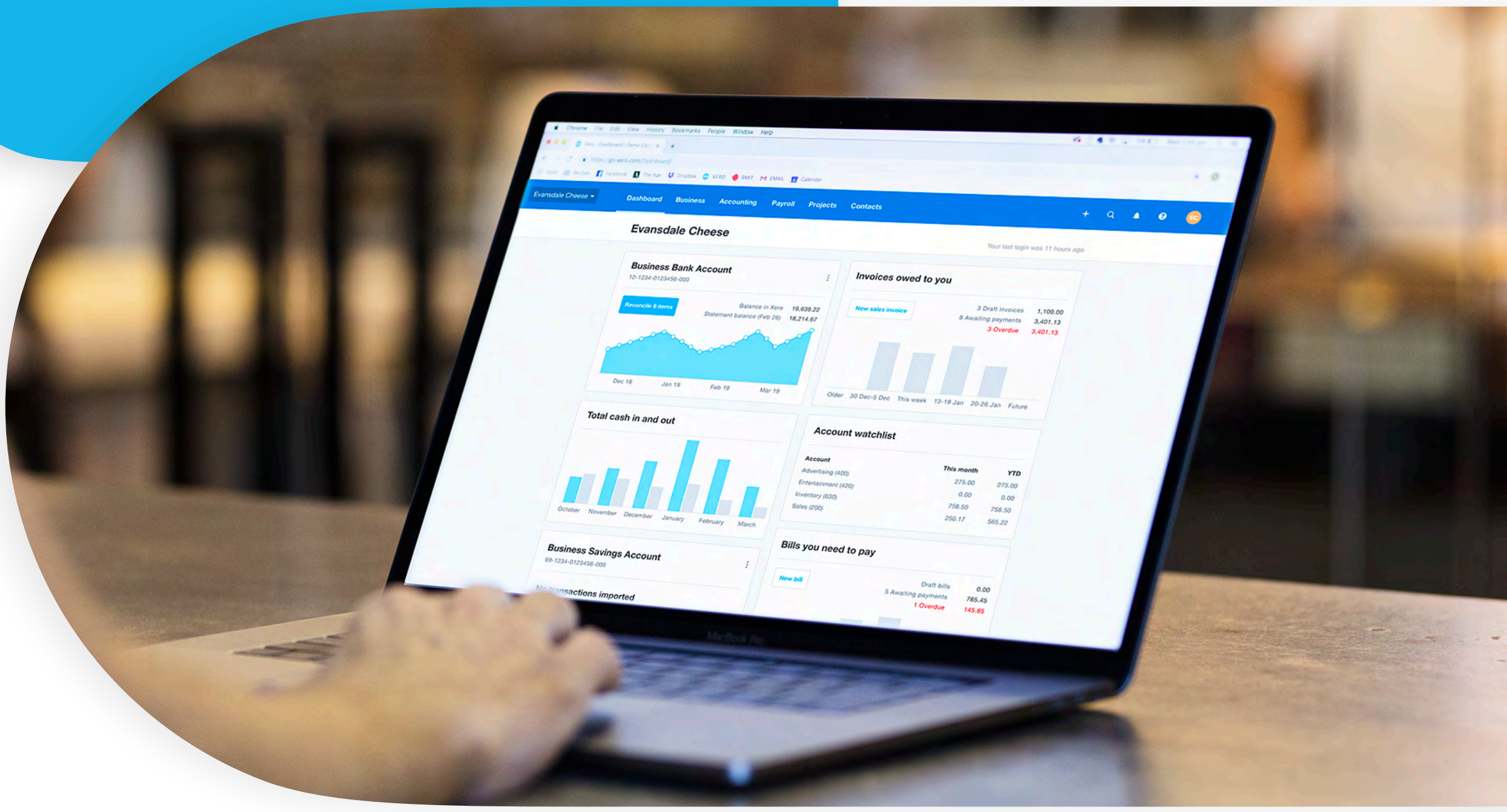


**Kirsty Godfrey-Billy**  
CHIEF FINANCIAL OFFICER





# Appendix





# FY23: Strong operating performance; EBITDA impacted by impairments and restructuring

Financial and operating performance highlights for the year ended 31 March 2023

## SUBSCRIBERS

**3.741m**

+ **470,000** net subscriber additions or 14% YOY

## ARPU

**\$34.61**

+ **10% YOY** (8% in constant currency)

