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## MARKET RELEASE

### **FY25 Interim Results Investor Presentation**

**WELLINGTON, 14 November 2024** - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its FY25 Interim Results Investor Presentation.

Xero's H1 FY25 earnings webcast at 10:30am AEDT on 14 November 2024 can be accessed at: <https://webcast.openbriefing.com/xro-hyr-2025/>

Pre-registration for the event is encouraged at the above link. A replay of the webcast will be available on Xero's Investor Centre: [www.xero.com/about/investors](http://www.xero.com/about/investors)

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

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#### **About Xero**

[Xero](https://www.xero.com) is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

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XERO LIMITED

# INVESTOR BRIEFING

14 November 2024

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# IMPORTANT NOTICE

This presentation is given on behalf of Xero Limited (Xero) (ASX:XRO) (Company number NZ 183 0488, 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 interim report for the period ended 30 September 2024, 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 30 September 2024, 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 42 for a glossary of the key terms used in this presentation.

# AGENDA

01

**INTRODUCTION  
& SUMMARY OF  
RESULTS**



**SUKHINDER SINGH CASSIDY**  
CHIEF EXECUTIVE OFFICER

02

**FINANCIAL  
RESULTS**



**KIRSTY GODFREY-BILLY**  
CHIEF FINANCIAL OFFICER

03

**STRATEGIC  
THEMES**

04

**Q&A**

# INTRODUCTION AND SUMMARY OF RESULTS



**SUKHINDER SINGH CASSIDY**  
CHIEF EXECUTIVE OFFICER



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# H1 FY25 result reinforces our ability to deliver

Strong revenue growth, with all large markets contributing

Continued to deliver a greater than Rule of 40 outcome

Operating revenue

**\$996m**

+25% YOY  
(23% in constant currency)

Adjusted EBITDA

**\$312m**

+52% or +\$107m YOY

Rule of 40<sup>1</sup>

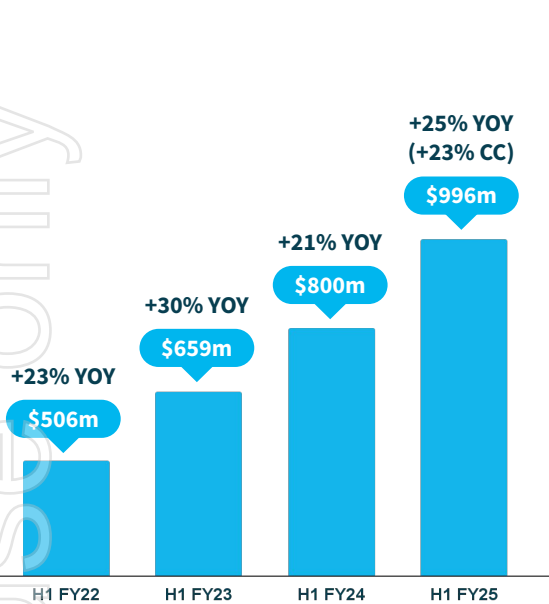
**43.9%**

+10.3pp YOY

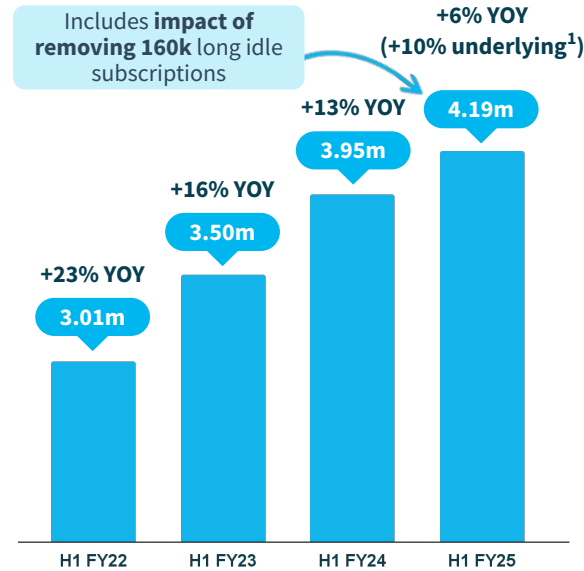
1. Rule of 40 is defined as the sum of annual revenue growth percentage in constant currency and free cash flow margin percentage (free cash flow as a percentage of revenue)

