



Beautiful business

## MARKET RELEASE

### **Xero Investor Day 2024 Presentation - 29 February 2024**

**WELLINGTON, 29 February 2024** - In accordance with the ASX Listing Rules, Xero Limited (ASX: XRO) encloses its Investor Day 2024 Presentation for immediate release to the market.

*Authorised for release to the ASX by the Chief Executive Officer of Xero Limited*

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#### **About Xero**

[Xero](#) is a global small business platform with 3.95 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. Xero is a [FIFA Women's Football partner](#).

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**Investor Day 2024**

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# Important notice (page 1 of 2)

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# Important notice cont. (page 2 of 2)

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## General

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# Agenda

29 February 2024

10:00am – 10:15am	<b>Introduction and Acknowledgement of Country</b>	Nicole Mehalski <i>EGM IR</i> , David Thodey <i>AO Chair</i>
10:15am – 11:00am	<b>Xero vision and FY25-FY27 strategy</b>	Sukhinder Singh Cassidy <i>CEO</i>
11:00am – 12:00pm	<b>Product and technology</b>	Diya Jolly <i>CPO</i>
12:00pm – 1:00pm	<b>Product breakout demonstrations</b>	<b>LUNCH</b>
1:00pm – 1:15pm	<b>Product, pricing and packaging</b>	Angad Soin <i>CBOSO</i>
1:15pm – 1:35pm	<b>Fireside chat with CRO and CMO</b>	Ashley Hansen Grech <i>CRO</i> , Michael Strickman <i>CMO</i>
1:35pm – 2:05pm	<b>GTM overview</b>	Ashley Hansen Grech <i>CRO</i> , Michael Strickman <i>CMO</i>
2:05pm – 2:25pm	<b>Capital allocation, outlook, recap</b>	Kirsty Godfrey-Billy <i>CFO</i> , Sukhinder Singh Cassidy <i>CEO</i>
2:25pm – 3:15pm	<b>Q&amp;A session and wrap-up</b>	Xero Leadership Team

*Note: The timings provided above are approximate and subject to change.*



Investor Day

# Xero vision and FY25–FY27 strategy



**Sukhinder Singh Cassidy**  
Chief Executive Officer

February 2024

# Objectives of Xero Investor Day

1

**A view on  
where  
we've been**

2

**Sharing  
where we are  
headed**

3

**Insight into  
key areas of our  
business**

4

**An opportunity  
to meet  
our leaders**

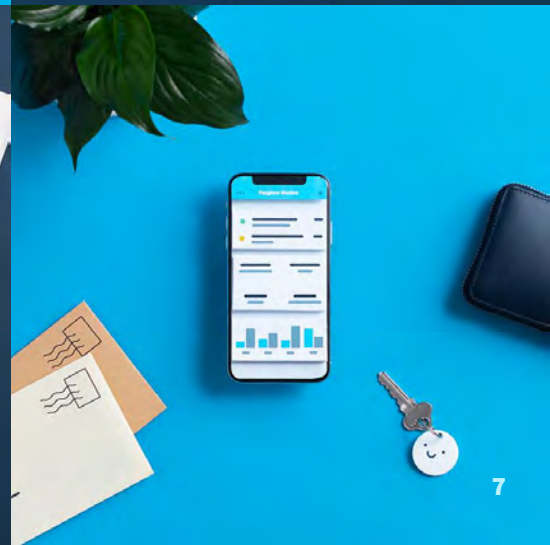
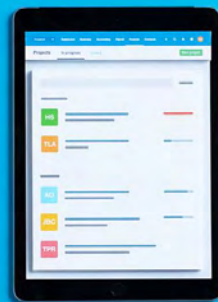
5

**Hearing from  
you as long-term  
partners**

Nury Saenz, bookkeeper

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# Our history to date

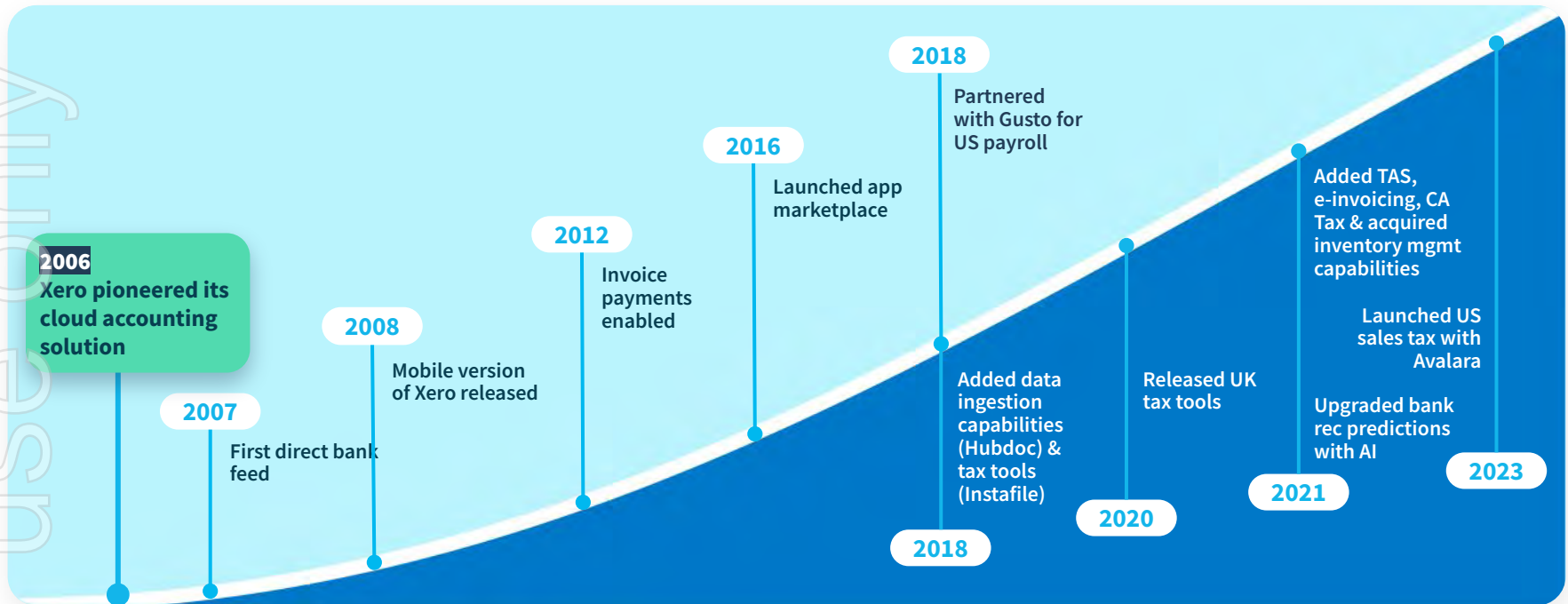


# This is Xero: A history of innovation...

Established cloud accounting

Expanded - new geographies

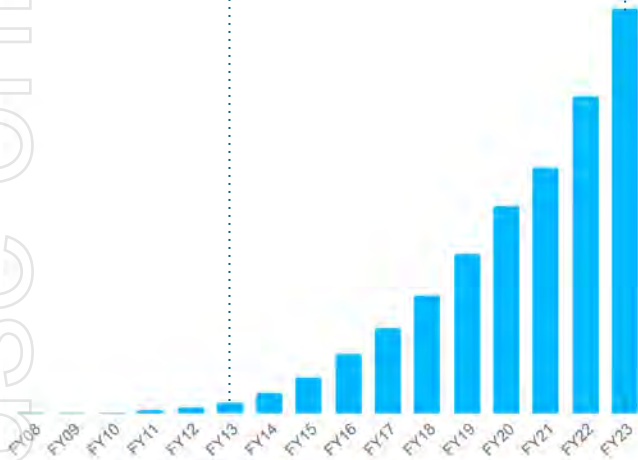
Extended - more jobs to be done



# ...and delivering strong revenue growth and shareholder returns...

### Revenue (NZD)

10yr revenue  
CAGR: 43%



### Share price performance

XRO S&P ASX 200



Matthew Li, Nova CPA



# ...while building a strong purpose-driven brand that our customers love

## Customer NPS

**51**  
5yr average<sup>1</sup>



## 2021



FT High-Growth Companies  
Asia-Pacific (2020 – 2021)



AFR Best Places to Work  
Australia & New Zealand



#1 Graduate Employer in NZ

## 2022



Carbon neutral certification  
(2021 – 2022)



AFR BOSS  
Most Innovative Companies



UK's Best Workplaces for Women

## 2023



Bloomberg Gender-Equality Index  
(2021 – 2023)



Dow Jones Sustainability Indices  
Powered by the S&P Global CSA  
(2021 – 2023)

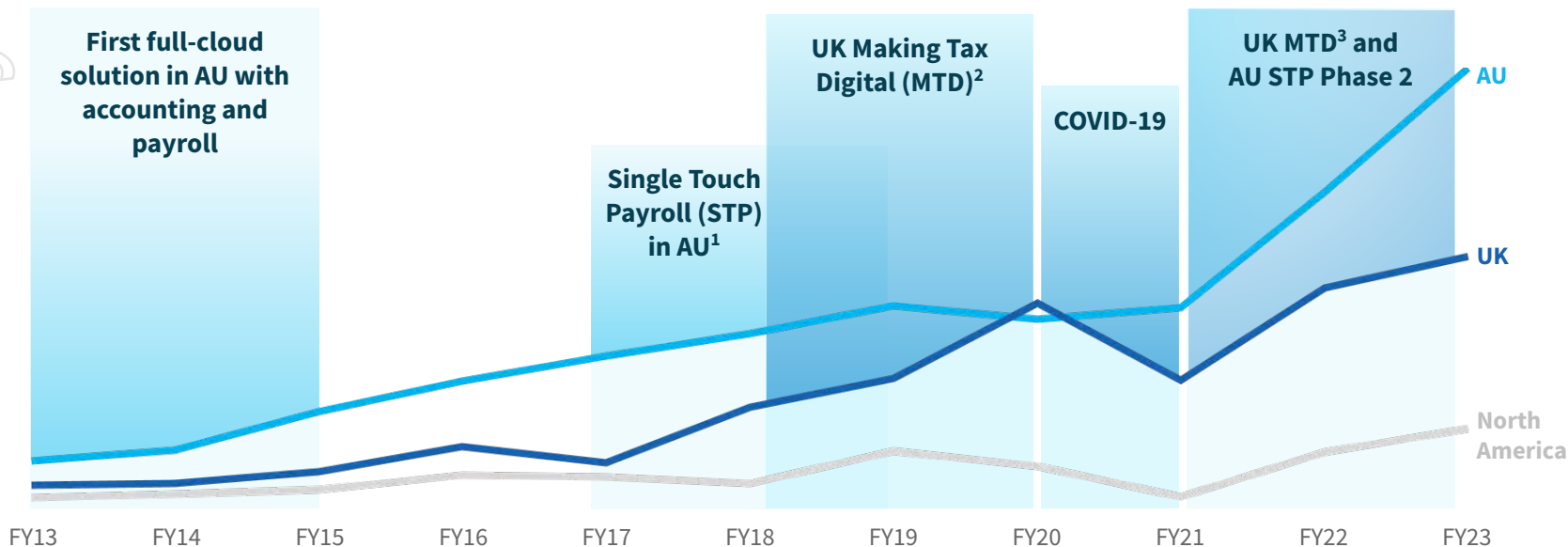
Deloitte Top 200

Deloitte Top 200  
Company of the Year

1. Qualtrics, 2019 to 2024 weighted average of Small Business and Accountant and Bookkeeper NPS.

# Growth has been driven by strong execution, accelerated by external tailwinds

Net new revenue  
(NZD)

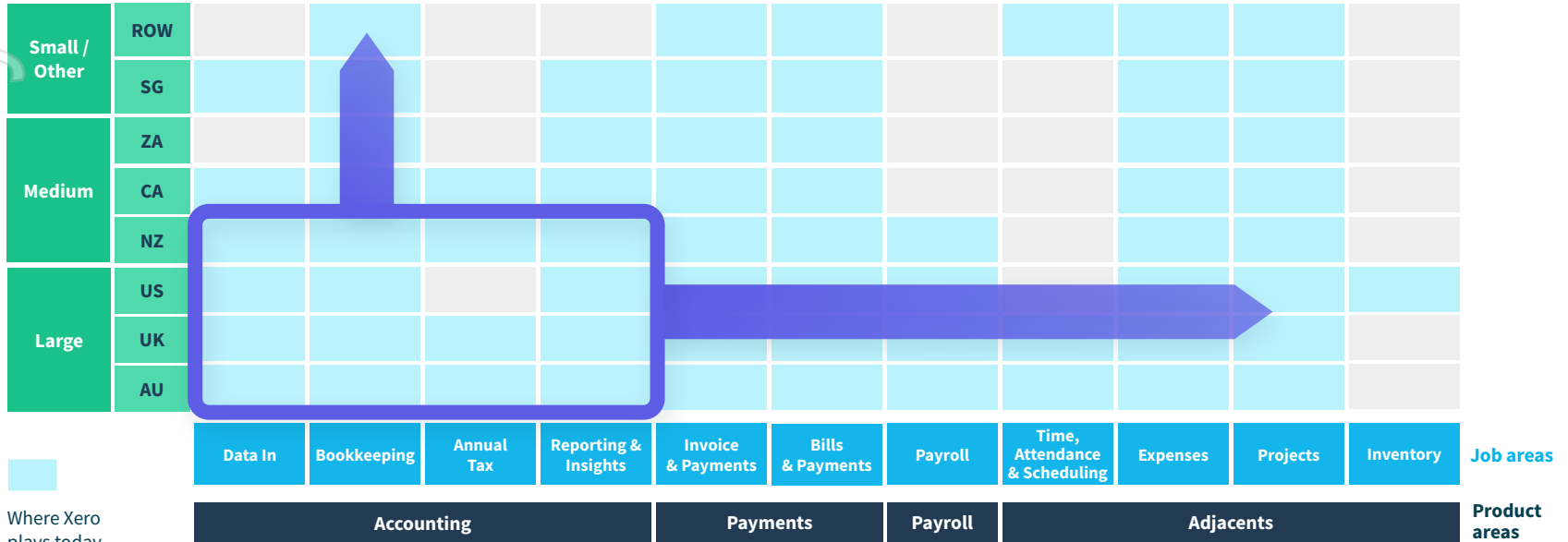


1. Single Touch Payroll (STP) Phase 1 for employers with 20+ employees (2018) and employers with <19 employees (2019).
2. Making Tax Digital (MTD) for VAT for business with >85k GBP annual turnover.
3. MTD for VAT businesses with <85k GBP annual turnover.



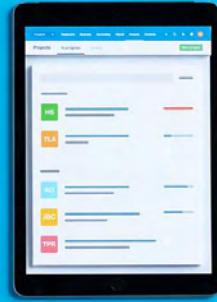
# TAM and GTM have grown through market and job expansion

## Markets



# Look back on the last 12 months

Internal use only



# Over the last 12 months, we have strengthened our foundations for Xero's next chapter

## Our recent commitments

Targeting more balanced, profitable growth

More focused allocation of capital

Starting on journey to using multiple growth levers

## Our achievements

- 15% headcount restructure
- Increase in FCF, strong H1 growth
- Adopted Rule of 40 as a useful measure

- Reshaped org by function
- Reviewed US business, and defined areas of focused investment
- Discontinued non-core businesses

- Increasing focus on product mix
- Plan to address 150-200k long-idle subscribers<sup>1</sup>

Invested in new capabilities

Evolving towards a more performance and purpose based culture

# Xero's leadership team brings deep and wide global expertise

## Xero Leadership Team



**Sukhinder Singh Cassidy**  
Chief Executive Officer  
*Ex StubHub, Google, Yodlee*



**Kirsty Godfrey-Billy**  
Chief Financial Officer  
*Ex PwC*



**Diya Jolly**  
Chief Product Officer  
*Ex Okta, Google*



**Angad Soin**  
Chief Business Operations  
& Strategy Officer  
*Ex Deloitte*



**Ashley Hansen Grech**  
Chief Revenue Officer  
*Ex Square, JP Morgan*



**Michael Strickman**  
Chief Marketing Officer  
*Ex Uber, Tripadvisor*



**Nicole Reid**  
Chief People Officer  
*Ex AMP, Microsoft*



**Damien Coleman**  
Chief Legal Officer &  
Company Secretary  
*Ex Telstra*

# As does our senior leadership team

Some of our SLT highlighted below



**Chris Patalano**  
EVP Product Engineering  
*Ex Realtor.com, Pandora*



**Akankshu Dhawan**  
SVP Direct & Growth  
*Ex Uber, Microsoft*



**Che Douglas**  
EGM Design  
*Ex Booking.com, WSJ*



**Eitan Sharon**  
SVP Data & Science  
*Ex Amazon, Microsoft*



**Alex von Schirmeister**  
Managing Director,  
UK & Emerging Markets  
*Ex eBay*



**Sylvia Ding**  
EGM Product -  
AB & Payroll  
*Ex Amazon, Vodafone*



**Tony King**  
SVP Pricing, Packaging  
& Commercialisation  
*Ex Sage Intacct,  
ServiceNow, Intuit*



**Francesco Pittarello**  
EGM Performance  
Marketing  
*Ex Uber, Faire,  
Rocket Internet SE*



**Anthony Drury**  
Managing Director, ANZ  
*Ex Zip, Paypal, AMEX*



**Kate Hayward**  
UK Country Manager  
*Ex Deloitte, KPMG*



**James Kyd**  
EGM Brand & Marketing  
*Ex IBM*



**Suzy Clarke**  
EGM Security  
*Ex ASB, icebreaker*

Xero FY25–27 strategy

# Winning on purpose

Winning  
solutions for  
our customers

Living our  
purpose  
consistently

Purposefully  
allocating  
capital







## Our purpose and vision

### Our purpose

To make life better for people in small business, their advisors and communities around the world

### Our vision

To be the most insightful and trusted small business platform

# Our aspiration<sup>1</sup>

*We aspire to be a world class SaaS business*

*We believe we have the opportunity to both double the size of our business<sup>2</sup>  
and deliver Rule of 40 or greater performance*

*As we grow, we will also seek to be more balanced between  
subscriber growth and ARPU expansion*

1. Xero's aspirational revenue and Rule of 40 performance opportunity statement is not guidance, nor a prediction of future performance. No timeframe has been set. This is provided as an indication of outcomes which management is currently focused on as part of its strategic ambitions. There are risks and uncertainties in connection with this aspiration, including from events beyond Xero's control. See slide 115 for important additional qualifications and information on the basis of this aspiration.

