

ASX Announcement/Press Release: 18th July 2023
Xref Limited (ASX: XF1)

Xref FY2023 Business Update and FY2024 Outlook

- Group sales \$21.3m up 2.6% and Group revenue \$20.6m up 11% on FY22
- ARR grew 430% to \$5.6m as a result of the new SaaS subscription model
- Investment into product increased total expenses to \$20.6m
- Enterprise Platform launched and 1,000 users are now active
- Successful acquisition of Voice Project lead to the launch of Xref Engage
- A small operating cash surplus for the full year
- Second half now expected to record an NPAT loss
- Employee engagement at 82% and customer satisfaction at 92%

Global HR tech platform Xref (ASX:XF1) today announced its business update for the financial year 2023 as well as its outlook for the coming year. All results in this release are unaudited. The Xref FY2023 Annual Report will be released in late August.

FY23 was a year of retention and transformation while Xref endured tough global economic conditions. During the year Xref launched numerous revenue-focused platforms, products and features, transitioned successfully to a SaaS business model, commenced marketing via a new website, acquired Voice Project, and won over 160 new enterprise clients.

Xref increased investment into product innovation, employees, internal system efficiencies and strategies for long-term market awareness in readiness for the next stage of its growth when the market recovers. Xref also continued to display strong levels of staff engagement and client satisfaction and has demonstrated the ability to innovate whilst balancing costs and short term cash flow in a demanding economic climate.

During the year Xref extended its pre-employment offering with the launch of a full-service, hire-to-retire enterprise SaaS platform for employers. Xref Enterprise includes References, Pulse Surveys and Exit Surveys. As Xref expands from servicing just recruitment it is extending its total addressable market tenfold and is shifting Xref's global business model away from being solely usage-based to subscription. This will allow Xref to decouple its revenue recognition from recruiting trends. This platform will be further supported in FY24 by additional checks offered by Trust Marketplace and Advanced Engagement tools offered by Xref Engage.



A global marketplace of 3rd party checks including: ID Checks (formerly RapidID), Criminal and Working Rights.

Growth strategy:

Resell aggregated checks via the Xref Enterprise platform and other clients.

FY23 Rev: \$2.6m

Clients: 260+

Checks to date: 8m



Global platform offering reference checks, pulse surveys & exit surveys.

Growth strategy:

Offer the newly extended enterprise subscription platform to a larger addressable market.

FY23 Rev: \$16.2m

Clients: 2000+

References to date: 3.5m



Employee engagement survey and data analytics platform (formerly VoiceProject).

Growth strategy:

Offer Engagement surveys to Xref clients with an estimated employee headcount of over 6million.