# Continued our track record of strong revenue growth

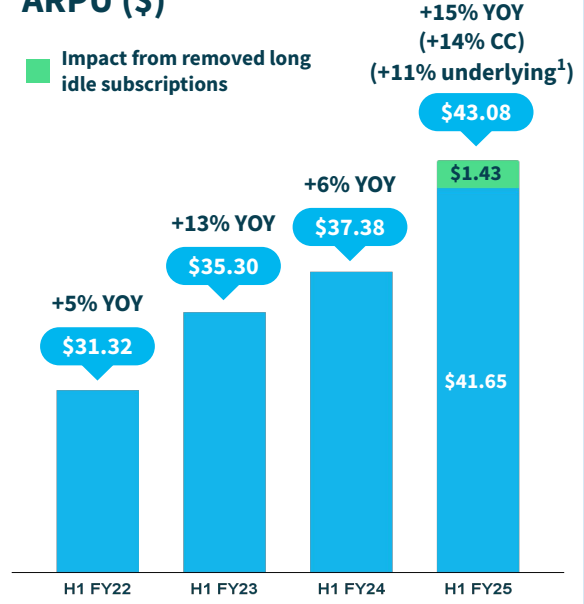
## Revenue (\$m)



## Subscribers (#m)



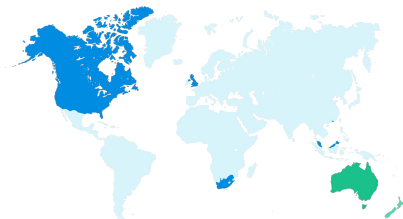
## ARPU (\$)



**Growth balanced between subscribers and ARPU**

1. Underlying subscriber and ARPU growth excludes the impact of the removal of long idle subscriptions. For further details refer to slide 31

# Strong revenue growth in ANZ



**\$567m REVENUE**

(+24% YOY, 23% constant currency)

**2.47m SUBSCRIBERS<sup>1</sup>**

(+9% YOY | +10% underlying, 93k net additions | 112k underlying)

**\$41.34 ARPU<sup>2</sup>**

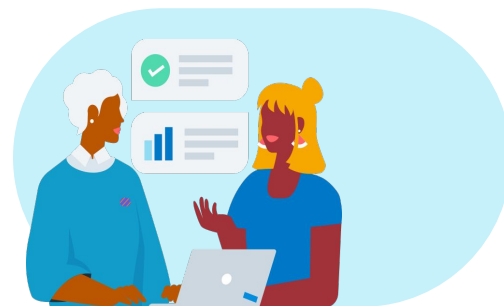
(+12% YOY, 10% constant currency | 11% underlying)

- **Australia: Continued strong revenue growth**
  - Strong growth delivered, continue to see opportunity for new cloud adoption and to offer more services. Early steps in place to drive improved product mix
  - Revenue growth benefited from timing of price rises (two months earlier in H1 FY25)
- **New Zealand: Subscriber growth reflects level of market penetration**

## Australia

## New Zealand

	H1 FY25	Δ YOY		H1 FY25	Δ YOY	
<b>Revenue</b>	\$458m	+27%	+26% CC	\$109m	+13%	+13% CC
<b>Subscribers</b>	1.86m	+10%	H1: +84k net additions	614k	+5%	H1: +9k net additions
<b>Long idle subscriptions</b>	(19k)	+11% underlying	H1: +103k underlying	N/A	N/A	N/A

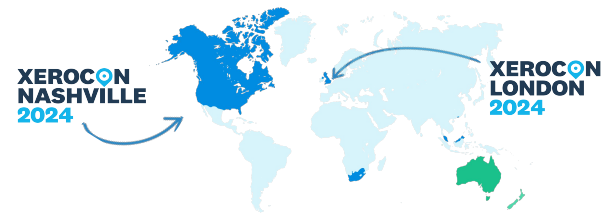


1. Underlying subscriber growth excludes the impact of the removal of long idle subscriptions. For further detail refer to slide 31

2. Price changes for Australia Business Editions (BE) were effective from 1 July 2024. Price Changes for New Zealand BE products were effective from September 2024 and had minimal impact on H1 FY25 revenue