## OPERATING REVENUE

**\$1,399.9m**

+ **28% YOY** (25% in constant currency)

## OPERATING INCOME

**\$57.3m**

+ **61% YOY**

## EBITDA

**\$158.4m**

- **\$54.3m YOY**

## ADJUSTED EBITDA

**\$301.7m**

+ **\$93.0m YOY**

## NET LOSS

**-\$113.5m**

(\$104.4m) YOY

## FREE CASH FLOW

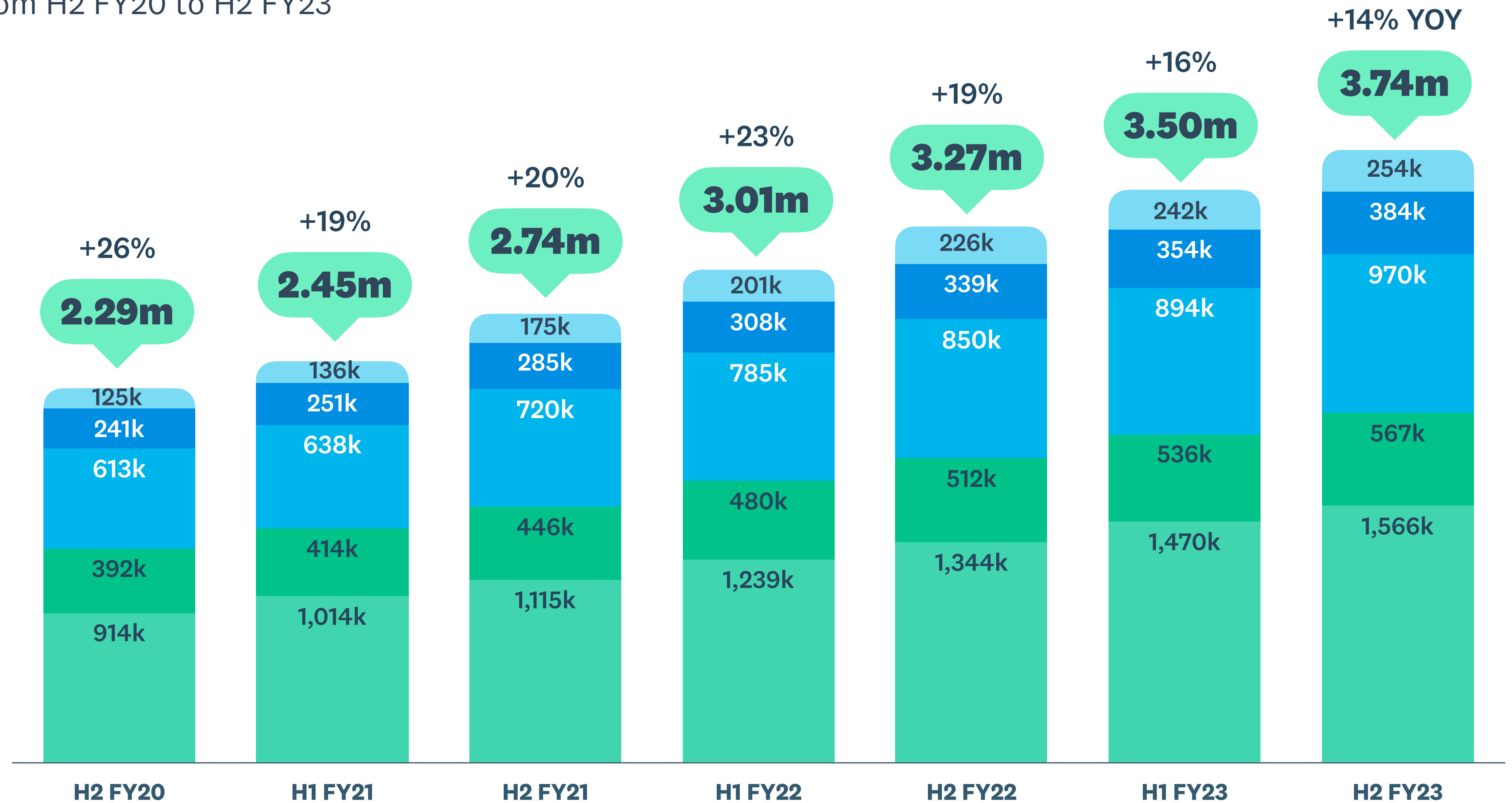
**\$102.3m**

+ **\$100.2m YOY**

# Subscriber growth trend

Closing subscribers from H2 FY20 to H2 FY23

- Australia
- New Zealand
- United Kingdom
- North America
- Rest of World



# SaaS metrics summary

	ANZ				International				Group			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
ARPU	\$29.83	\$31.23	\$32.00	\$34.24	\$30.05	\$26.74	\$30.53	\$35.10	\$29.93	\$29.30	\$31.36	\$34.61
CAC months	9.7	8.9	8.8	9.1	18.1	22.4	22.9	23.3	14.0	14.8	15.5	15.9
Churn	0.84%	0.73%	0.66%	0.68%	1.59%	1.43%	1.23%	1.21%	1.13%	1.01%	0.90%	0.90%
Subscribers	1,306,000	1,561,000	1,856,000	2,133,000	979,000	1,180,000	1,415,000	1,608,000	2,285,000	2,741,000	3,271,000	3,741,000
Net additions	229,000	255,000	295,000	277,000	238,000	201,000	235,000	193,000	467,000	456,000	530,000	470,000
LTV per sub	\$3,058	\$3,682	\$4,225	\$4,374	\$1,573	\$1,608	\$2,164	\$2,542	\$2,422	\$2,789	\$3,333	\$3,587
LTV/CAC	10.6	13.2	14.9	14.0	2.9	2.7	3.1	3.1	5.8	6.4	6.9	6.5
Total LTV	\$3.99b	\$5.75b	\$7.84b	\$9.33b	\$1.54b	\$1.90b	\$3.06b	\$4.09b	\$5.53b	\$7.65b	\$10.90b	\$13.42b