H2FY23 Rev: \$1.8m

Clients: 300+

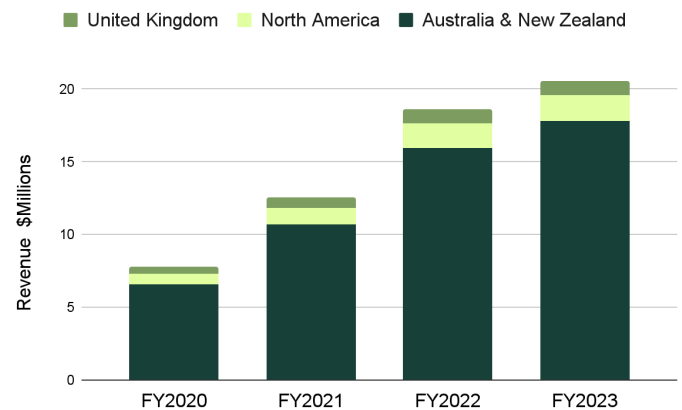
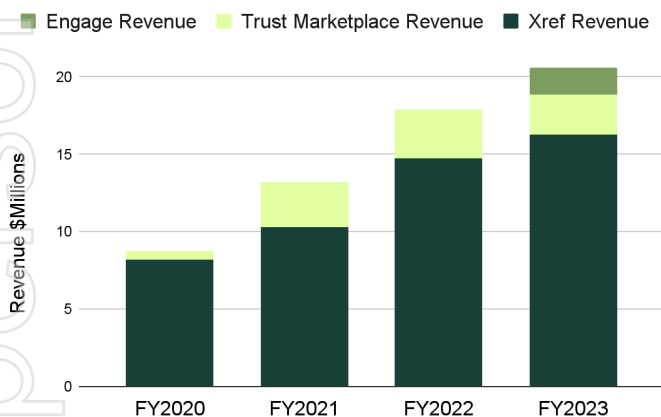
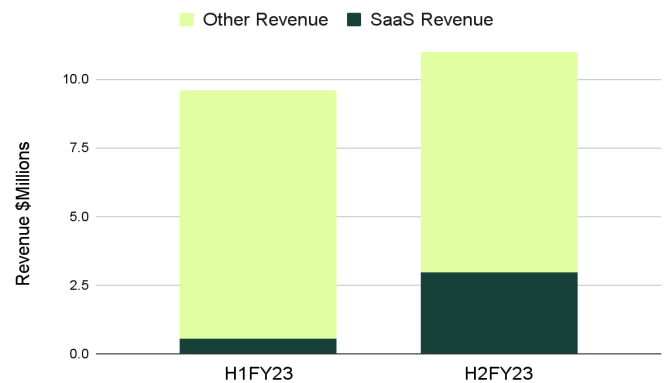
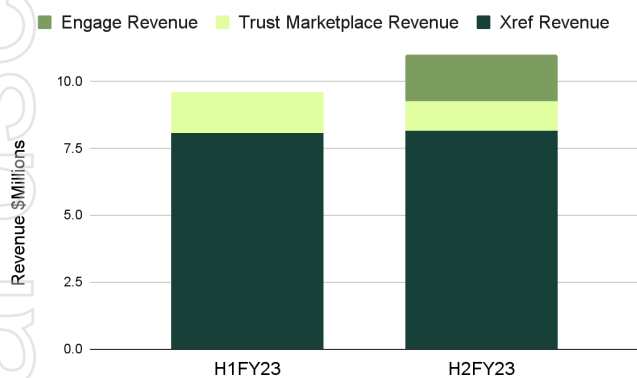
Surveys to date: 4m

Sales & Revenues

Group sales of \$21.3m were up 2.6% and revenue of \$20.6m was up 11% on FY22. The acquisition of Voice Project added \$1.9m to the sales result since acquisition in January 2023.

During the year Xref focused on transitioning clients to the new Enterprise Platform under SaaS subscription agreements. As a result, Annual Recurring Revenue (**ARR**) grew 430% during the year to \$5.6m at June 2023. This included both migrated clients from Xref Recruiter and newly won Enterprise Platform clients.

Sales from Xref and Trust Marketplace were, however, down 5% and 14% respectively when compared to FY22 as a result of the difficult global economic environment and its impact on hiring.



Expenses

Total expenses grew 27% due to strategic increases in expenditure in the following key areas:

- Voice Project - incurred \$1.3m in costs to the Group since acquisition;
- Headcount - during the year headcount rose by 42 to 114 full-time employees: 15 from the acquisition of Voice Project; 15 for the development team (of which 5 are based in Pakistan) and the remaining 12 were recruited across the operations, marketing and sales teams. Total salaries for the group were \$13.9m before capitalisation of \$2.2m related to software development projects delivered throughout the year;
- Marketing Expenses - grew by \$0.8m to increase lead flow and to launch the new products and the new Xref website; and
- Other Expenses - rent, subscriptions and platform costs increased 34% to \$3.8m to support the services required for the extended platform architecture, Voice Project and general inflationary cost increases.

The increase in expenditure was in line with the budget and was part of Xref's planned investment to support future profitable growth.

Cash Operating Surplus & Profit

A small operating cash surplus was achieved for the full year. The second half is, however, expected to record an NPAT loss reflecting slower credit usage and resultant revenue recognition during the period. Audited results will be released via the Annual Report in late August.