# Execution of strategy delivered strong International revenue growth



**\$429m REVENUE**  
(+25% YOY, 23% constant currency)

**1.72m SUBSCRIBERS<sup>1</sup>**  
(3% YOY | +11% underlying, -67k net additions | +74k underlying)

**\$45.59 ARPU<sup>2</sup>**  
(+20% YOY, 19% constant currency | 12% underlying)

- **UK: Strong revenue growth** and continued momentum in subscriber growth outcomes reflecting continued cloud penetration
- **North America: Continued revenue momentum**
  - US subscriber growth solid in a seasonally weaker half
  - Canada subscriber growth limited, reflects current subdued backdrop and aligned investment approach
- **ROW: Robust revenue growth continues**, South Africa largest contributor, ROW long idle subscriptions mainly in Asia

## United Kingdom

## North America

## Rest of World

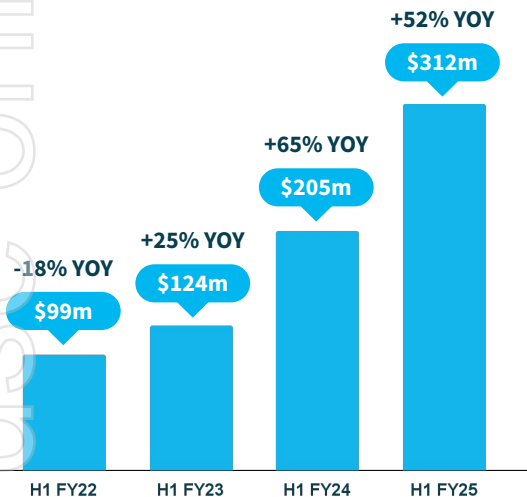
	United Kingdom			North America			Rest of World		
	H1 FY25	Δ YOY		H1 FY25	Δ YOY		H1 FY25	Δ YOY	
<b>Revenue</b>	\$271m	+26%	+22% CC	\$59m	+25%	+25% CC	\$99m	+23%	+22% CC
<b>Subscribers</b>	1.07m	+6%	H1: -3k net additions	365k	-8%	H1: -57k net additions	278k	+4%	H1: -7k net additions
<b>Long idle subscriptions</b>	(52k)	+11% underlying	H1: +49k underlying	(69k)	+10% underlying	H1: +12k underlying	(20k)	+12% underlying	H1: +13k underlying

1. Underlying subscriber growth excludes the impact of the removal of long idle subscriptions. For further detail refer to slide 31

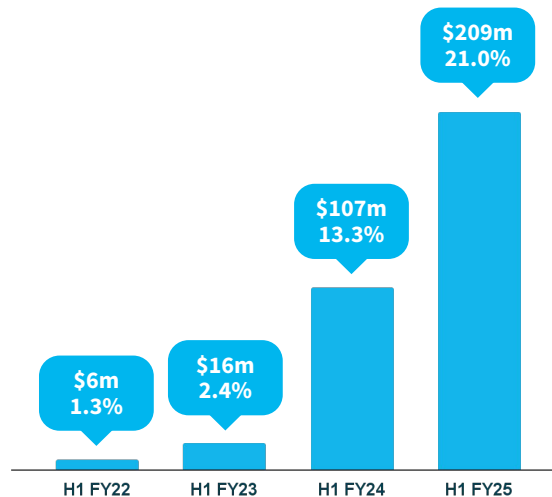
2. Business Edition (BE) price changes effective September 2024 in the UK, October / December 2024 in the US (no price changes in Canada) and November 2024 in Rest of World. UK price changes had minimal impact on H1 FY25 revenue while US & Rest of World (RoW) price changes are not reflected in any of the H1 FY25 metrics

# Continuing to deliver a greater than Rule of 40 outcome as we balance growth with profitability

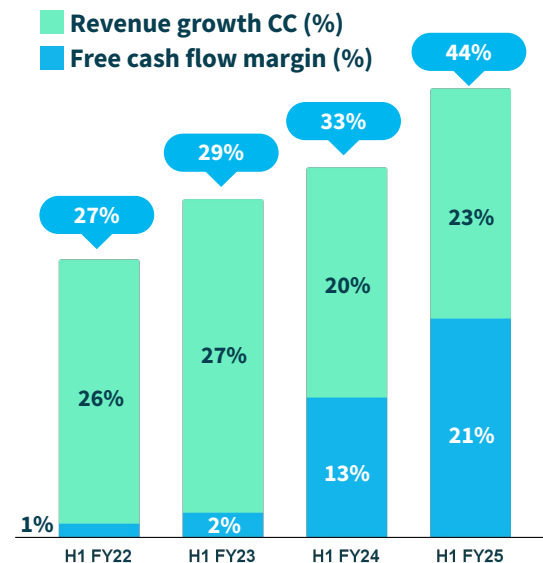
## Adjusted EBITDA (\$m)