# Financial performance

Overview of financial performance from H2 FY21 to H2 FY23

	H2 FY21 (\$000s)	H1 FY22 (\$000s)	H2 FY22 (\$000s)	H1 FY23 (\$000s)	H2 FY23 (\$000s)
Total operating revenue	438,945	505,703	591,116	658,512	741,372
Gross profit	378,728	440,417	517,014	572,912	649,029
Gross margin	86.3%	87.1%	87.5%	87.0%	87.5%
Sales & marketing costs	(177,198)	(189,017)	(216,636)	(238,980)	(232,851)
Percentage of operating revenue	40.4%	37.4%	36.6%	36.3%	31.4%
Product design & development	(138,878)	(166,833)	(205,191)	(230,710)	(259,338)
Percentage of operating revenue	31.6%	33.0%	34.7%	35.0%	35.0%
General & administration	(59,428)	(66,144)	(78,028)	(82,501)	(85,576)
Percentage of operating revenue	13.5%	13.1%	13.2%	12.5%	11.5%
Total operating expenses excluding restructuring costs	(375,504)	(421,994)	(499,855)	(552,191)	(577,765)
Percentage of operating revenue	85.5%	83.4%	84.6%	83.9%	77.9%
Restructuring costs	-	-	-	-	(34,692)
Total operating expenses including restructuring costs	(375,504)	(421,994)	(499,855)	(552,191)	(612,457)
Percentage of operating revenue	85.5%	83.4%	84.6%	83.9%	82.6%
Operating Income	3,224	18,423	17,159	20,721	36,572
Asset impairments	-	(2,898)	(21,797)	(26,532)	(96,148)
Other income & expenses	(1,226)	1,398	29,689	12,188	(6,598)
EBIT	1,998	16,923	25,051	6,377	(66,174)
EBITDA	70,463	98,080	114,581	108,551	49,848
EBITDA margin	16.1%	19.4%	19.4%	16.5%	6.7%
Net profit/(loss)	(14,712)	(5,922)	(3,192)	(16,130)	(97,402)