2. Xero FY23 revenue was \$1,400m. H1 FY24 revenue (when annualised on a straight line basis) is \$1,599m.



# To deliver this aspiration, we have made choices on where to play and how to win



## Where to play

Our target customers, markets and products



## How to win

The key tactics that drive success in the next three years



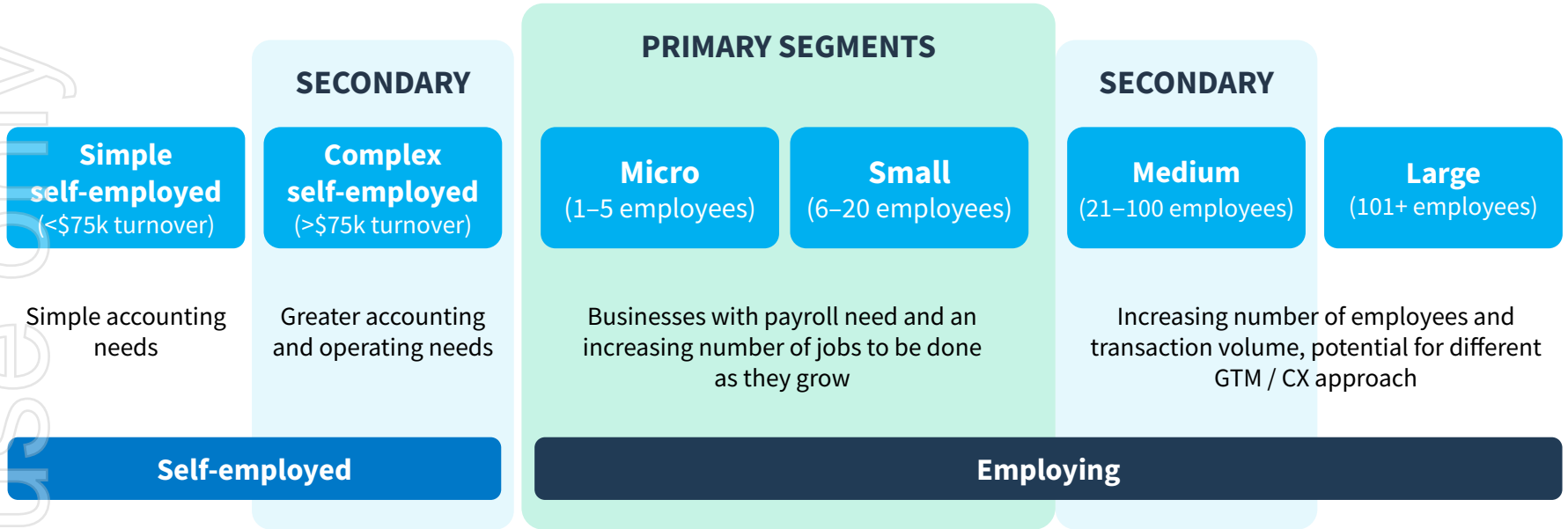


## Where to play

Our target customers,  
markets and products



## We have two primary and secondary SMB segments



## Our primary customer segments represent 50% of the TAM and have deeper engagement with our platform

		SECONDARY	50% of TAM PRIMARY SEGMENTS		SECONDARY	
	Simple self-employed (<\$75k turnover)	Complex self-employed (>\$75k turnover)	Micro (1-5 employees)	Small (6-20 employees)	Medium (21-100 employees)	Large (101+ employees)
<b>Split of Xero SMBs<sup>1</sup></b> (% of BE subscriptions)	<20%	25-35%	45-55%		<5%	<5%
<b>Indicative average turnover<sup>1</sup></b> (NZD)	<\$50k	~\$750k	~\$1m	~\$3m	~\$7m	~\$19m
<b>Average number of jobs done within Xero<sup>1,2</sup></b>	~3 jobs	~4 jobs	~6 jobs	~8 jobs	~9 jobs	>9 jobs
<b>Accountant and Bookkeeper usage<sup>1</sup></b>	~60%	~75%	~85%	~90%	~90%	~80%
<b>Estimated TAM<sup>3,4</sup></b> (NZD)	~\$4 billion	~\$22 billion	~\$24 billion	~\$25 billion	~\$23 billion	-

1. Split of Xero SMBs and other attributes represent management's best estimates based on AU, UK & NZ Xero subscription data.

2. Jobs to be done within Xero represent common tasks carried out by SMBs to operate their business and does not represent a specific product or solution. Refer to slide 124 in Appendix for more information about JTBD.

3. Total Addressable Market estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s).

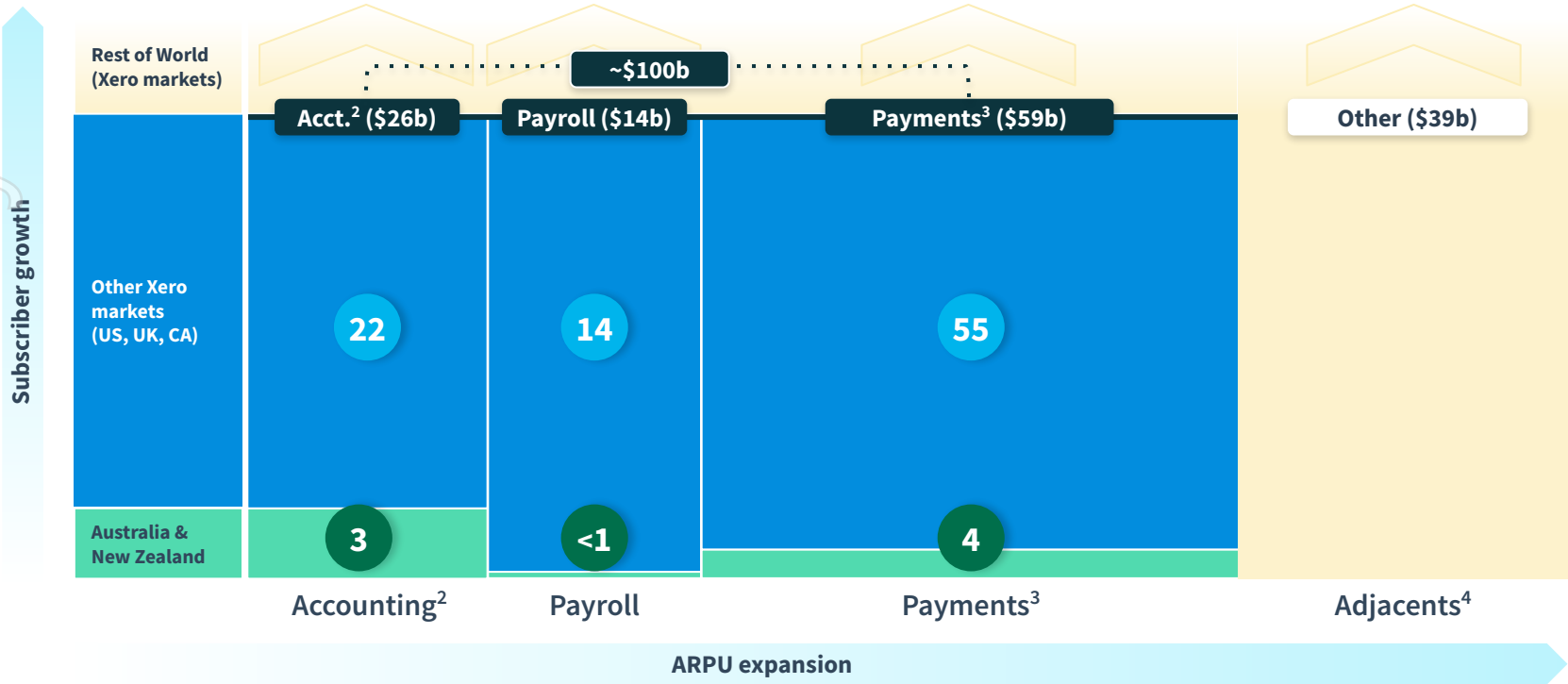
4. Based on AU, NZ, UK, US and CA across accounting (bookkeeping, annual tax, data in, reporting & insights), payments and payroll.

# Small and mid-size practices remain our primary AB segment: the largest market opportunity with a strong propensity to adopt cloud software (like Xero)

	SECONDARY	Xero's AB segments PRIMARY SEGMENTS		SECONDARY
	Sole proprietors 10-250 clients (1 partner)	Small practices 150-750 clients (1-3 partners)	Mid-size practices 300-1000+ clients (3-10 partners)	Large practices 1000+ clients (10+ partners)
Share of Xero partners <sup>1</sup>	<40%	55-65%		<5%
Average number of employees	Non-employing	1-9 employees	10-49 employees	50+ employees
Estimated TAM (# SMBs served by segment)	2 million	9 million	6 million	5 million
<b>Enterprise practices:</b> <i>Collections of independent small, mid-size and large firms</i>				

1. Based on internal Xero data for Xero accounting and bookkeeping partners in large and medium markets.

# Xero's top three super jobs, accounting, payments and payroll, represent ~\$100b TAM in AU, NZ, US, UK and CA<sup>1</sup>



1. Figures may not sum due to rounding.

2. Accounting refers to combination of jobs to be done including annual tax, bookkeeping, data in and reporting & insights.

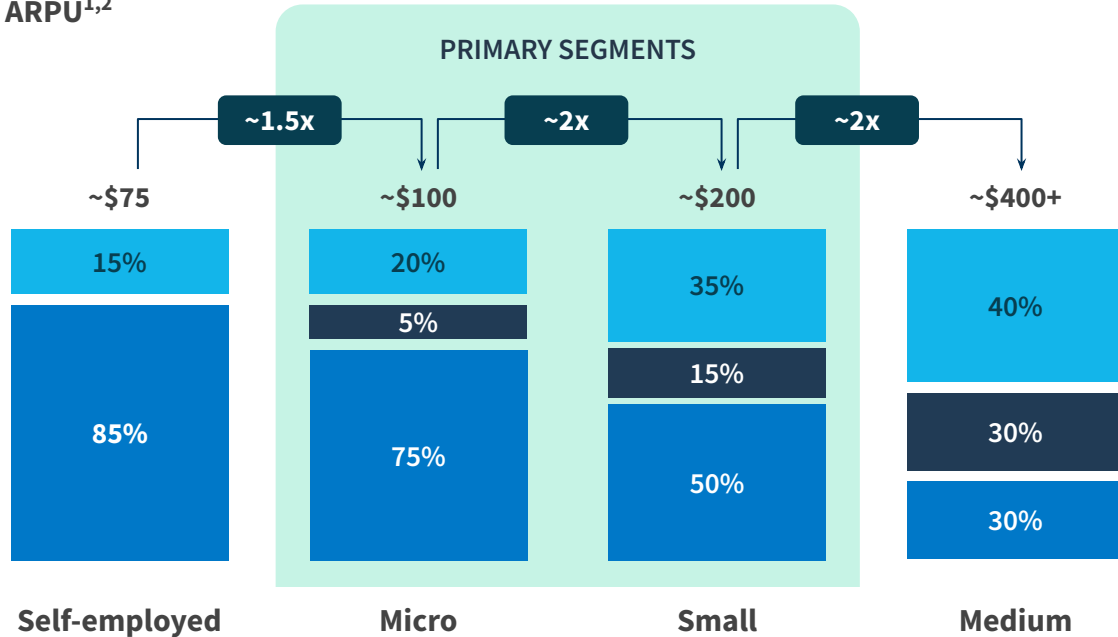
3. Payments TAM refers to invoice and bill payment opportunities available to a full service provider.

4. Adjacents include project management, expenses, inventory, time, attendance & scheduling and customer relationship management.

# Payroll and payments are among the highest needs our SMBs identify with, and significant drivers of ARPU in AU and UK

Hypothetical industry ARPU<sup>1,2</sup>  
in AU & UK (NZD)

- Payments<sup>3</sup>
- Payroll<sup>4</sup>
- Accounting<sup>5</sup>



1. Does not reflect Xero's actual ARPU. Calculated on Serviceable Addressable Market (SAM) data assuming 100% adoption and penetration of services shown for Business Edition equivalent subscriber. US market SAM composition indicates higher ARPU opportunity than UK/AU with a greater proportion in payments and payroll.








2. SAM estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s).

3. Payments ARPU reflects invoice and bill payment opportunities available under Xero's existing partnership arrangements.

4. Payroll ARPU calculated on SAM estimates for each customer segment, noting ARPU scales with number of employees.

5. Accounting ARPU includes bookkeeping, data in and reporting & insights.

# AU, UK and US provide the largest-scale revenue opportunities for Xero in the medium term, while our other markets support long-term growth in our portfolio

	PRIMARY MARKETS <i>Potential to be our largest markets</i>			SECONDARY <i>Pursue efficient growth using APIs and partnerships</i>				
	Large			Medium			Small / Other	
	 AU	 UK	 US	 NZ	 CA	 ZA	 SG	Other <sup>3</sup>
Population of SMBs <sup>1</sup>	4.5m	8.2m	35.3m	1.2m	4.7m	2.7m	0.5m	~19m
Estimated Accounting SAM <sup>2</sup> (NZD)	\$2.9b	\$2.8b	\$16.9b	\$0.6b	\$2.3b	\$1.0b	\$0.3b	-

1. Population of SMBs calculated using government statistics, public market data. Included within this number are other non-SMB entities such as trusts and landlords that may use Xero subscriptions.

2. Estimated Serviceable Addressable Market (SAM) includes activities collectively referred to as accounting (annual tax, bookkeeping, data in and reporting & insights).

3. Other includes other regions in which Xero has a material presence, such as Ireland, Hong Kong, Malaysia, Indonesia, Netherlands, Thailand, Saudi Arabia and Switzerland. TAM / SAM not sized.



# Our focus for FY25–27: Complete the most critical jobs in the biggest markets, embed key JTBD, and extend even further through the ecosystem and APIs

	Accounting	Payments	Payroll	Adjacents
SMALL	Rest of World			
	Singapore			
MEDIUM	South Africa		3	
	Canada			
	New Zealand			
LARGE	US			
	UK		1	2
	Australia			

**1 The '3 x 3' (\$43b SAM<sup>1</sup>)**  
Complete the three key JTBD (accounting, payroll and payments) for SMBs and ABs in our large markets

+

**2 Embed**  
Extend to other critical JTBD for SMBs and ABs in our three large markets with new embed capabilities and partnerships

+

**3 Ecosystem and APIs**  
Leverage ecosystem to deliver profitable growth in medium and small markets

1. SAM opportunity represents the opportunity that is accessible to Xero over the short term. The estimation approach is consistent for the TAM, with the exception of payments, where only a subset of opportunity is captured, reflecting Xero's decision to rely on partners to support money movement, and therefore reduced margin.