## Free cash flow (\$m) & margin (%)



## Rule of 40<sup>1</sup> (%)



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

# FINANCIAL RESULTS



**KIRSTY GODFREY-BILLY**  
CHIEF FINANCIAL OFFICER

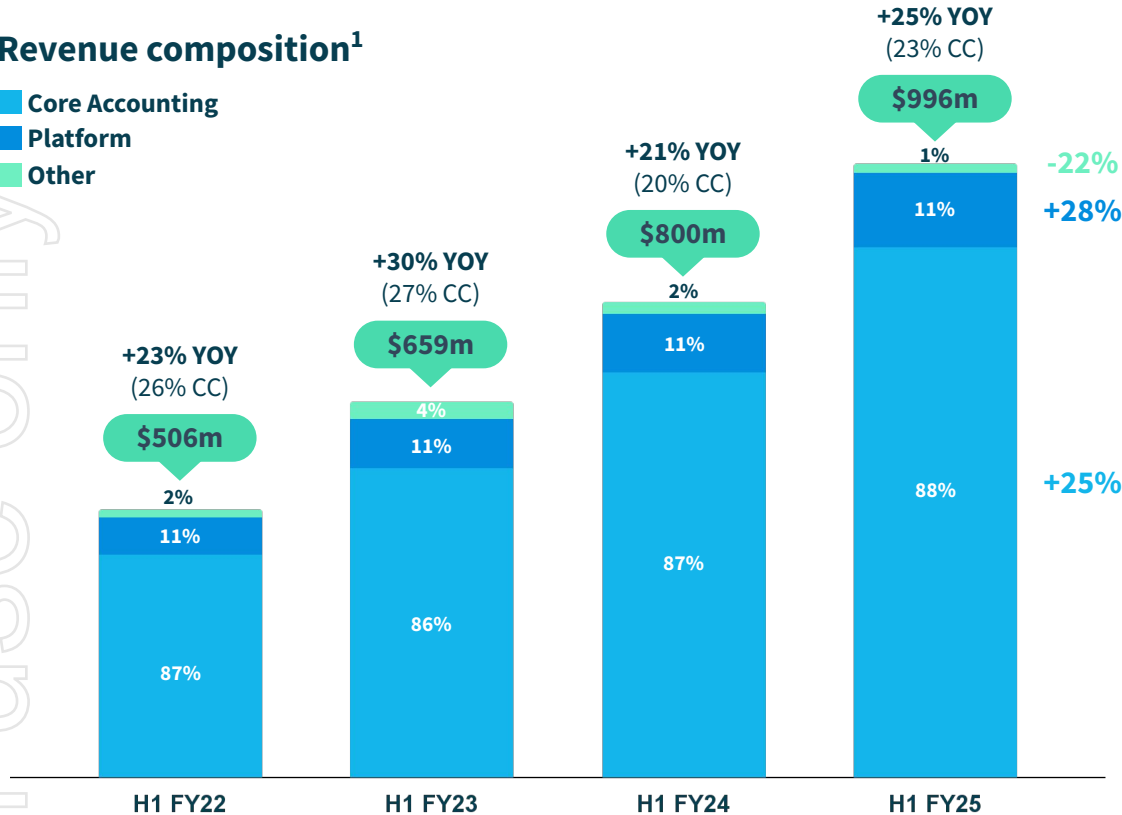
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# Broad based revenue growth across our portfolio