# Exchange rates

The table below outlines the principal exchanges rates used in the current and prior period

*Full year ended/  
as at 31 March*

**2023**

**2022**

Average rate

Closing rate

Average rate

Closing rate

NZD / AUD

**0.912**

**0.934**

**0.943**

**0.929**

NZD / CAD

**0.825**

**0.847**

**0.873**

**0.870**

NZD / EUR

**0.599**

**0.574**

**0.600**

**0.625**

NZD / GBP

**0.518**

**0.505**

**0.510**

**0.531**

NZD / SGD

**0.857**

**0.831**

**0.940**

**0.943**

NZD / USD

**0.624**

**0.626**

**0.697**

**0.697**



# Glossary

## Adjusted EBITDA

Adjusted EBITDA (a non-GAAP financial measure) is provided as Xero believes it provides useful information for users to understand and analyse the underlying business performance. Adjusted EBITDA is calculated by adding back net finance expense, depreciation and amortisation, and income tax expense, as well as certain non-cash, revaluation and other accounting adjustments and charges to net profit/(loss)

## AMRR

Annualised monthly recurring revenue (AMRR) represents monthly recurring revenue at 31 March, multiplied by 12. It provides a 12 month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing and foreign exchange remain unchanged during the year

## ARPU

Average revenue per user (ARPU) is calculated as AMRR at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view)

## CAC months

Customer Acquisition Cost (CAC) months are the months of ARPU to recover the cost of acquiring each new subscriber. The calculation represents the sales and marketing costs for the year, excluding the capitalisation and amortisation of contract acquisition costs, less Xerocon revenue, divided by gross new subscribers added during the same period, divided by ARPU

## CAGR

Compound annual growth rate

## Churn

Churn is the value of monthly recurring revenue (MRR) from subscribers who leave Xero in a month as a percentage of the total MRR at the start of that month. The percentage provided is the average of the monthly churn for the previous 12 months. Average subscriber lifetime is calculated as one divided by churn

## Constant currency (cc)

Constant currency comparisons for revenue are based on average exchange rates for the 12 months ended 31 March 2023. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 31 March 2023

## Core accounting revenue

Core accounting revenue comprises subscription based revenue to Xero’s cloud-based platform, including any revenue for products that are bundled into subscription plans (such as Hubdoc and Payroll in some regions)

## Free cash flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets

## GAAP

Generally accepted accounting principles

## Lifetime value (LTV)

LTV is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (1 divided by churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by their respective segment subscribers, divided by total Group subscribers

## Liquid resources

Liquid resources comprises cash and cash equivalents, short-term deposits including proceeds from convertible notes, and undrawn committed debt facilities

## Operating Income

Operating income is a non-GAAP financial measure that has been included to demonstrate the operating performance of the business. Xero defines operating income as total operating revenue less cost of revenue less total operating expenses

## Other revenue

Other revenues comprises non-recurring revenues and WorkflowMax. Non-recurring revenues include revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services. WorkflowMax is online workflow and job management software

## Platform revenue

Platform revenues include revenue derived from related services, including adjacent products (such as Hubdoc subscriptions on other accounting platforms) and add-ons with incremental revenue (such as Payroll, Projects and Expenses modules), and payments and revenue share agreements with partners