## How to win

The key tactics that drive success in the next three years



# WINNING ON PURPOSE

Win the '3 x 3'



A Winning GTM Playbook



Focused bets to Win the Future



Unleash Xero(s) to Win



# Our areas of focus for FY25–27

80%

20%

## Win the '3 x 3'

Complete three critical jobs  
in three largest markets

Reimagine the SMB journey  
including embed

Reimagine the AB journey  
including embed

## A Winning GTM Playbook

Product, pricing and  
packaging to increase  
usage and growth

Acquire and onboard  
subscribers to the right  
products efficiently

Deepen customer  
relationships

## Focused bets to Win the Future

Evolve customer experience  
through AI and mobile

Realise potential of our  
ecosystem and APIs

Keep growing other  
markets efficiently

## Unleash Xero(s) to Win

Deliver a purpose and  
performance driven EVP

Enhanced Product and Tech  
capabilities and op model

Transform core  
enterprise systems

# Strategic deep-dives ahead



11:00am – 12:00pm

**Diya Jolly** *CPO*  
Product and technology



1:00pm – 1:15pm

**Angad Soin** *CBOSO*  
Product, pricing and packaging



1:15pm – 2:05pm

**Ashley Hansen Grech** *CRO*  
**Michael Strickman** *CMO*  
Fireside chat and GTM overview



2:05pm – 2:25pm

**Kirsty Godfrey-Billy** *CFO*  
Capital allocation and outlook



## Win the '3 x 3'

Complete three critical jobs in three largest markets

Reimagine the SMB journey including embed

Reimagine the AB journey including embed

## A Winning GTM Playbook



Product, pricing and packaging to increase usage and growth

Acquire and onboard subscribers to the right products efficiently



Deepen customer relationships



## Focused bets to Win the Future

Evolve customer experience through AI and mobile

Realise potential of our ecosystem and APIs

Keep growing other markets efficiently



## Unleash Xero(s) to Win

Deliver a purpose and performance driven EVP

Enhanced Product and Tech capabilities and op model

Transform core enterprise systems

# WINNING ON PURPOSE

WHY WE EXIST

## Purpose

To make life better for people in small business, their advisors and communities around the world

## Vision

To be the most trusted and insightful small business platform

ASPIRATION

To be a world class SaaS business

To double the size of our business and deliver Rule of 40 or greater performance<sup>1</sup>

FY25-FY27 STRATEGIC PRIORITIES

## Win the '3 x 3'

Complete our JTBD and journeys in AU, UK, US

## A Winning GTM Playbook

Make it easier for customers to find, use and grow with Xero

## Focused bets to Win the Future

Invest selectively to help Xero keep winning longer term

## Unleash Xero(s) to Win

Enable Xero to move faster and Xeros to do the best work of their lives

VALUES



We make it beautiful



We make it happen



We make it human



We make it together

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Investor Day

# Product and technology



**Diya Jolly**  
Chief Product Officer

February 2024

# Business strategy focus areas



## Product and technology

### Win the '3 x 3'

Complete three critical jobs  
in three largest markets

Reimagine the SMB journey  
including embed

Reimagine the AB journey  
including embed

### Focused bets to Win the Future

Evolve customer experience  
through AI and mobile

Realise potential of our  
ecosystem and APIs

Keep growing other  
markets efficiently

### Unleash Xero(s) to Win

Deliver a purpose and  
performance driven EVP

Enhanced Product and Tech  
capabilities and op model

Transform core  
enterprise systems



# Introduction and experience



**Diya Jolly**  
Chief Product Officer

McKinsey  
& Company

 Microsoft

Google

 okta

# Observations: What's working well



**Strong core product**



**Multiple jobs to be done**



**Global reach**



**Robust ecosystem**



**Passionate team**

# Observations: How to turbocharge the next stage of growth



**Develop for  
specific segments  
and markets**



**Create delightful  
end-to-end  
experiences**



**Experimentation  
and data-driven  
analytics**



**Modernise  
while innovating**



**Augment leadership  
team with strong  
domain experts**

# Xero product vision



Win the '3 x 3'



Win the future

Complete three critical jobs in three largest markets

Reimagine small business and accountant and bookkeeper journey

Evolve our customer experience through AI and mobile



The most powerful accounting platform for small businesses and their advisors



Magical, personalised experiences for small businesses and their advisors



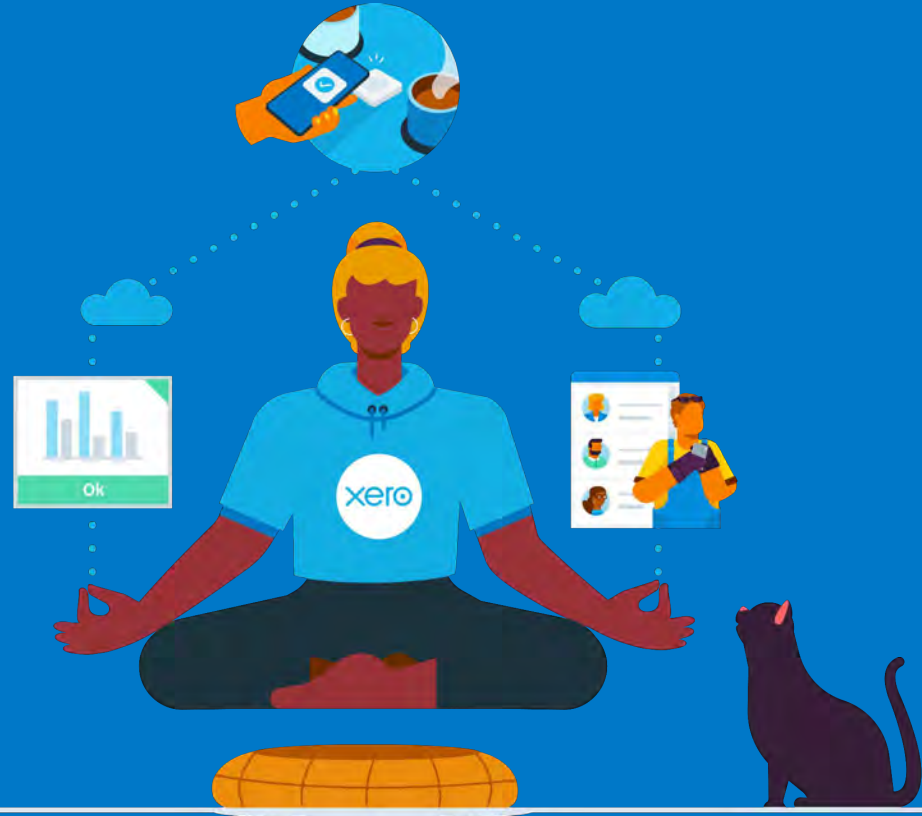
Create a small business operating system by embedding deeper ecosystem experiences



Reimagine accounting through AI and mobile



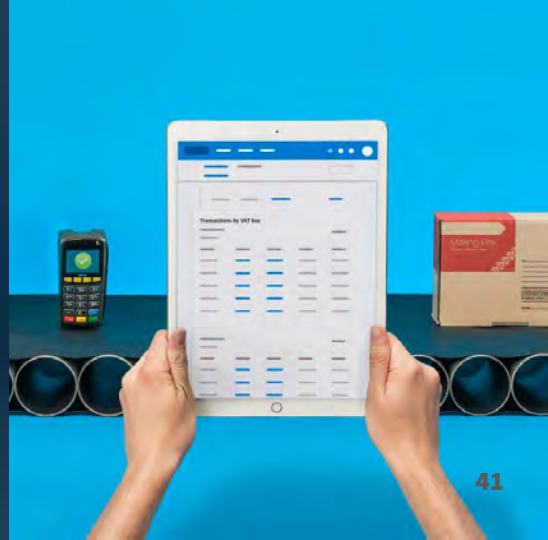
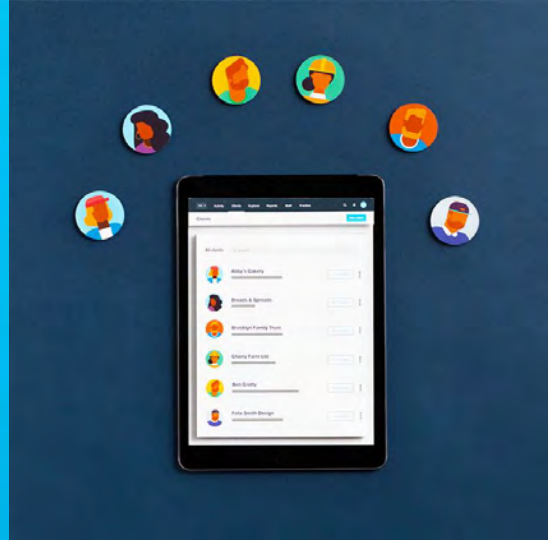
# Win the '3 x 3'



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# Accounting



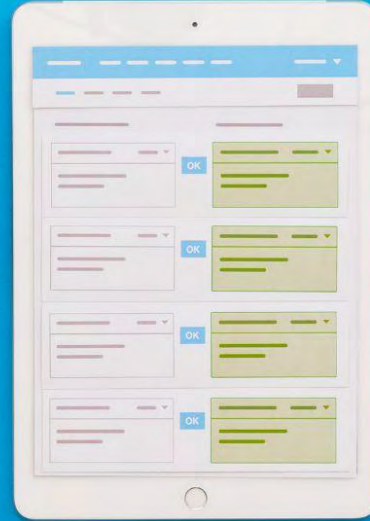
# Bank transactions in Xero

Bank feeds and auto-reconciliation save Xero customers **5.5 hours per week**<sup>1</sup>



1. Average from 183 customers surveyed in August 2023

Win the '3 x 3'



# Boosted US bank feed quality and coverage

Win the '3 x 3'



12 months ago:

~20

US direct bank feeds

Today:

600+

US direct bank feeds

Both Xero built and aggregator supplied direct bank feeds



ENVESTNET  
Yodlee



flinks



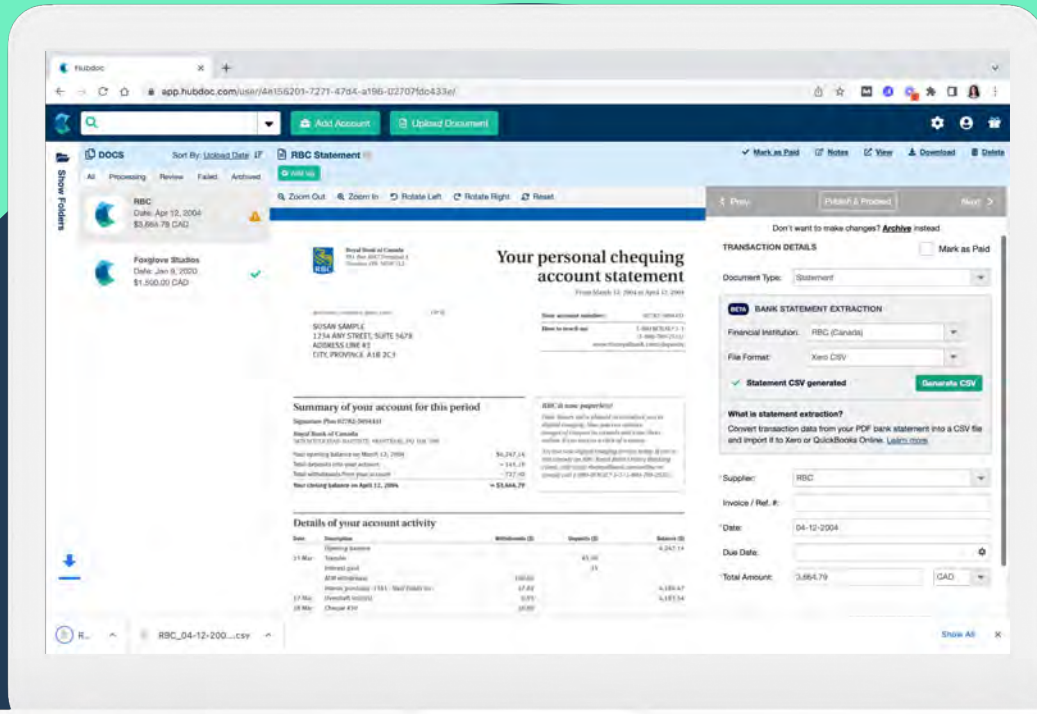


# Released Hubdoc bank statement extraction

Win the '3 x 3'

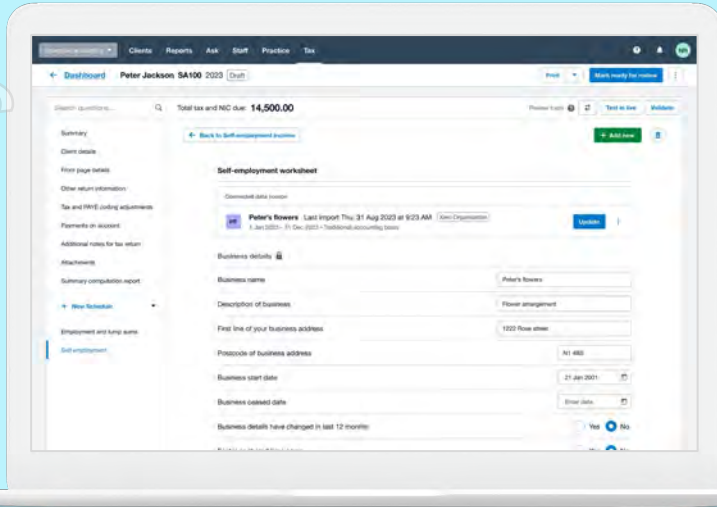


Final use only

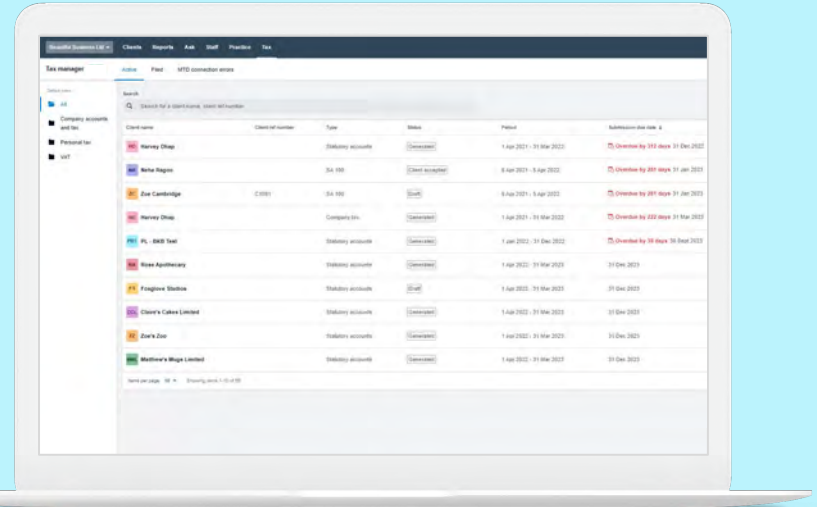


# Enhanced UK Xero Tax and launched tax manager

Win the '3 x 3'



Personal tax



Tax manager

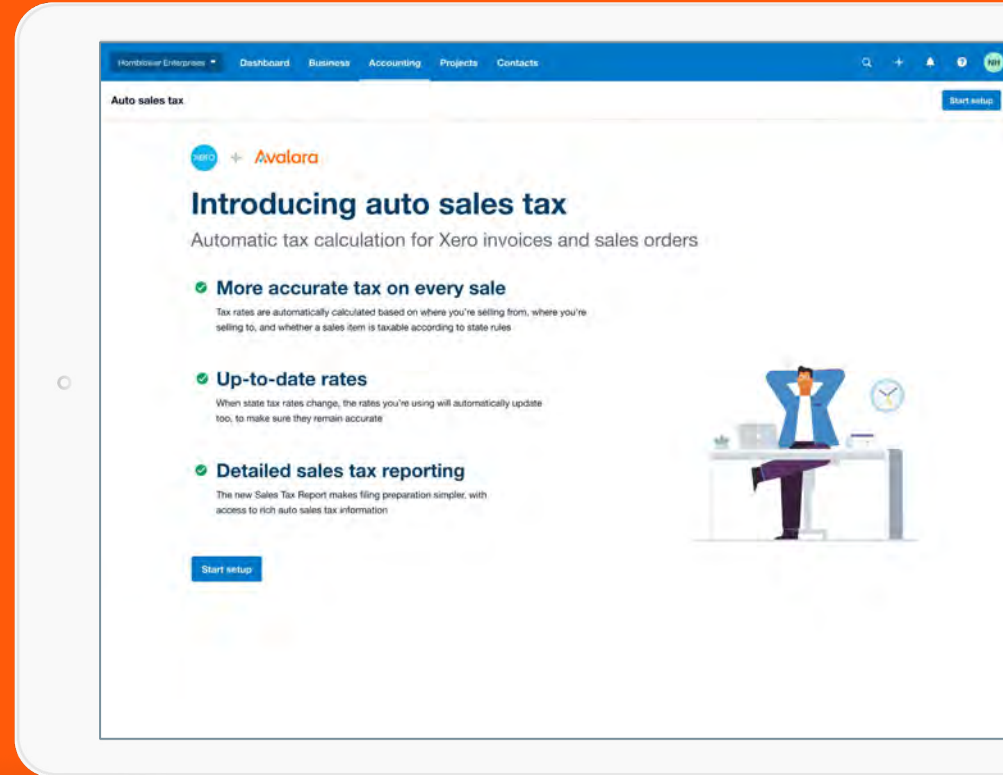


# Released automatic sales tax in US

Win the '3 x 3'



# Avalara



avalara only



# What's ahead for accounting

Win the '3 x 3'



## Key focus areas

- ✓ Strengthen our tax capabilities in the UK
- ✓ Localise and support core needs in the US
- ✓ Bulk tools and insights