## Revenue composition<sup>1</sup>

- Core Accounting
- Platform
- Other

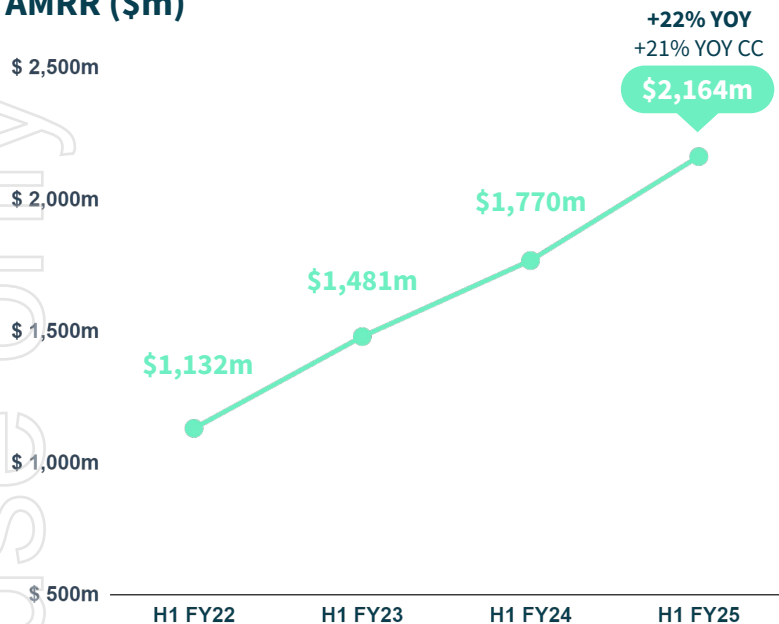


- **Group operating revenue** grew 25% YOY or 23% in constant currency
- **Core accounting revenues** grew 25% YOY or 24% in constant currency, driven by subscriber growth and price changes
- **Platform revenues** increased by 28% YOY or 27% in constant currency, largely driven by strong payments revenue growth
- **Other revenues** decreased 22% YOY due to the exit of WorkflowMax (effective 26 June 2024), partly offset by Xerocon revenue (two events in H1 FY25 vs. one in H1 FY24)

1. May not add through due to rounding

# Continued strong top-line momentum driven by both ARPU and subscriber growth

## AMRR (\$m)

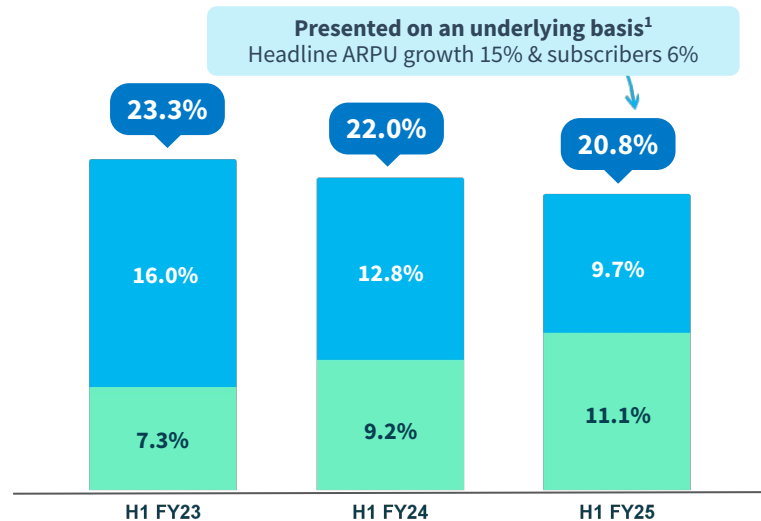


**Growth in AMRR of \$394.6m or 22% YOY (21% in constant currency).** This includes the impact of the removal of long idle subscriptions which totalled \$8m of AMRR.

1. Underlying subscriber growth excludes the impact of the removal of long idle subscriptions. For further details refer to slide 31

## AMRR growth drivers

- Subscriber growth (%)
- AMRR growth (%) (CC)
- ARPU expansion (%) (CC)