Customer Activity

Xref now has over 16,000 active users across its three platforms, up 8% when compared to FY22. These users are part of 2,619 active accounts which grew 7% in FY23. During the year 1,000 users across 160 accounts joined the new Xref Enterprise Platform, launched in October 2022. 47 key accounts migrated from Xref Recruiter to Enterprise during the financial year in order to access the new products and features and 94% of all newly won clients chose Xref Enterprise over Xref Recruiter.

As a result of the uncertainty in the economy, [Australian job vacancies](#) decreased by -10% during FY23 when compared to FY22. In contrast, vacancies in FY22 grew 29% when compared to FY21 as a result of the recovery following the pandemic. Despite the weaker market conditions the average references taken by Xref clients grew 5% and the number of net new clients grew 9% when compared to FY22.

The adoption of our new survey products, Pulse and Exit, was encouraging with over 3,000 Exit Surveys launched during the year as well as 50 new Pulse Surveys, in the 4 weeks since its launch in May 2023. Clients have demonstrated adoption across all products within the Enterprise Platform and are now building insights across the entire hire-to-retain journey by using Reference, Pulse and Exit simultaneously. It is expected that as a result of the launch of Pulse Surveys, Xref Engage and the coming addition of Trust Marketplace Checks in Q1FY24, the growth of new and existing clients moving onto the new platform will increase and accelerate Xref's ARR growth. Pleasingly, North America now represents 18% of the Group's active users, 21% of references requested and 34% of the Pulse Surveys already launched demonstrating the demand in this important region for future growth.

Xref Engage sent 180,000 surveys during the full year on behalf of 214 existing and 58 new clients. The sales and marketing teams are now executing a go-to-market strategy to introduce the newly launched Xref Engage to all Xref's global users.

Checks taken via Trust Marketplace dropped by 21% during the financial year due largely to the decline in the cryptocurrency sector. This revenue is, however, being replaced with new sector clients such as H&R Block, Coles and Etax. Trust Marketplace is now less dependent on revenues from the cryptocurrency sector which only represented 15% of revenue in FY23 compared to 49% in FY22. Trust Marketplace is currently being integrated into Xref Enterprise, which together with the addition of checks from newly signed partners such as Certn, will further aid the growth of this business in FY24.

Innovation

Xref has invested considerable time and resources into product development during the year and has successfully delivered key milestones in its product strategy. These have included the launch of:

- a new billing system that allows clients to join Xref on a traditional SaaS subscription model and this has helped build ARR 430% to \$5.6m since its launch in October 2022. This in turn decouples revenue recognition from recruitment or seasonal trends and allows Xref to forecast more accurately;
- Xref Enterprise Platform which includes the Reference, Pulse and Exit survey products now has over 1,000 users;
- Survey Builder, a feature of the Enterprise platform which has allowed users to custom-build over 500 surveys; and

- Xref Engage, previously known as Voice Project, is now integrated with the Xref Enterprise Platform and will be introduced to users worldwide as part of an aggressive go-to-market strategy during FY24.

The Xref Enterprise, Trust Marketplace and Xref Engage platforms have provided the ability to build and launch integrated products such as Exit and Pulse Surveys and the ability to integrate all three with the goal of creating a best-in-class, hire-to-retain, feedback platform. As a result of the development completed during the year, Xref extended its codebase by 64% and was able to retain overall platform uptime during the year of 99.999%.

As Xref progresses development during FY24 it will focus on the features offered in those platforms as well as deeper integrations between systems and with channel partners. Detail of Xref's product innovation history can be found on the recently released [investor snapshot](#).

Customers & Channel Partners

During FY23 Xref focused on adding value to its clients, employees, partners and shareholders through planned product innovation and development and a laser focus on costs as a pathway to profitable growth.