Jem Selig Freeman, Like Butter



# Zero Payroll

Personal use only



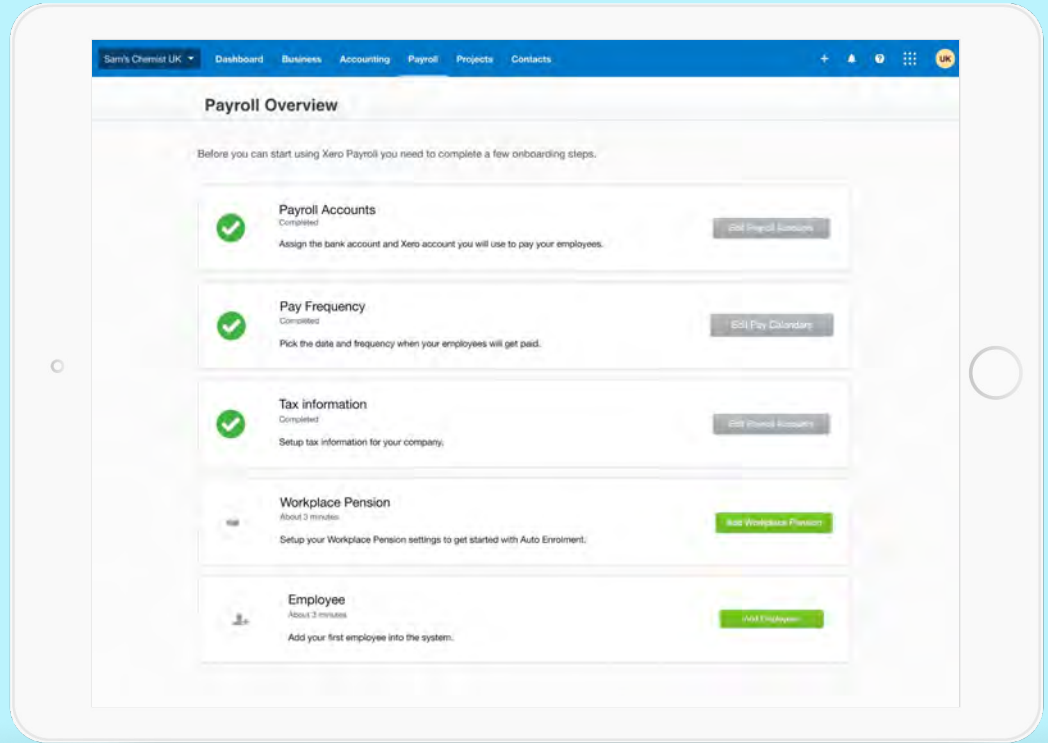
# Easier setup and onboarding globally

Win the '3 x 3'



✓ Save time setting up Xero Payroll

✓ Reduce errors during setup





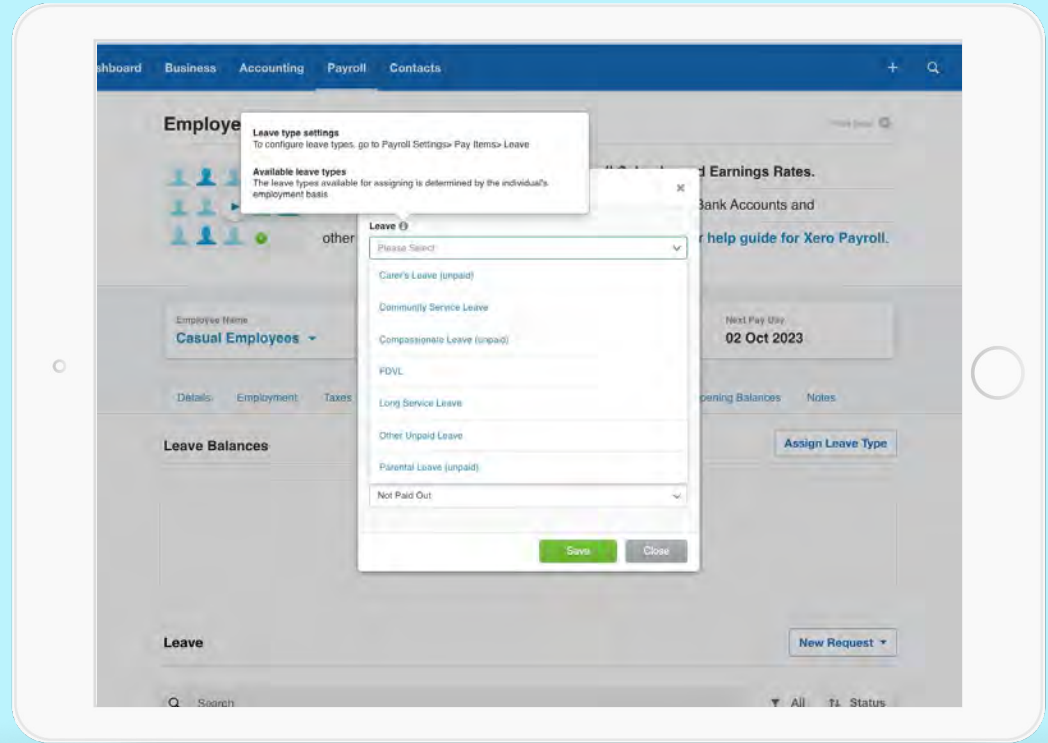
# Enhanced payroll in Australia

Win the '3 x 3'



Automation for leave management for contractors and casuals

Tighter risk and fraud controls for superannuation



# Significant improvements to Xero Payroll in the UK

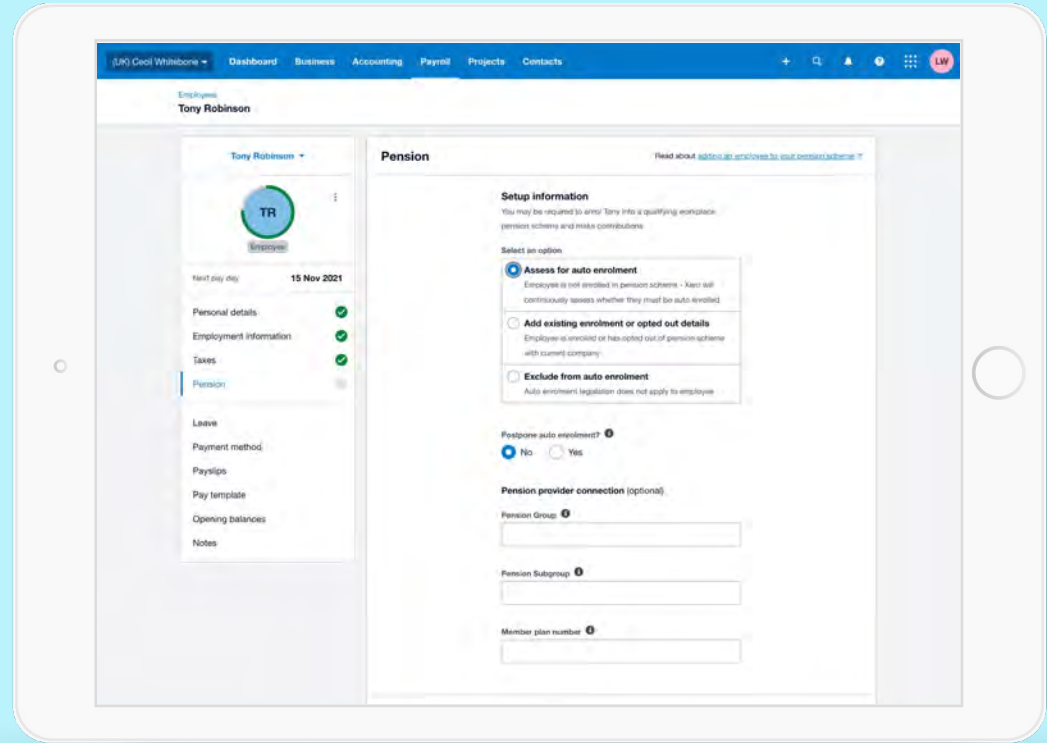
Win the '3 x 3'



✓ Easier transition to Xero Payroll from another provider

✓ Support for salaried employees with non-traditional work hours

✓ Tools to better manage employee pensions





# What's ahead for Xero Payroll

Win the '3 x 3'



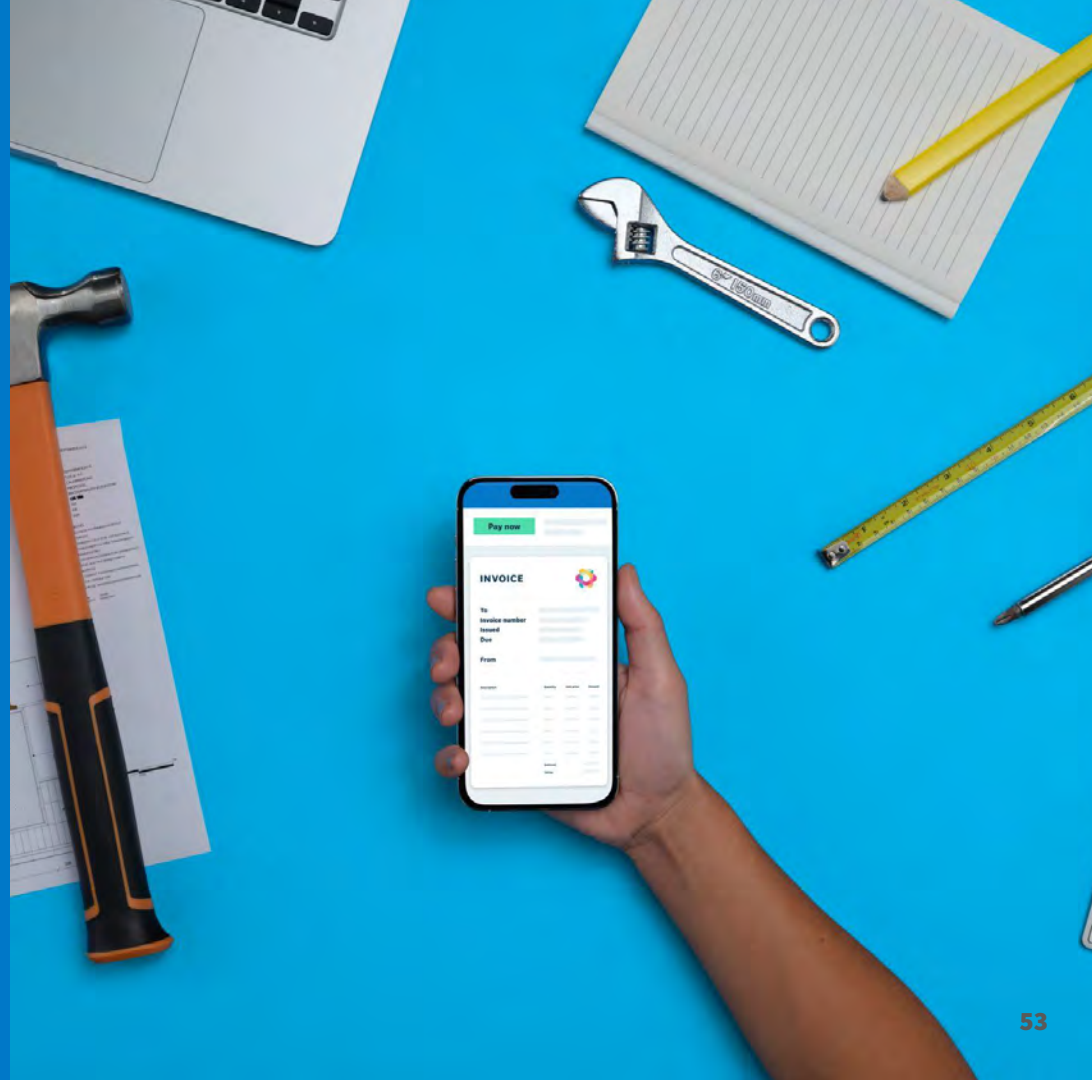
## Key focus areas

- ✔ Enhance employee onboarding
- ✔ Use automation and intelligence to reduce time and errors
- ✔ Enhance Xero Payroll for UK users with complex needs

Don Oliver, Oliver's Taranga Vineyards



# Payments



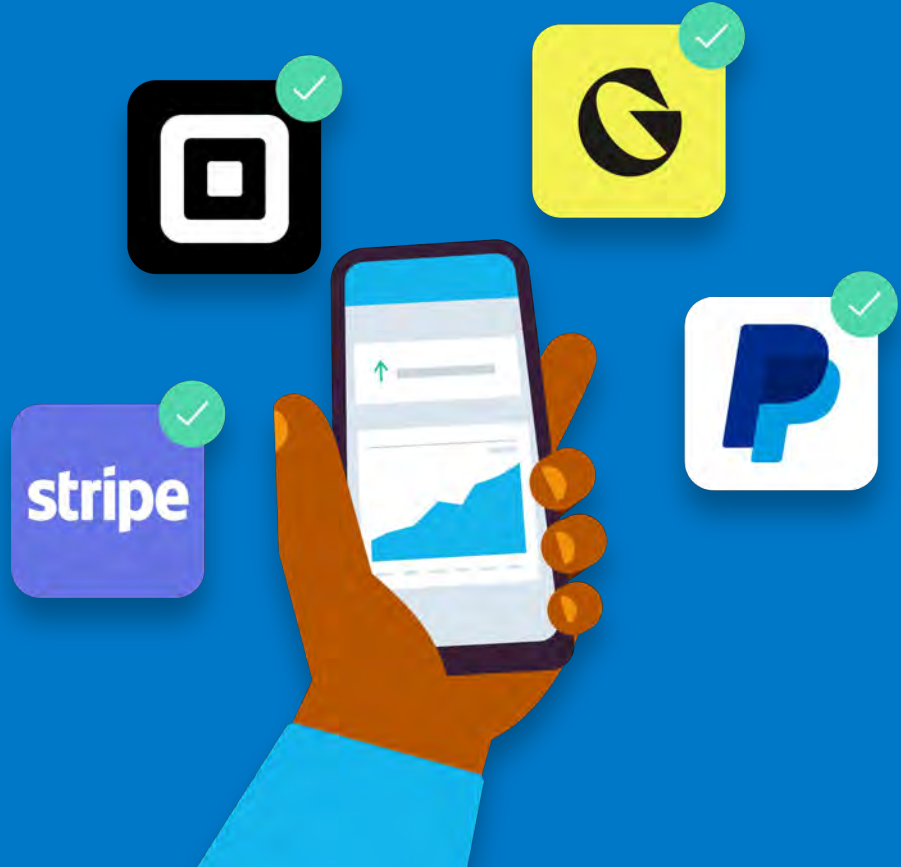
# Removing friction to onboard to Xero payments

Win the '3 x 3'



## Improvements to onboarding

- ✓ Deeply embed payment service providers in Xero
- ✓ Auto-suggest bank account during payments onboarding
- ✓ Link existing payment service provider accounts with a click




# Removing friction to pay an online invoice

Win the '3 x 3'



Invoice INV-666 from Wild Craft Coffee Ltd for Mona Yang

Sharad Patel [sharad@wildcraftcoffee.com](mailto:sharad@wildcraftcoffee.com) 3:22 PM (11 minutes ago) ☆ ↶ ⋮

  
**Wild Craft Coffee Ltd**  
**\$360.00** USD  
Due 8 Dec 2023  
Invoice #: INV-666

[Review and pay](#)

Hi Mona,

Here's invoice INV-666 for \$USD 360.00.

The amount outstanding of \$USD 360.00 is due on 8 December 2023.

View your bill online: <https://in.xero.com/18Pn6eByQTX0o81Gbk55pdFdzN70n1U244m5F>

From your online bill you can print a PDF, export a CSV, or create a free login and view your outstanding bills.

If you have any questions, please let us know.

Thanks,  
Wild Craft Coffee Ltd

Description	Amount
Limited Edition Festive Blend Coffee 500 / Premium Roast Beans 80g	14.40
Delux Coffee Original Best Sellers	172.80

# Launched bill pay in the UK

Win the '3 x 3'



First major small business cloud accounting software in UK to offer on-platform bill payments using Open Banking



Dashboard Business Accounting Contacts

Purchases overview Bills to pay

**Make payment**

Pay from: Select an account Reconcile to: Select an account Payment reference (optional):

Payment will be made from this account. A record of the payment will appear in this Year account.