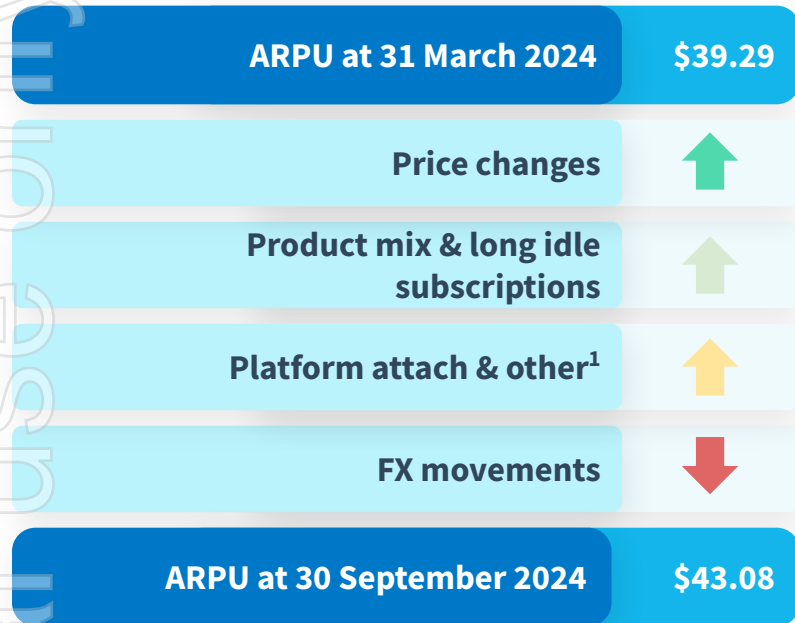


AMRR growth adjusted for the impact of long idle subscriptions in H1 FY25 was **balanced between subscriber additions and ARPU expansion**

# ARPU growth continues, early mix improvement demonstrates our strategic focus

## ARPU movement contributors

ARPU has increased \$3.79 since 31 March 2024



## Mix drivers

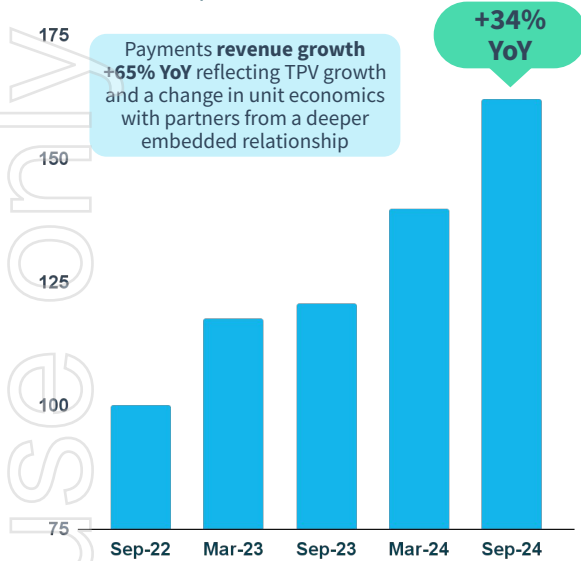
- Majority of mix benefits in the half from **one time changes** to subscriber base (i.e. long idle subscriptions and plan migrations)
  - Removal of **long idle subscriptions provided a \$1.43 benefit** to ARPU
  - Closing ARPU of \$43.08 reflects **value of go-forward subscription base** after removal of long idle subscriptions
- **Early positive signs** on product mix for new customers from recent plan changes with **increased uptake of higher-end BE plans in Australia**
- Includes drag from exit of WorkflowMax
- Largely from improved payments performance