Xref now has **16,000 users** across its 3 platforms and 50% of clients have been with Xref for more than 3 years with a further 15% joining in FY23, demonstrating Xref's global credibility and market standing. Xref was further endorsed during the year by multiple awards from G2, including Leader and Best Usability and Xref was ranked in the Australian Financial Review Top 50 Fast Global list. Xref also continues to rank highly on customer ratings on G2, Getapp, and Google. In June 2023, Xref conducted a customer survey which resulted in a 92% satisfaction score as well as an overall Net Promoter Score (NPS) of +35.

Xref now has **31 channel partners** with direct integrations into their applicant tracking systems (ATS) such as Bullhorn, Oracle or Workday; 24% of active customers consume Xref via integration with an ATS. In FY23 37% of reference requests were made via an integration and represented 30% of revenue from reference checking. Clients using Xref via an integration grew 22% in FY23 to 504 despite overall reference requests remaining flat for the year. This demonstrates that despite recruitment being slower, clients and channel partners continue to see the value in integrating Xref into their business-critical systems.

Employees

There are now **114 employees** in the Group, this has grown through acquisition and organically during the year without the use of external recruiters and relying purely on Xref's strong employer brand. Overall employee retention remained at 85% and in May 2023 a company-wide employee engagement survey returned an overall engagement score of 82%. In order to further drive engagement, Xref has launched meaningful employee initiatives such as a revised ESOP, better internal processes and policies including our new industry-leading parental leave policy, targeted training budgets, and multiple health and well-being initiatives. During the year Xref also announced its gender and equality statistics and details of these can be seen in the recently released investor snapshot.

Xref Progress

Xref turned cash flow positive in FY21 and continued to generate free cash flow during FY22, which provided a strong cash position as we entered FY23. Whilst Xref continued to endure tough market conditions it invested in product innovation and transitioned to a traditional SaaS-based subscription model. In doing so, Xref has considerably increased its addressable market, grown ARR 430% and has positioned the business for further growth once the market recovers. During its transition, Xref has grown revenues, continued to attract new clients and staff and has taken time to measure and improve employee engagement and client satisfaction.

Outlook

During FY24 Xref will continue to focus on executing its product innovation strategy, delighting its customers and rewarding and retaining its employees. By leveraging its current clients it will increase share of wallet by offering its extended services and continue to attract new clients to increase revenue growth. At the same time, focusing on cost efficiencies and maximising recurring revenue to build a pathway to sustainable and growing profit. Xref will measure its progress against these strategic priorities by reporting on the following opportunities:

- **Xref Enterprise** with a much larger addressable market and aggressive go-to-market strategy, Xref has an opportunity to grow revenue over time by migrating current clients to Xref Enterprise and continuing to attract new clients. During FY24 Xref intends to increase the expected growth of Reference requests, Pulse Surveys, Exit Surveys, and thereby increase its ARR. A typical client now has the opportunity to extend their use of Xref past recruitment, which tends to be 15% of their business and across 100% of their employees with Pulse as well as a further 10% of exiting employees, helping to recruit, retain and remember their talent.
- **Xref Engage** (formerly Voice Project) collected feedback from 170,000 employees across 272 key clients last year. Now integrated to Xref we have the opportunity to introduce Engage across 2,100 accounts which represent at least 6 million employees. Xref intends to grow surveys taken, new clients, and revenue as a result.
- **Trust Marketplace** will increase background checking vendors in the Marketplace (such as the newly signed Certn) and will, in turn, integrate those checks via Trust Marketplace into Xref Enterprise. This presents an opportunity to introduce all global customers to a suite of checking services that we have not been able to offer before. 12,000 background checks were consumed via Xref Recruiter last year which has demonstrated the demand by our clients to have all feedback, including background verifications in one place. The average margin for Trust Marketplace is 50% due to the majority of checks being for Identity and via the government document verification service (DVS). It is expected that as vendors and checks grow the margin will increase. Xref intends to share news about new partners, when the integration to Xref Enterprise is complete, margin growth and the increase in checks taken.
- **Employee Engagement & Customer Satisfaction** Having now conducted both an employee engagement survey and a customer satisfaction survey Xref will pulse these results throughout the year and via another full Engagement and Satisfaction survey in May 2024 will benchmark the feedback as part of next year's results.
- **Expense Management** Approximately two thirds of Xref's expenses relate to headcount and this expense is expected to increase during FY24 as a result of the increase in headcount in FY23 and wage and salary inflation. Current monthly salaries for the Group as of July 15th are \$1.3m and are forecast to total \$16.5m for FY2024. To partially offset this expense growth, Xref will focus on other cost efficiencies including;
 - targeting a reduction in marketing spend by 41%, as Xref focuses on the growth of current clients by expanding their use of the platform and migrating them to subscription agreements;
 - an increase of self-service features removing the need to increase support headcount;
 - complimenting our Australian development team with the offshore team extension in Pakistan;
 - improved internal systems including billing, revenue recognition, performance reporting and talent management;
 - keeping travel and event costs to a minimum; and
 - increasing the speed to market of revenue-generating product initiatives.