Group payments by payee

Payee	Reference from bill	Payee reference	Bank account	Due	Payment
Kedgeroe Do	INV-0025	Plumber	23-45-72 12345678	100.00	100.00
Simple energy	Electricity	Energy supplier	12-34-56 02345678	320.00	320.00
Real estate	Rent	Leasing agent	45-67-89 45678901	2,400.00	2,400.00
Kedgeroe Do	INV-0026	Plumber	23-45-72 12345678	450.00	450.00
Simple energy	Gas	Energy supplier	12-34-56 02345678	120.00	120.00
Foxglove Café	Coffee beans	Coffee supplier	02-46-60 86420866	1,200.00	1,200.00
Sweet Bake	Baking ingredients	Cake supplier	10-25-69 23456789	600.00	600.00
Duck cleaning	INV-0027	Cleaning service	20-37-45 34567890	460.00	460.00
General supplies	Cutlery	Cutlery supplier	30-45-67 45678901	200.00	200.00
Simple energy	Water	Energy supplier	40-56-78 56789012	300.00	300.00

10 bill payments 6,150.00

Payment fee 2.40  
0.20 excl. VAT per bill payment

**Total 6,152.40**

Authenticate and pay

Request someone to pay



# Launched e-invoicing in UK

Win the '3 x 3'



## Current markets



Australia

NZ

Singapore

## New market



UK

## Technology that powers e-invoicing



Direct bill payments Automate bill entry **New bill**

### Save time entering bills

Receive bills as eInvoices

eInvoicing allows your suppliers to directly send bills to Xero, regardless of what financial system they may use. [Learn more about receiving eInvoices.](#)

**Register to receive eInvoices**

Email bills to Xero

To automatically create draft bills with some details filled in, forward emails with attachments to the following email address. [Learn more](#)

Email

Start date	Due date
<input type="text"/>	19 Nov 2022
	18 Nov 2022
	17 Nov 2022

# What's ahead for payments

Win the '3 x 3'



## Key focus areas

- ✓ Reduce friction for small businesses
- ✓ More ways to pay
- ✓ Enhance UK bill pay

Neredah Blake, Blakeaway

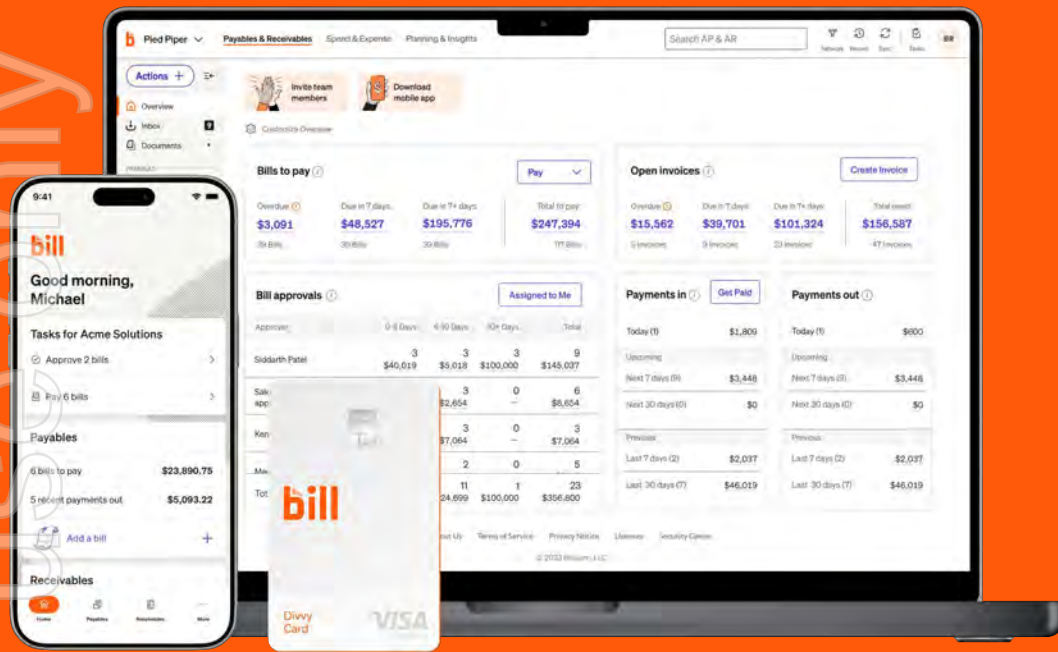
# INTRODUCING: New partnership with BILL

Win the '3 x 3'



# bill

- ✓ Deeply embedded experience
- ✓ Robust bill pay capabilities
- ✓ Broad payment choices
- ✓ Better cash flow visibility and control



 IN DEVELOPMENT



In development: US bill pay beta

Win the '3 x 3'



bill

DEMO





# Win the future



# AI already powers a range of products across Xero

Win the future



FORECASTING



CONNECTED  
ENTITIES



UNDERSTANDING  
FINANCIAL  
DOCUMENTS



CODING  
TRANSACTIONS



GENERATIVE  
AI

# We see AI playing a vital role in three ways

Win the future



Automating and streamlining  
repetitive, time-consuming tasks



Delivering the right insights  
at the right time



Introducing conversational  
interfaces using generative AI

# Automating and streamlining repetitive, time-consuming tasks

Win the future



## Bank reconciliation predictions

Reconcile (8) | Cash coding | Bank statements | Account transactions | Compact view

What's this? | Review your bank statement files.

Spent	Received	Match	Create	Transfer	Discard	Find & Match
8 Aug 2023 Flourmings Nursery Seedlings <a href="#">More details</a>	500.00	Match	Create	Transfer	Discard	Find & Match
Why		Enter a description.				
Region		GST or Income				Add details
8 Aug 2023 Giggle Ads GGU5843 <a href="#">More details</a>	65.36	Match	Create	Transfer	Discard	Find & Match
Why		Enter a description.				
Region		GST or Expenses				Add details
9 Aug 2023 KG Group Trailer Lease <a href="#">More details</a>	700.00	Match	Create	Transfer	Discard	Find & Match
Why		Weekly Rent				
Region		GST or Expenses				Add details
10 Aug 2023 Horton Agricultural Course Compost <a href="#">More details</a>	350.00	Match	Create	Transfer	Discard	Find & Match
Why		10 Aug 2023 Horton Agricultural Ref: INV-5162				
Region		GST or Expenses				Add details
14 Aug 2023 Safety Supplies Clothes Holes L <a href="#">More details</a>	50.00	Match	Create	Transfer	Discard	Find & Match
Why		Safety Supplies				
Region		GST or Expenses				Add details

## How Hubdoc uses OCR AI technology

Hubdoc | Accounts | Foxglove Studios

ADD ACCOUNT | ADD FILETYPE

FOLDERS | DOCS | Sort By: Bill Date | IT | Adobe Invoice

Payroll Account 2er  
Bill Date: Mar 1, 2018  
\$25.00

Adobe  
Account: 0000786  
Bill Date: Dec 01, 2019  
\$52.99  
Due: Dec 03, 2019

Hubdoc (0007)  
Bill Date: Dec 16, 2019  
Due: Jan 16, 2020

stripe  
Account: 0000129  
Bill Date: Mar 1, 2019  
\$0.00

Adobe  
Account: 0000786  
Bill Date: Nov 01, 2019  
\$0.00  
Due: Nov 08, 2019

INVOICE

Invoice Number: 01000  
Invoice Date: 2023-01-19  
Payment Terms: Net 30  
Due Date: 2023-02-18  
Purchase Order:  
Contract No:  
Order Number:  
Order Date:  
Customer No.:  
Bill to No.:  
Adobe Contact Information:  
[https://helpx.adobe.com/contact.html](#)

Line No.	Material No / Description	UOM	Unit Price	Qty	Extended Price	
000003	014021-02		54	52.99	1	52.99

1. Scan a physical bill

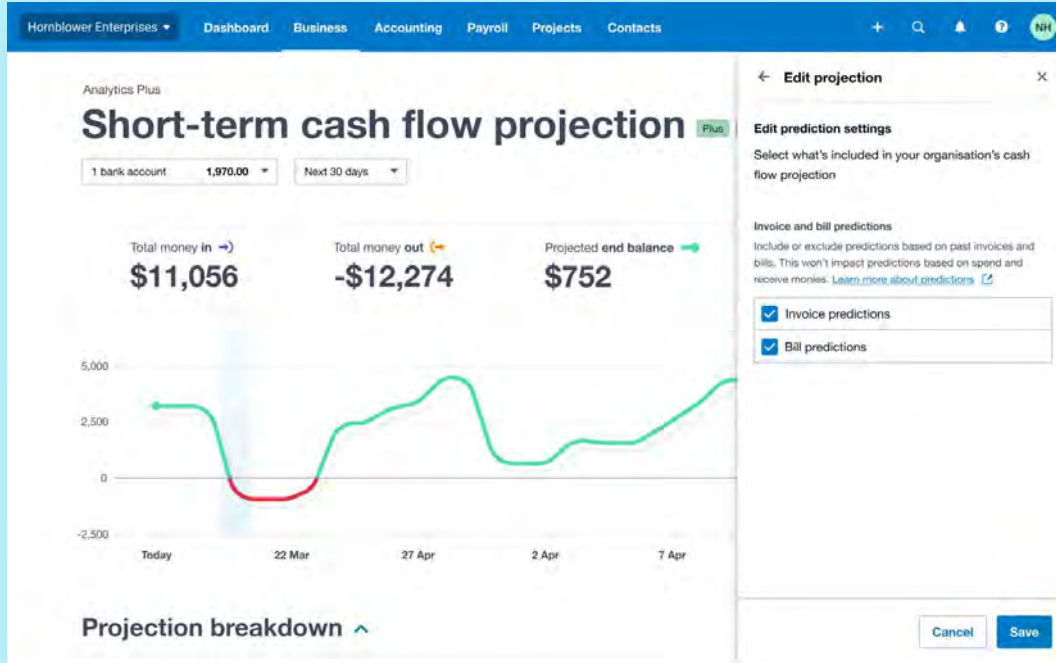
2. Create the appropriate bill automatically

3. AI matches if there is an existing supplier for it in contacts

4. For new suppliers, it verifies if the supplier is a valid business and updates contacts

# Delivering the right insights at the right time

Win the future

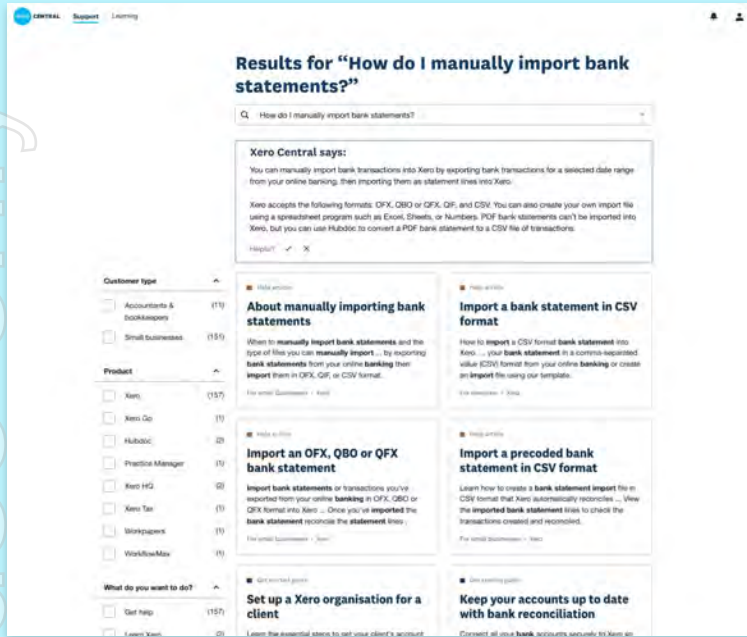


Xero Analytics Plus

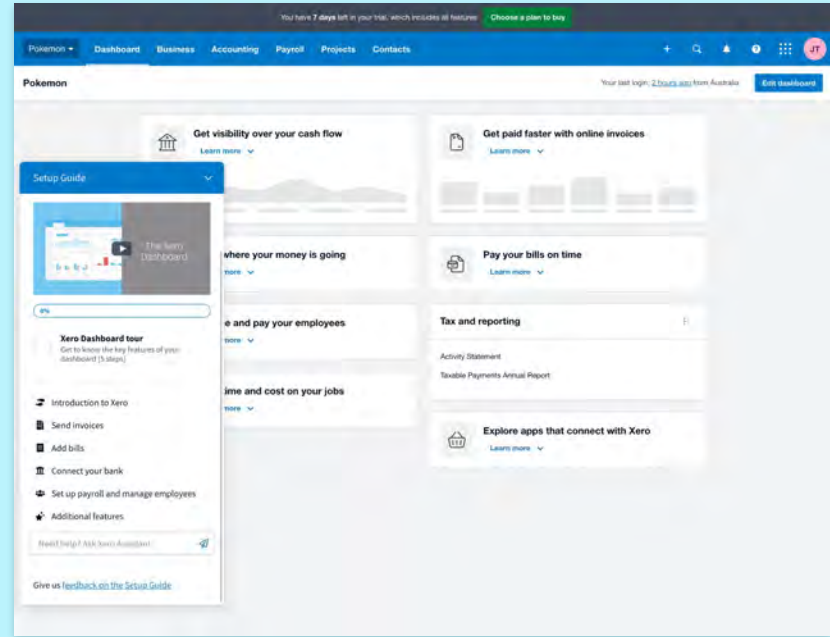
Internal use only

# Launched conversational interfaces using Gen AI

Win the future



Gen AI in Xero Central



Xero setup guide

# Introducing Just Ask Xero

A smart and trusted business companion  
for small businesses and advisors

Win the future



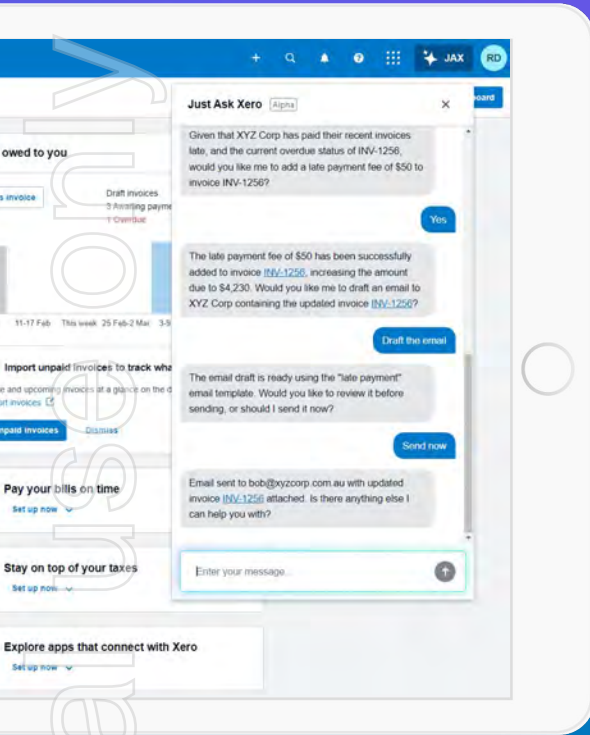
mal use only



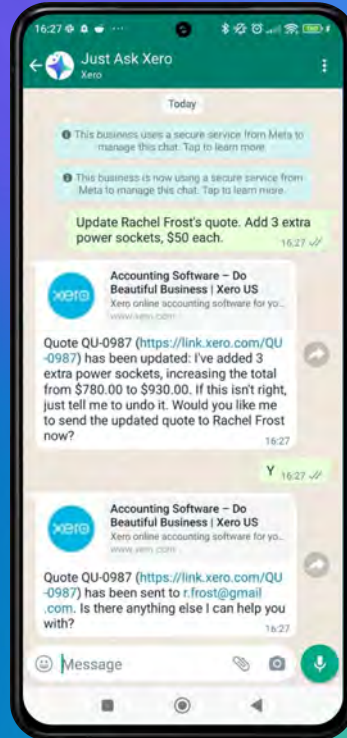
# Just Ask Xero



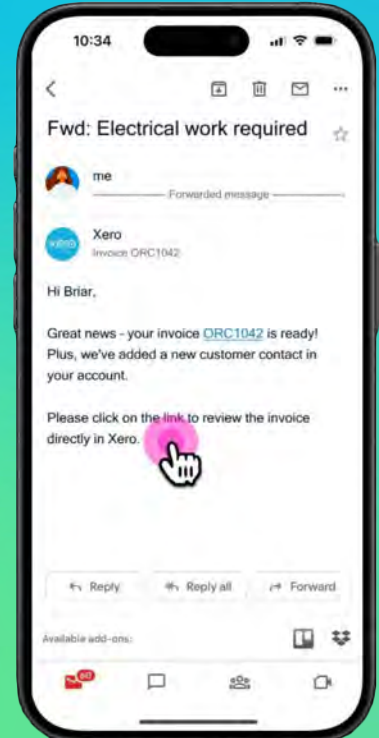
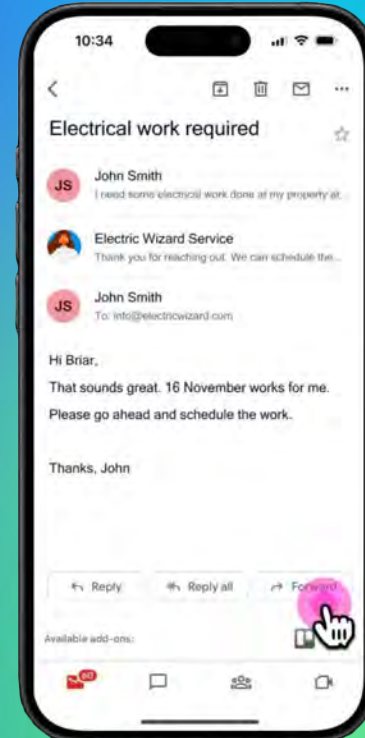
## Apply a late payment fee in Xero