## Subscribers

Subscriber means 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

## TAM

Total addressable market



# Contact

**Nicole Mehalski**

INVESTOR RELATIONS

---

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

+61 400 947 145

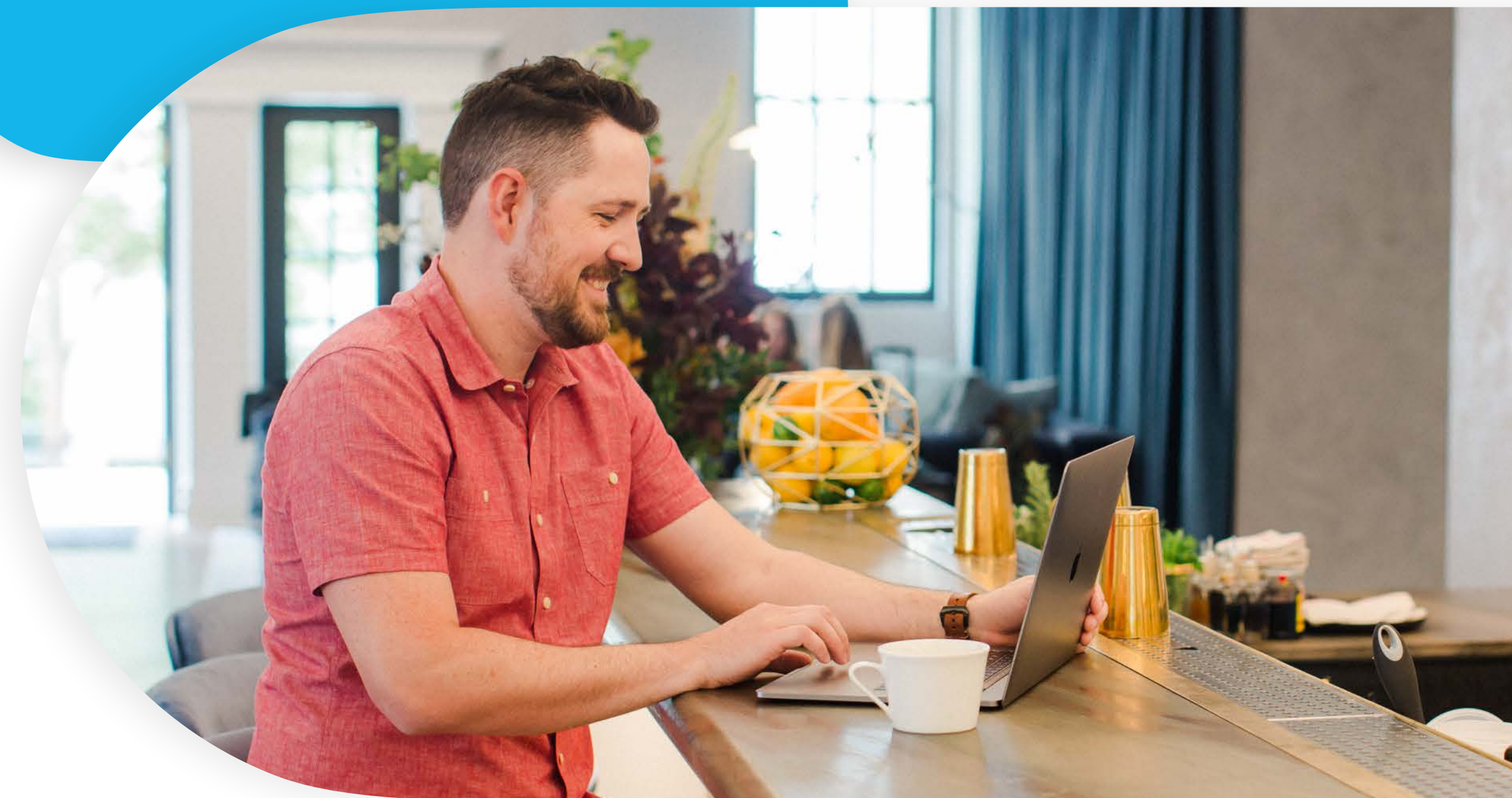
**Kate McLaughlin**

COMMUNICATIONS

---

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

+64 27 533 4529







Beautiful business

[xero.com/investors](https://xero.com/investors)