Business Update Meeting

Founder and Chief Executive Officer, Lee-Martin Seymour will host a virtual investor meeting to provide a business update on **Wednesday, 19th July at 11:00 am AEDT**.

[Zoom Meeting Details:](#) Meeting ID: 995 6111 9750

Passcode: 567418

If you wish to dial in go to: <https://xref.zoom.us/j/aeCT2Lx1oZ>

Xref CEO and Founder, Lee-Martin Seymour, said "It has been difficult to compare FY23, a year of economic disruption, to that of pandemic recovery in FY22. That being said, we have delivered changes this year that allow us to sell into a much larger addressable market. The opportunity to increase revenues with the clients we already have, that love us, is an exciting prospect. We set out in FY23 to be bold and invest in long-term growth with available cash, whilst balancing expenses in a difficult economic market. We have continued to innovate and are changing habits one client at a time. We continue to do what we said we would do every single day, we know the market, are leading the narrative and are confident that as the market recovers our scale and profitability will reward us."

This announcement has been approved by the board of directors of Xref Limited.

To learn more or ask questions, please visit

Website: xref.com

Investor Centre and Presentation: xf1.com

Twitter: @xf1

Investor Snapshot

Xref was first to market, became best in class and is now rated #1 globally for automated reference checking. Since its establishment, Xref has extended its offering to respond to the changing world of work. Xref's new [Investor Snapshot](#) provides an overview of our past successes, our current position and explores how the future of talent will evolve with Xref.



About Xref



Headed up by Founder and CEO Lee-Martin Seymour, Xref supports over 16,000 active users from 2,600 entities across over 1,300 organisations servicing large global enterprises and sectors within the trust economy such as Healthcare, Aged Care, Not For Profit, Government and Education.

Xref allows employers to verify a candidate's references and ID, together with other key checking services, bringing all these onto one platform, via a partner marketplace. Xref's growth trajectory continues as employers want to safeguard their company from breaches in fraud, privacy and discrimination. The marketing-led, data-driven organisation ranks #1 in reference checking globally.

With talent acquisition becoming remote on a more permanent basis, business-critical platforms such as Xref are in high demand. Reference surveys, identity verification, and other pre and post-employment checks are crucial to give organisations confidence in their hiring and retention strategies and Xref is meeting that demand with its continuing product development roadmap.

The evolution of Xref's business reflects the leadership team's unwavering focus towards an enhanced platform that increases Xref's global addressable market. Xref will continue to meet the changing needs of recruitment and HR teams globally.



Driven by ambition

We're all driven by the same goal to change the way the world hires in whatever part we play. We work hard to achieve our clients' objectives as well as our own individual goals.



A big heart

Our people, clients and employees alike, are the heart and core of who we are. We're there for each other through the challenges and make sure to celebrate the good times too.



Positively charged

Whatever we do, we do with a positive attitude and lots of energy. We're known for being a fun, light-hearted bunch and that shows through all our work.