## Update a quote via WhatsApp



## Create an invoice via email



# Our commitment to responsible data use and security

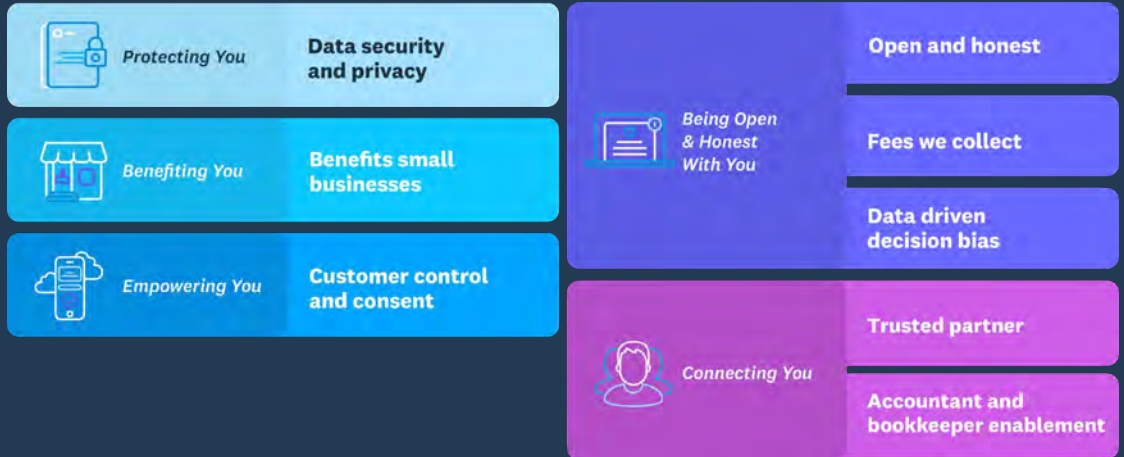
Win the future



## Data use and security

- ✓ Our responsible data use commitments guide every area of data use (including AI)
- ✓ Our products are built using leading security and privacy measures

## Xero's responsible data use commitments



mal use only



# Unleash Xero

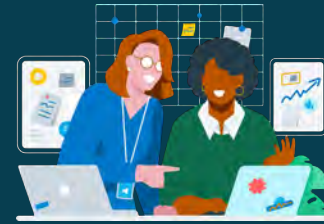


# Scaling our organisation for the next arc of growth

Unleash Xero



**Product and Technology  
operating model**



**Modernising while delivering  
customer value**

# Updates to our Product and Tech operating model

Unleash Xero



- ✓ Cross-product planning and delivery process
- ✓ Regional product teams focused on our three core markets
- ✓ Data, analytics and experimentation



# Xero's modernisation approach

Unleash Xero



- ✓ Deep data, and analysis, to understand bottlenecks and enhance developer productivity
- ✓ Balance modernisation with customer delivery
- ✓ Align modernisation with where we want to innovate



# Payroll modernisation case study

Unleash Xero



Help small businesses  
confidently manage  
payroll



Respond to how  
customer needs and  
technology have evolved



Technology upgrade for  
improved efficiency and  
performance



A new cross-functional  
team with diverse skills



# Payroll modernisation case study

Unleash Xero



Unused code

REMOVED



50%

Releasing a change to the codebase

PREVIOUSLY



~~Over 1 week~~



NOW  
On demand

Setting up test environments

PREVIOUSLY



~~Many days~~



NOW  
Under 45 min



# What's next for our operating model and modernisation

Unleash Xero



- ✓ Continue localised development for key markets
- ✓ Bolster domain-specific expertise
- ✓ Holistic location strategy to increase effectiveness
- ✓ Balance customer delivery while modernising

Xero, Melbourne HQ

# Recap of our talk today



Product and technology



## Win the '3 x 3'



### Core accounting

- Boosted US bank feed quality and coverage
- Released Hubdoc bank statement extraction
- Enhanced Xero Tax (UK) and launched tax manager
- Released automatic sales tax in US



### Xero Payroll

- Easier setup and onboarding globally
- Enhanced payroll in Australia
- Significant improvements to Xero Payroll (UK)



### Payments

- Removing friction to onboard to Xero payments
- Removing friction to pay an online invoice
- Launched bill pay in UK
- Launched e-invoicing in UK
- New partnership with BILL in US



### Focused bets to Win the Future

- Bank reconciliation predictions
- Hubdoc
- Xero Analytics Plus
- Gen AI in Xero Central
- Xero setup guide
- Just Ask Xero



### Unleash Xero(s) to Win

- Product and Technology operating model
- Modernising while delivering customer value

# Strategic deep-dives ahead



11:00am – 12:00pm

**Diya Jolly** CPO  
Product and technology



1:00pm – 1:15pm

**Angad Soin** CBOSO  
Product, pricing and packaging



1:15pm – 2:05pm

**Ashley Hansen Grech** CRO  
**Michael Strickman** CMO  
Fireside chat and GTM overview



2:05pm – 2:25pm

**Kirsty Godfrey-Billy** CFO  
Capital allocation and outlook

## Win the '3 x 3'

Complete three critical jobs in three largest markets

Reimagine the SMB journey including embed

Reimagine the AB journey including embed

## A Winning GTM Playbook



Product, pricing and packaging to increase usage and growth

Acquire and onboard subscribers to the right products efficiently



Deepen customer relationships

## Focused bets to Win the Future

Evolve customer experience through AI and mobile

Realise potential of our ecosystem and APIs

Keep growing other markets efficiently

## Unleash Xero(s) to Win

Deliver a purpose and performance driven EVP

Enhanced Product and Tech capabilities and op model

Transform core enterprise systems



Investor Day

# Product, pricing and packaging



**Angad Soin**

Chief Business Operations  
& Strategy Officer

February 2024

# Introduction and experience

---



**Angad Soin**

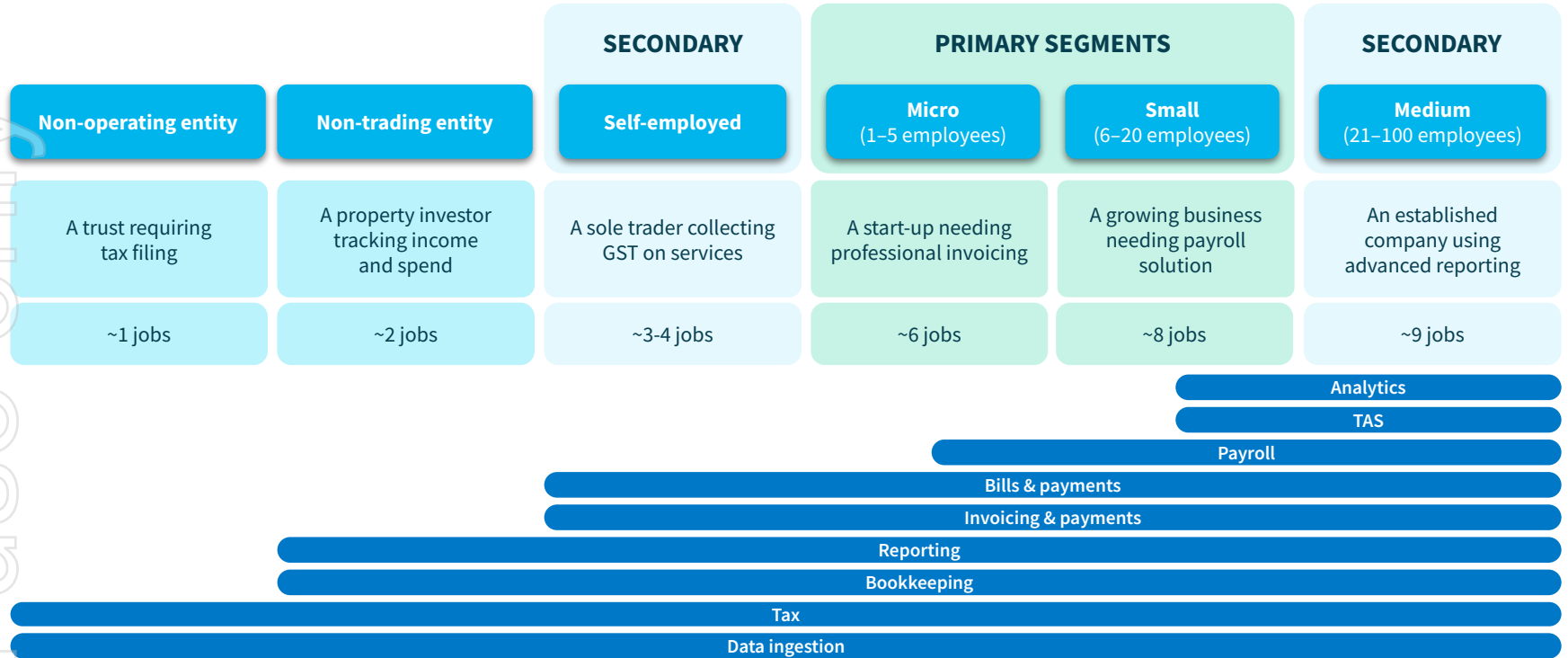
Chief Business Operations  
& Strategy Officer

**Deloitte.**



# Our SMB customers have varying needs to stay compliant and run their businesses

Example JTBD<sup>1</sup> Indicative jobs<sup>2</sup>



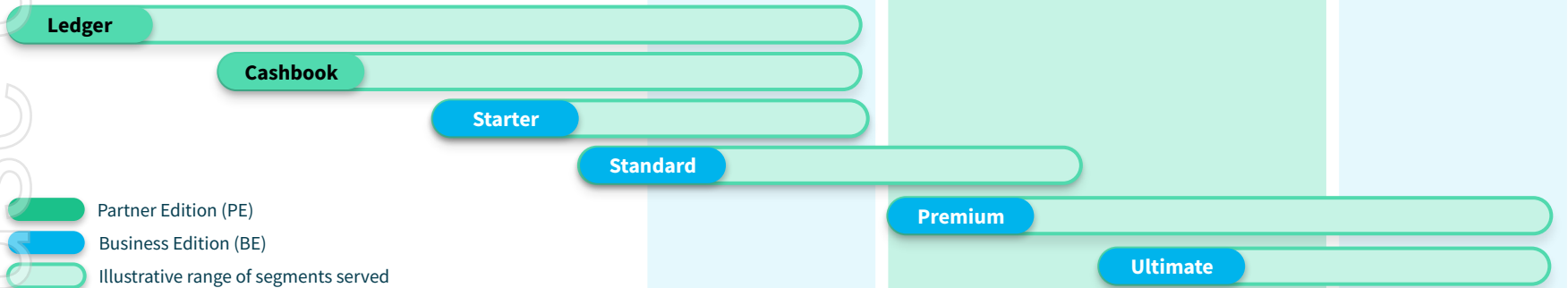
1. Average number of jobs completed based on actual usage of the Xero platform from September 2023 to November 2023. Refer to slide 125 in Appendix for more information about jobs.  
 2. Sample jobs shown are indicative, and based on our customers top jobs to be done (not exhaustive).

# Our current product ladder

## Customer segments



## Current state product plans (simplified view)





# Plan overview: AU example

**Example AU market plans<sup>1</sup>** (Plans shown are not exhaustive, descriptions are not comprehensive)

Partners

**Partner Edition  
(PE)**

Direct SMB

**Business Edition  
(BE)**

**Ledger** **\$6**

Prepare annual accounts (bank reconciliation, fixed asset management, financial statement)

**Cashbook** **\$12-23<sup>2</sup>**  
*Everything in Ledger, plus:*

Receive client bank feeds and generate GST returns

Enable client access (to code transactions & view data)

**Starter** **\$32**

Send up to 20 invoices and quotes

Enter 5 bills

Reconcile bank transactions

Capture bills & receipts with Hubdoc

Short-term cashflow & business snapshot

Payroll for 1 staff

**Standard** **\$65**  
*Everything in Starter, plus:*

Send >20 invoices and quotes

Enter >5 bills

Bulk reconcile transactions

Payroll for 2 staff

**Premium** **\$85**  
*Everything in Standard, plus:*

Multi-currency

Automate superannuation

Payroll for 5 staff<sup>3</sup>

**Ultimate** **\$115**  
*Everything in Premium, plus:*

Analytics Plus

Expenses for 5 people<sup>4</sup>

Projects for 5 people<sup>4</sup>

Payroll for 10 staff<sup>3</sup>

1. Example pricing and plan sets as at 29 February 2024 which may change from time to time. Pricing represents base RRP incl. GST, but exclusive of any add ons and quoted in AUD. For more detail on inclusions and conditions of use, refer to Xero Terms and Conditions.

2. The Cashbook plan has two variants: Non-GST (\$12) and GST (\$23). Pricing current as of February 2024.

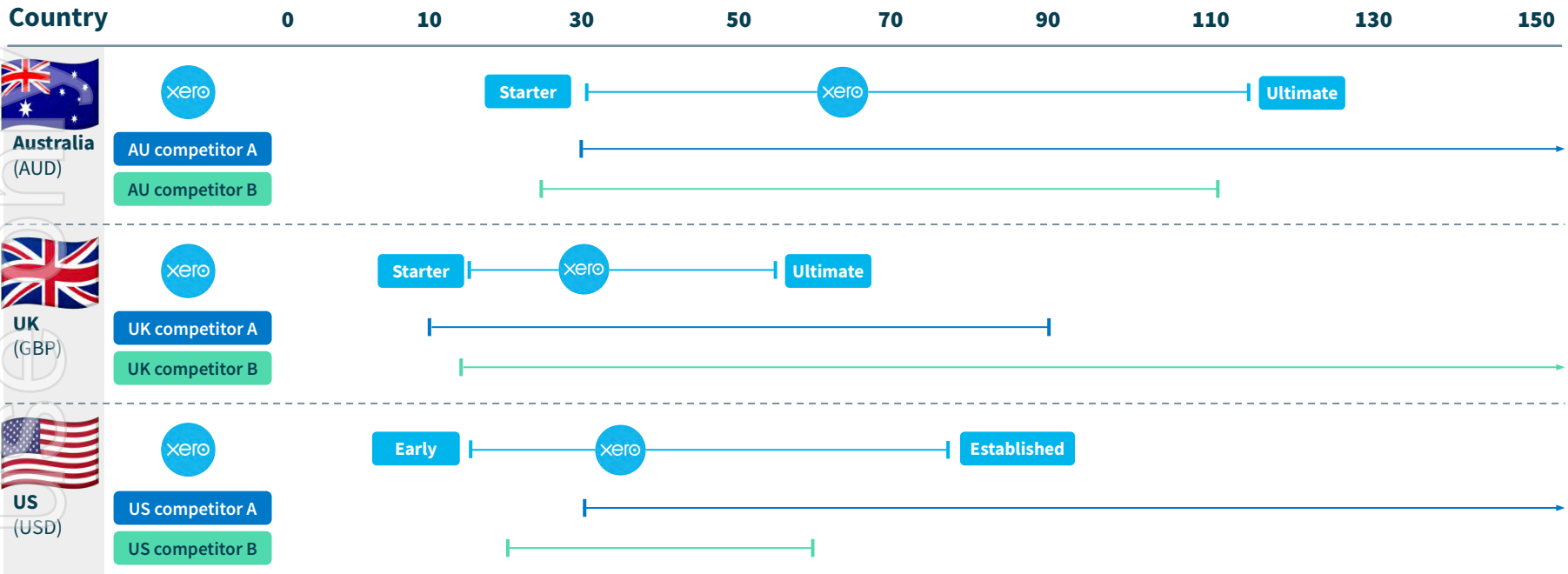
3. Subscribers have option to select plans with payroll for up to 10, 20, 50 or 100 people (at higher price), with additional charges of \$2/person over 100 people up to a maximum of 200.

4. Subscribers have option to add additional people (\$5 per additional user for expenses, and \$7 per additional user for projects).

# Xero's small Business Edition plans are competitively priced

Represents least and most expensive advertised plans  
 Xero weighted average plan price<sup>2</sup>

Starting price per month<sup>1</sup>

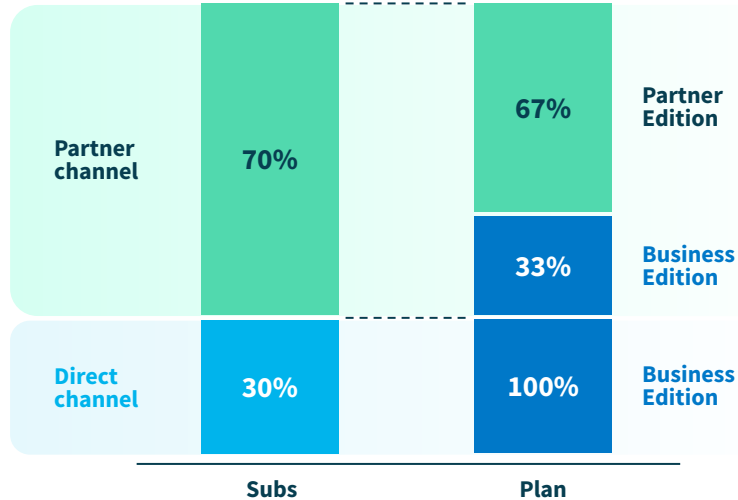


1. Indicative view based on publicly available desktop research and not exhaustive of all competitors or product features in the AU, UK and US market; Pricing is representative of RRP exclusive of discounts, limited to comparisons of Business Edition plans as at January 2024.

2. Reflects list price of Business Edition plans in each region (before discounts or other promotional offers) weighted by customer usage, in local currency.

# We have a different product mix across channels

Our Partner channel accounts for ~2 in every 3 subs, contributing both Business and Partner Edition plans<sup>1</sup>



1. Data shown for FY23 and reflective of Xero subscriptions globally, and does not include subscribers using only WorkflowMax, Hubdoc, Planday.

# Product, pricing and packaging levers



**Pricing**  
(RRP for plans)



**Packaging and bundling**  
(Plan features and add-ons)



**Product ladder**  
(Suite of plans)

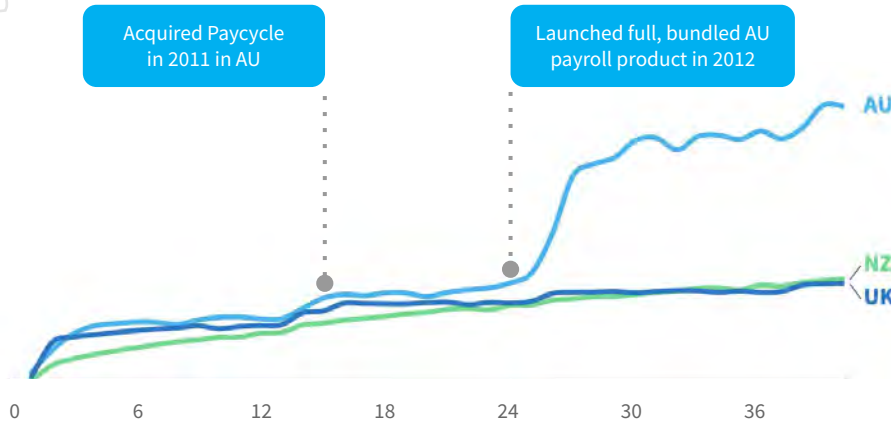


**Merchandising**  
(xero.com, Xero HQ)

# Packaging case study: Effective bundling increases adoption and LTV

## Payroll adoption rate

(% subscriptions using payroll in the months since launch)<sup>1</sup>



AU subscribers nearly  
~3x more likely to use  
payroll<sup>2</sup>



Payroll users have  
higher LTV vs  
non-payroll subscribers<sup>3</sup>



Bundling helped meet  
changing customer  
needs from regulatory  
tailwinds



1. Adoption rate represents subscribers using payroll (defined as a paying Xero customer and having posted one pay run within a month) versus all Business Edition (BE) subscribers; Payroll launched in 2015 in both NZ and UK.

2. Based on adoption rate of AU BE subscribers versus the equivalent metric for NZ and UK at 40 months post-launch.

3. Based on higher ARPU and lower churn for BE subscribers actively using payroll versus those who are not using payroll.

# What's next for product, pricing and packaging

## A Winning GTM Playbook

Product, pricing and packaging to increase usage and growth

Acquire and onboard subscribers to the right products efficiently

Deepen customer relationships

- 1 Invest in pricing capability:**  
Team, data, experimentation
- 2 Optimise merchandising:**  
Match SMBs to the right plans
- 3 Simplified product ladder:**  
Intuitive upgrade flow and features
- 4 Value-based pricing:**  
Align price to customer value delivered



# Fireside chat with CRO & CMO



Hosted by  
**Kirsty Godfrey-Billy**  
Chief Financial Officer





# Introduction and experience



**Ashley Hansen Grech**  
Chief Revenue Officer



Square



recharge

JPMORGAN CHASE & CO.



**Michael Strickman**  
Chief Marketing Officer



Tripadvisor

Uber



Investor Day

# GTM overview



**Ashley Hansen Grech**  
Chief Revenue Officer



**Michael Strickman**  
Chief Marketing Officer

February 2024

# Our sales leadership team

**Nigel Piper**  
EGM Customer Experience  
*Ex IRD NZ*



**Anthony Drury**  
Managing Director, ANZ  
*Ex Zip Co, PayPal, AMEX*



**Pete Koteras**  
EGM Revenue Ops  
& Strategy  
*Ex National  
Australia Bank*



**Faye Pang**  
Country Manager - Canada  
*Ex Uber*



**Ashley Hansen Grech**  
Chief Revenue Officer

**Jeremy Butteriss**  
EGM Ecosystem  
& Partnerships  
*Ex Stripe, Google*



**Ben Richmond**  
Country Manager - US  
*Ex Spark NZ*



**Cameron Peters**  
CEO TaxCycle  
*Ex Intuit*



**Alex von Schirmeister**  
Managing Director,  
UK & Emerging Markets  
*Ex eBay*



# Our GTM strategy is designed to meet customers where they are with four different motions across our two key sales channels



**Do It Yourself (DIY)**



**Do It Together (DIT)**



**Do It For Me (DIFM)**

**Direct channel**

**Partner channel**

**SMB direct**

SMB purchases directly online from Xero

100% Business Edition

**Partner attributed**

SMB purchases online, and invites in an AB partner

100% Business Edition

**Partner originated**

Partner digitally self-serves subs via Xero HQ

Balanced Business and Partner Edition

**Partner wholesale**

Partner buys bulk subscriptions to onboard multiple clients

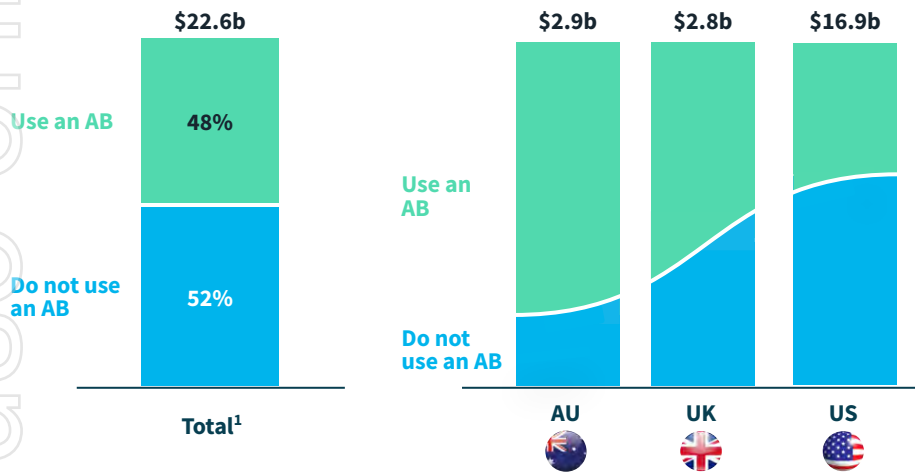
Mostly Partner Edition

Collaboration Modes  
Xero Channels  
Sales Motion

# Both of our channels are valuable to us

ABs play a key role in our three focus markets

SMB accounting software SAM<sup>1,2</sup>  
(SAM value)



1. SMB accounting software SAM based on AU, UK and US for accounting (bookkeeping, annual tax, data in, reporting & insights).  
2. Estimated share of accounting software SAM by SMBs that use an accountant or bookkeeper (AB) and those that do not.

# Our Partner and Direct channels form a flywheel to drive growth

Internal use only





# Partner channel



Sach Yadav, Pennyhills



# Sales teams focus on driving acquisition and deepening Partner relationships

Partner channel



## Partner sales



### Lead generation

Brand, events



### Inbound

Nurturing and converting new partners



### Growth-focused

Onboarding, establishing partners

## CX



### Retention

Supporting customers on product

Prospect

Qualify

Convince and win

Onboard and establish

Grow and retain

# Partner channel levers

Partner channel



Acquiring  
new partners



**Lead generation** (Events,  
digital)



**Sales**  
(Inbound/growth teams)



**Onboarding**  
(Partner Central)

Deepening  
relationships  
with existing  
partners



**Account management**  
(Partner growth & support)



**Partner success**  
(Education)



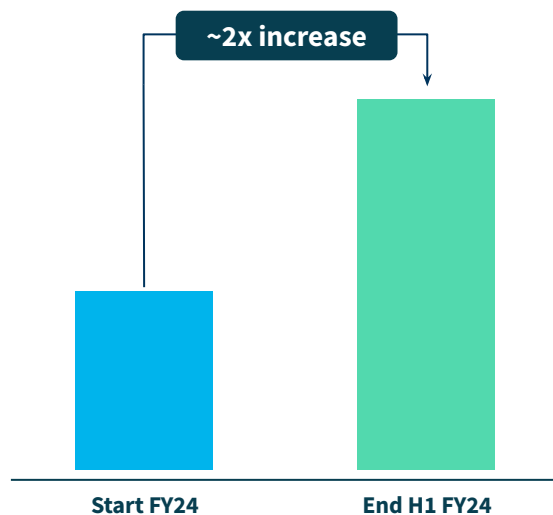
**Partner program**  
(Incentives, rewards)

# US case study: Focusing on CAS to support product mix

Partner channel



## Focus on CAS partners



US Client Advisory Services (CAS) partner base

US focus on Client Advisory Services (CAS) segment of accountant and bookkeepers



Initiative driving a ~2x uplift in CAS partner engagement with Xero<sup>1</sup>



Initiative part of broader effort to improve mix; initial outcomes positive



1. Based on number of small or larger accounting or bookkeeping partners providing client advisory services in the US.

# What's ahead for the Partner channel

Partner channel



## A Winning GTM Playbook

Product, pricing and packaging to increase usage and growth

Acquire and onboard subscribers to the right products efficiently

Deepen customer relationships

- 1 Deeper investment in B2AB marketing engine** to turbocharge demand
- 2 Optimise partner segmentation and sales coverage model** for greater yield
- 3 Evolve incentives and Partner Program** to drive greater value (and improved mix)
- 4 Invest in new sales capabilities** to deepen partner penetration



Larissa Feeney, Accountant Online



## Direct channel



Doggo, South Africa

# Our marketing leadership team

**Matt Moore**  
EGM Product Marketing  
*Ex Winshuttle, Sears  
Home Service*



**Angela Sullivan**  
EGM Communications  
*Ex IBM*



**Adam Roberts**  
EGM Data Science, Analytics &  
Insights  
*Ex Uber, TripAdvisor*

**Francesco Pittarello**  
EGM Performance  
Marketing  
*Ex Uber*



**Michael Strickman**  
Chief Marketing Officer



**John Coldicutt**  
EGM Partner Marketing  
*Ex Superb, IRIS Software*

**Vladka Kazda**  
EGM Customer Engagement  
*Ex carsales*



**James Kyd**  
EGM Brand and Marketing  
*Ex IBM*



# Our Direct channel teams focus on driving acquisition and deeper engagement

Direct channel



## Brand

Growing awareness/demand, mid-funnel marketing



## Regional marketing

Adapting marketing efforts to local markets



## Performance channels

Leveraging free and paid channels to attract and convert SMBs



## Customer engagement

Supporting SMB customer lifecycle



## Data science, analytics and insights

Using data to improve measurement, strengthen experimentation, deliver insights and optimise

Awareness and consideration

Convince and win

Onboard and establish

Grow and retain



# Direct channel levers

Direct channel



Acquiring new SMBs

## Free levers

**SEO**  
(Google, Bing)

**Lifecycle marketing**  
(CRM)

## Paid levers

**SEM**  
(Google, Bing)

**Social**  
(Meta, then others)

**Display**  
(Google)

**Brand**  
(Online and offline)

**Promotions and offers**

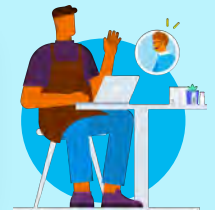
Deepening relationships with existing SMBs

## Free levers

**Lifecycle marketing**  
(CRM)

## Paid levers

**Promotions and offers**



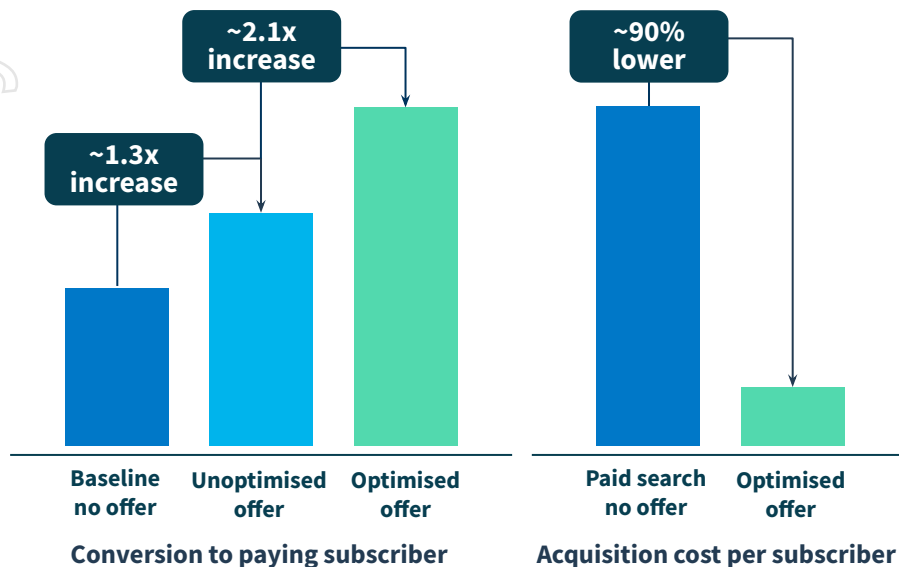
# Promotions case study: Increasing efficiency in Direct

Direct channel



## Outcomes of selected promotional experiments<sup>1</sup>

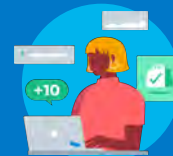
(Impact on conversion and acquisition cost per subscription)



Experimentation on promotion/offer size, type and length



~2.1x uplift in conversion observed for optimised offer



Learnings to support more efficient marketing spend



1. Results from experiment which tested impact of trial marketing content and promotions on an audience of expired and active trialists

# What's ahead for the Direct channel

Direct channel



## A Winning GTM Playbook

Product, pricing and packaging to increase usage and growth

Acquire and onboard subscribers to the right products efficiently

Deepen customer relationships

- 1 **Deeper investment in B2AB marketing engine** to turbocharge demand
- 2 **More dynamic allocation of marketing spend** based on efficiency
- 3 **Grow central capabilities** that scale across regions
- 4 **Optimise marketing** to better engage customers for up-sell and cross-sell
- 5 **Invest in tools/tech** for data-driven customer lifecycle marketing

Sheryl Ozinsky, Oranjezicht City Farm Market



Investor Day

# Capital allocation and outlook



**Kirsty Godfrey-Billy**  
Chief Financial Officer

February 2024

# Key metrics we will use to measure our success

Rule of 40 outcomes consistent with our longer-term aspiration<sup>1</sup>

Revenue growth

FY23: 28%

FCF margin

FY23: 7%

ARPU

FY23: \$34.61

Increase value for customers through **product delivery, packaging and mix**

Net subscriber additions

FY23: 470k

Grow customer base in line with focus on **primary customer segments**

OPEX ratio

FY23: 80.7%<sup>2</sup>

Investing within our cost envelope to **generate operating leverage**

LTV / CAC

FY23: 6.5

**Deliver sustainable long-term value** via low churn and high gross margin

Revenue / FTE

FY23: 284k

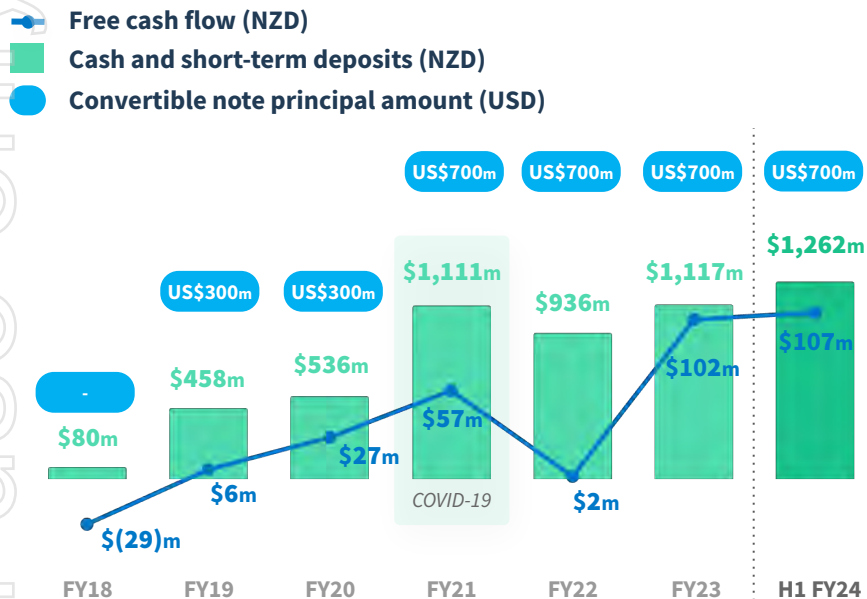
Ensuring that a **higher performing culture flows through to top-line metrics efficiently**

1. Please refer slide 115 for further information on Xero's aspiration.

2. Excluding \$34.7m of restructuring costs.

# A strong balance sheet provides optionality

## Free cash flow improving, liquidity / strength maintained

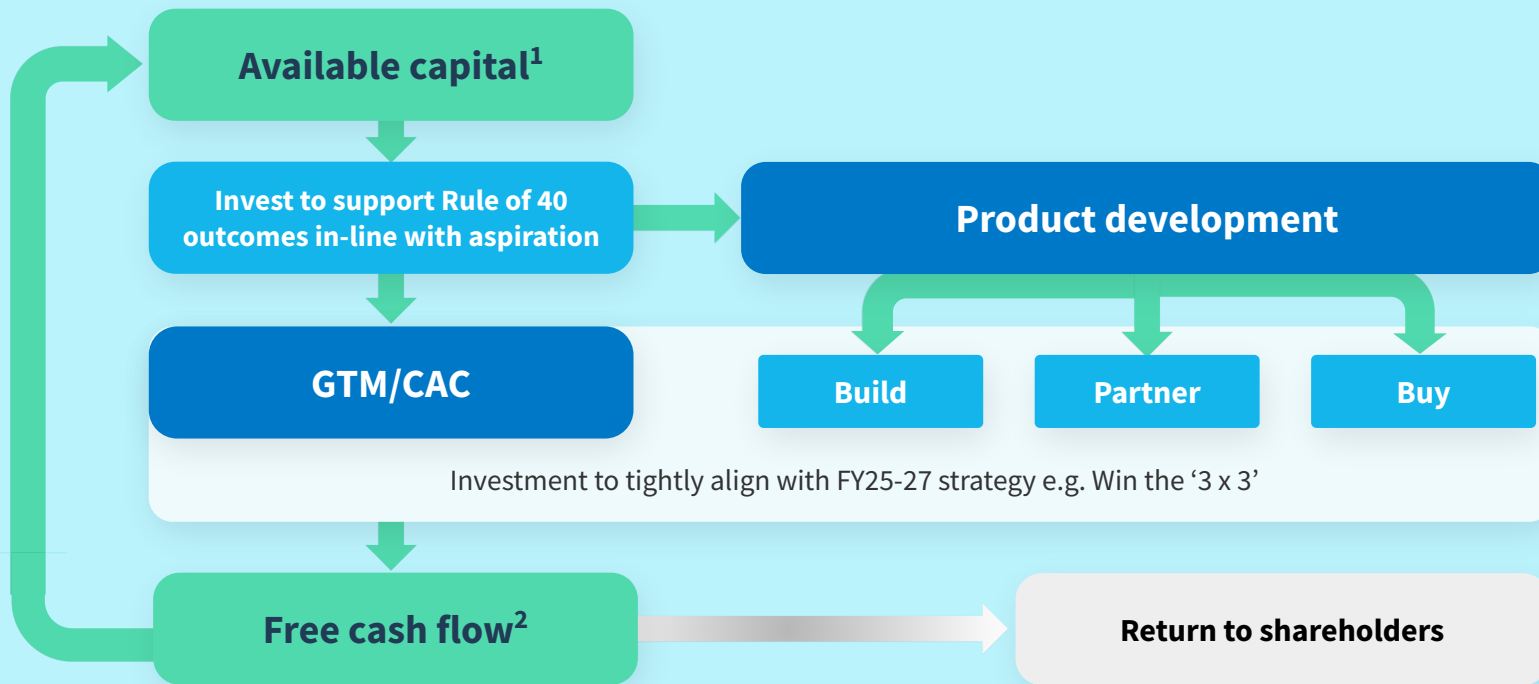


## Convertible note provides funding and balance sheet flexibility

### Key convertible note features to be aware of:

- **Maturing in Q3 FY26 (Dec-25)**, balance is US\$700m
- **Funding is at a very attractive rate**, with no cash interest expense
- Convertible and other funding options in capital structure will **depend on M&A opportunities, operating and funding conditions and balance sheet structure**
- **Optionality to settle in either cash or shares**, fixed at either US\$700m or 5.2m shares (3.4% dilution) up to share price of US\$174.64

# The best use of capital is to invest in Xero's growth...



1. Assumes balance sheet strength is maintained.

2. Free cash flow also includes investment into cost-to-serve and G&A and other operating costs, which are excluded for simplicity.



## ...with a disciplined portfolio allocation framework and processes

**We will purposefully allocate resources to our highest returning areas**

80%

20%

Win the '3 x 3'

A Winning GTM  
Playbook

Focused bets to  
Win the Future

Unleash Xero(s) to Win

**Focused in long term, dynamic in short term, measured throughout**

Refining capital allocation quarterly based on performance against key company metrics

Doubling down where we see results; adjusting investment where more proof points are needed

# Programmatic M&A has been part of Xero's success

## Key Success Factors



Targeted on **solving critical functionality in our core JTBD**



Provided key functionality to **better serve core customer segments**



Accessed **best-in-class** capability



**Increased the value of our offering** by combining with our core proposition



**Simple to integrate** to our existing offering

## Learnings



Activity that's **focused on non-core jobs for our customers**



Required **complex, new out-of-market product build**, development or enhancement in the core business case

# We will continue to employ programmatic M&A

## Criteria for M&A supporting the FY25-27 strategy

- Aligned to the '3 x 3' (including sub jobs)
- Best-in-class capabilities
- Simple ways to integrate (tuck-in, embed or bundle)

## Other considerations

- Optionality to extend into new markets or segments with a best-in-class solution

## Our approach to M&A going forward will be focused

- Strategic clarity supports **greater focus in capital allocation**
- **Larger scale and free cash flow generation** opens new opportunities
- Executive and senior leadership **strengthened and new capabilities added**
- Platform better **enabled to embed and/or bundle**
- **Lessons learned** on keeping it simple; sticking to core JTBD or closely aligned, with ease of integration

# Reiterating existing FY24 outlook



## FY24 outlook<sup>1</sup>

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

## Recap of approach to long-idle subscriptions<sup>2</sup>

At the H1 FY24 results we announced a plan to remove a small pool of paid for but long-idle subscriptions estimated at **150k-200k** after the end of FY24 during H1 FY25. This is a small percentage of our subscriptions, and we expect removing them to have minimal impact on Xero's revenue. These subscriptions **had an ARPU of ~\$3.70 at 30 September 2023** and if they were removed at that date **group ARPU would increase by approximately 3-5%**, reflecting the limited revenue contribution of these subscriptions.

1. Refer to slide 123 in the Appendix for compositional commentary on this ratio.  
2. Refer H1 FY24 Investor Presentation slide 27 for details.

# Our aspiration<sup>1</sup>

*We aspire to be a world class SaaS business*

*We believe we have the opportunity to both double the size of our business<sup>2</sup> and deliver Rule of 40 or greater performance<sup>3,4</sup>*

*As we grow, we will also seek to be more balanced between subscriber growth and ARPU expansion*

1. Xero's aspirational revenue and Rule of 40 performance opportunity statement is not guidance nor a prediction of future performance. No timeframe has been set. It is provided as an indication of outcomes management is currently focused on as part of its strategic ambitions. There are risks and uncertainties in connection with this aspiration, including from events beyond Xero's control.

2. Xero FY23 revenue was \$1,400m, and H1 FY24 revenue (annualised on a straight line basis) is \$1,599m.

3. 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) calculated on a constant currency basis.

4. Rule of 40 outcomes, and the component parts may vary from period to period as we identify opportunities for disciplined customer focused growth and experience changes in our cash tax payment profile. Xero is likely to exhaust its accumulated tax losses and other tax credits in New Zealand (NZ DTAs) during the FY25-27 strategic period and commence paying cash taxes. Xero's outstanding balance of usable NZ DTAs as at 30 September 2023 was ~\$345m.

# Recap

1

## Strong track record

Innovative product customers love and delivering on our commitments

2

## Focused vision

Well positioned for large TAM opportunity with focus on what matters most

3

## Turbocharged capabilities

Ready to drive new levers for growth

4

## High aspirations

To be a world class SaaS business



Investor Day

# Q&A session and wrap-up

February 2024





Investor Day

# Appendix

February 2024

# 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).

## **Business Edition (BE)**

Xero's Business Edition plans, which include Starter, Standard, Premium, Ultimate and Payroll only (names and inclusions may vary by region).

## **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.

## **CX**

Customer Experience.

## **EVP**

Employee value proposition.

## **Free cash flow (FCF)**

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.

## **FTE**

Full time equivalent employee.

## **GAAP**

Generally accepted accounting principles.

## **Jobs to be done (JTBD)**

Jobs reflect the common tasks that a customer can perform on the Xero platform to run their business. A job does not directly represent a specific product or solution. Refer to Appendix slide 124 for examples.

# Glossary

## **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.

## **Net Promoter Score (NPS)**

NPS is a measure of brand advocacy and the likelihood of a customer to recommend Xero. NPS is calculated by subtracting the percentage of detractors from the percentage of promoters surveyed in a given period.

## **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.

## **OPEX ratio**

The ratio of operating expenses to operating revenue.

## **Partner Edition (PE)**

Xero's Partner Edition plans, which include Cashbook and Ledger (names and inclusions may vary by region).

## **Rest of World (ROW)**

Rest of World includes other regions Xero has a material presence in such as South Africa, Singapore, Ireland, Hong Kong and Malaysia.

## **Rule of 40**

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) calculated on a constant currency basis.

## **SAM**

Serviceable Addressable Market is estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s).

## **Subscribers**

Subscriber means 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.

## **TAM**

Total Addressable Market is estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s).

## **TAS**

Time, attendance and scheduling.

# Financial performance

	\$000s						
	H1 FY22	H2 FY22	FY22	H1 FY23	H2 FY23	FY23	H1 FY24
Total operating revenue	505,703	591,116	1,096,819	658,512	741,372	1,399,884	799,547
<b>Gross profit</b>	<b>440,417</b>	<b>517,014</b>	<b>957,431</b>	<b>572,912</b>	<b>649,029</b>	<b>1,221,941</b>	<b>699,790</b>
<b>Gross margin</b>	<b>87.1%</b>	<b>87.5%</b>	<b>87.3%</b>	<b>87.0%</b>	87.5%	87.3%	87.5%
Sales & marketing costs	(189,017)	(216,636)	(405,653)	(238,980)	(232,851)	(471,831)	(277,220)
<i>Percentage of operating revenue</i>	37.4%	36.6%	37.0%	36.3%	31.4%	33.7%	34.7%
Product design & development	(166,833)	(205,191)	(372,024)	(230,710)	(259,338)	(490,048)	(256,392)
<i>Percentage of operating revenue</i>	33.0%	34.7%	33.9%	35.0%	35.0%	35.0%	32.1%
General & administration	(66,144)	(78,028)	(144,172)	(82,501)	(85,576)	(168,077)	(96,634)
<i>Percentage of operating revenue</i>	13.1%	13.2%	13.1%	12.5%	11.5%	12.0%	12.1%
<b>Total operating expenses excl restructuring costs</b>	<b>(421,994)</b>	<b>(499,855)</b>	<b>(921,849)</b>	<b>(552,191)</b>	<b>(577,765)</b>	<b>(1,129,956)</b>	<b>(630,246)</b>
<i>Percentage of operating revenue</i>	83.4%	84.6%	84.0%	83.9%	77.9%	80.7%	78.8%
Restructuring costs	-	-	-	-	(34,692)	(34,692)	(2,131)
<b>Total operating expenses incl restructuring costs</b>	<b>(421,994)</b>	<b>(499,855)</b>	<b>(921,849)</b>	<b>(552,191)</b>	<b>(612,457)</b>	<b>(1,164,648)</b>	<b>(632,377)</b>
<i>Percentage of operating revenue</i>	83.4%	84.6%	84.0%	83.9%	82.6%	80.7%	79.1%
<b>Operating income</b>	<b>18,423</b>	<b>17,159</b>	<b>35,582</b>	<b>20,721</b>	<b>36,572</b>	<b>57,293</b>	<b>67,413</b>
Asset impairments and disposals	(2,898)	(21,797)	(24,695)	(26,532)	(96,148)	(122,680)	1,636
Other income & expenses	1,398	29,689	31,087	12,188	(6,598)	5,590	10,403
<b>EBIT</b>	<b>16,923</b>	<b>25,051</b>	<b>41,974</b>	<b>6,377</b>	<b>(66,174)</b>	(59,797)	79,452
<b>EBITDA</b>	<b>98,080</b>	<b>114,581</b>	<b>212,661</b>	<b>108,551</b>	<b>49,848</b>	<b>158,399</b>	<b>206,090</b>
EBITDA margin	19.4%	19.4%	19.4%	16.5%	6.7%	<b>11.3%</b>	25.8%
<b>Adjusted EBITDA</b>	<b>98,603</b>	<b>110,116</b>	<b>208,720</b>	<b>123,709</b>	<b>177,980</b>	<b>301,689</b>	<b>204,522</b>
Adjusted EBITDA margin	19.5%	18.6%	19.0%	18.8%	24.0%	<b>21.6%</b>	25.6%
<b>Net profit/(loss)</b>	<b>(5,922)</b>	<b>(3,192)</b>	<b>(9,114)</b>	<b>(16,130)</b>	<b>(97,402)</b>	<b>(113,532)</b>	<b>54,084</b>

# SaaS metrics summary

## ANZ

Australia, New Zealand

## International





UK, US, CA, ROW

## Group

Global Total

	FY22	FY23	H1 FY24	FY22	FY23	H1 FY24	FY22	FY23	H1 FY24
ARPU	\$32.00	<b>\$34.24</b>	\$36.99	\$30.53	<b>\$35.10</b>	\$37.91	\$31.36	<b>\$34.61</b>	\$37.38
CAC months	8.8	<b>9.1</b>	8.4	22.9	<b>23.3</b>	23.5	15.5	<b>15.9</b>	15.6
Churn	0.66%	<b>0.68%</b>	0.72%	1.23%	<b>1.21%</b>	1.24%	0.90%	<b>0.90%</b>	0.94%
Subscribers	1,856,000	<b>2,133,000</b>	2,272,000	1,415,000	<b>1,608,000</b>	1,673,000	3,271,000	<b>3,741,000</b>	3,945,000
Net additions	295,000	<b>277,000</b>	139,000	235,000	<b>193,000</b>	65,000	530,000	<b>470,000</b>	204,000
LTV per sub	\$4,225	<b>\$4,374</b>	\$4,543	\$2,164	<b>\$2,542</b>	\$2,654	\$3,333	<b>\$3,587</b>	\$3,742
LTV/CAC	14.9	<b>14.0</b>	14.6	3.1	<b>3.1</b>	3.0	6.9	<b>6.5</b>	6.4
Total LTV	\$7.84b	<b>\$9.33b</b>	\$10.32b	\$3.06b	<b>\$4.09b</b>	\$4.44b	\$10.90b	<b>\$13.42b</b>	\$14.76b

# FY24 operating expense ratio composition

EXPENSE RATIO	FY23	FY24 EXPECTATION	
<b>SALES &amp; MARKETING</b>	<b>33.7%</b> of revenue	Expected ratio trend vs FY23: Flat to down	
<b>PRODUCT DESIGN &amp; DEVELOPMENT</b>	<b>35.0%</b> of revenue	Expected ratio trend vs FY23: Down	
<b>GENERAL &amp; ADMINISTRATION</b>	<b>12.0%</b> of revenue	Expected ratio trend vs FY23: Down	
<b>TOTAL OPERATING EXPENSES</b>	<b>80.7%</b> <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 <b>75%</b>	

1. Excluding \$34.7m of restructuring costs

# Jobs to be done

Jobs reflect the common tasks that a customer can perform on the Xero platform to run their business. A job does not directly represent a specific product or solution. Some examples are below.

## XERO PRODUCT AREAS

Accounting

Payments

Payroll

Adjacents

## JOB AREAS

Data In

Book-keeping

Annual Tax

Reporting & Insights

Invoice & Payments

Bills & Payments

Payroll

TAS

Expenses

Projects

Inventory

- **Data In** - data ingestion such as through bank feeds, Hubdoc, other data extraction tools
- **Bookkeeping** - involves record keeping activities such as bank account reconciliation, recording sales tax, managing data and documents
- **Annual Tax** - managing and filing annual tax
- **Reporting & Insights** - analysing performance of the business such as through Xero Analytics Plus, planning and budgeting

- **Invoice & Payments** - managing invoices and debt collection by invoicing the customers, sending e-invoices, using payment services like Stripe to collect payments
- **Bills & Payments** - managing and paying bills, including receiving e-invoices and using bill payment services like GoCardless

- **Payroll** - paying employees & contractors

- **Time, Attendance & Scheduling (TAS)** - tracking time worked by employees
- **Expenses** - using Xero Expenses to manage expense claims and employee reimbursements
- **Projects** - using Xero Projects to provide quotes and manage the workflow between staff (who is working on what, for which clients, for how long)
- **Inventory** - manage my inventory e.g. tracking stock such as through Xero Inventory Plus



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mal use only



Beautiful business