1. Platform attach includes products such as Payments, Payroll and Planday

# 3x3 focus delivering improved payments performance

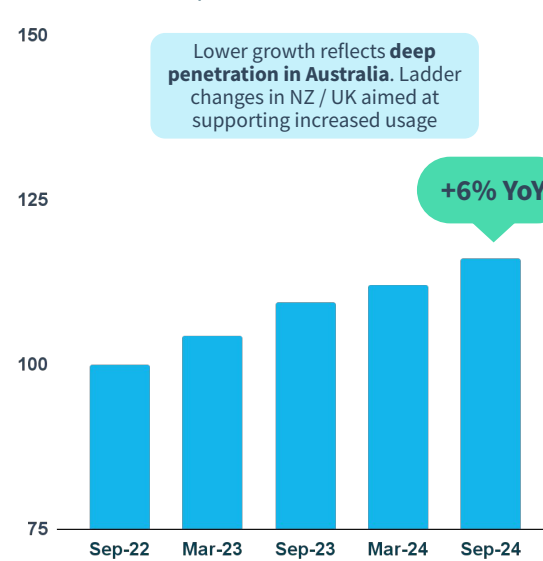
## Total payment value<sup>1</sup>

Indexed to Sep-22



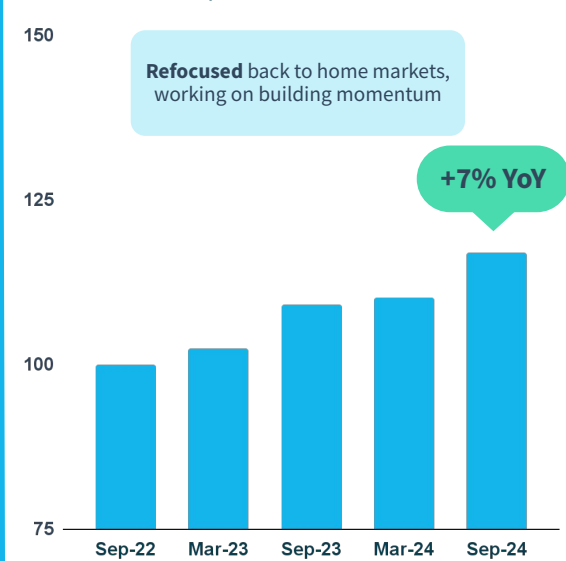
## Employees paid through Xero Payroll<sup>2</sup>

Indexed to Sep-22



## Planday users<sup>3</sup>

Indexed to Sep-22



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

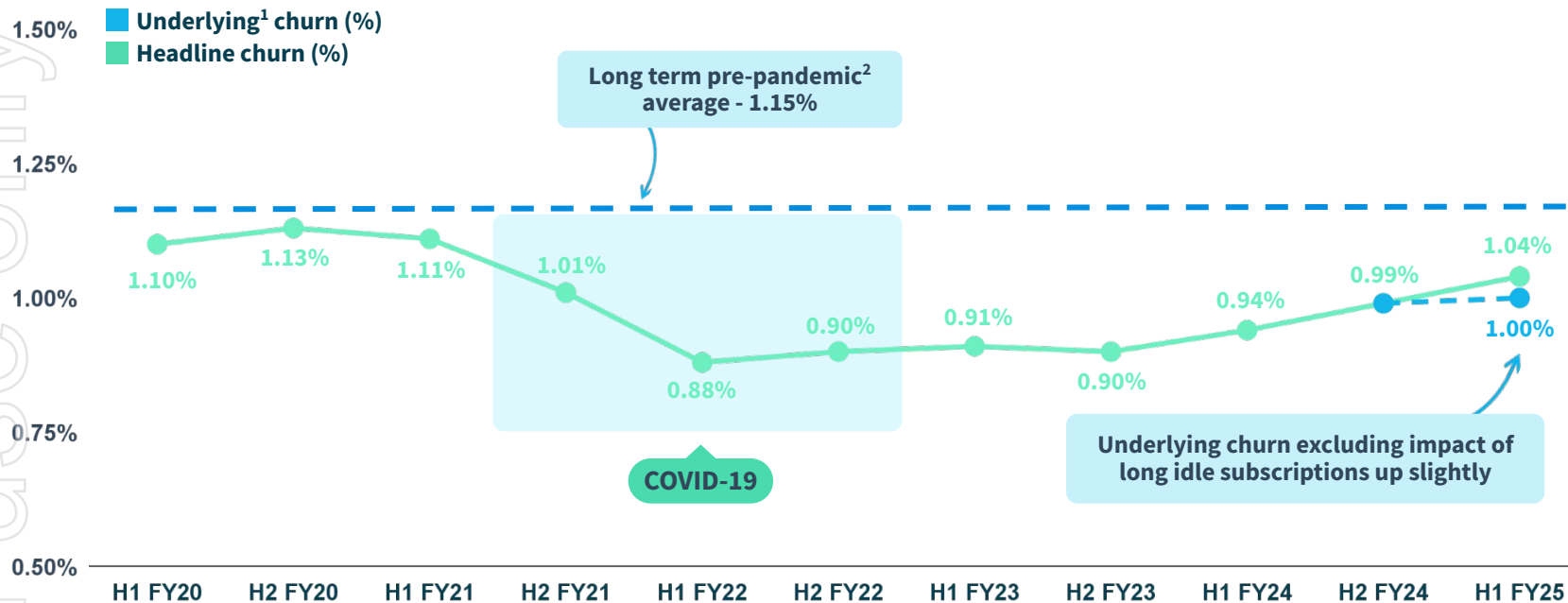
2. Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)

3. Average employee users of Planday

# Churn remains below pre-COVID levels

## MRR churn (%)

Churn is reported on a percentage of monthly recurring revenue basis



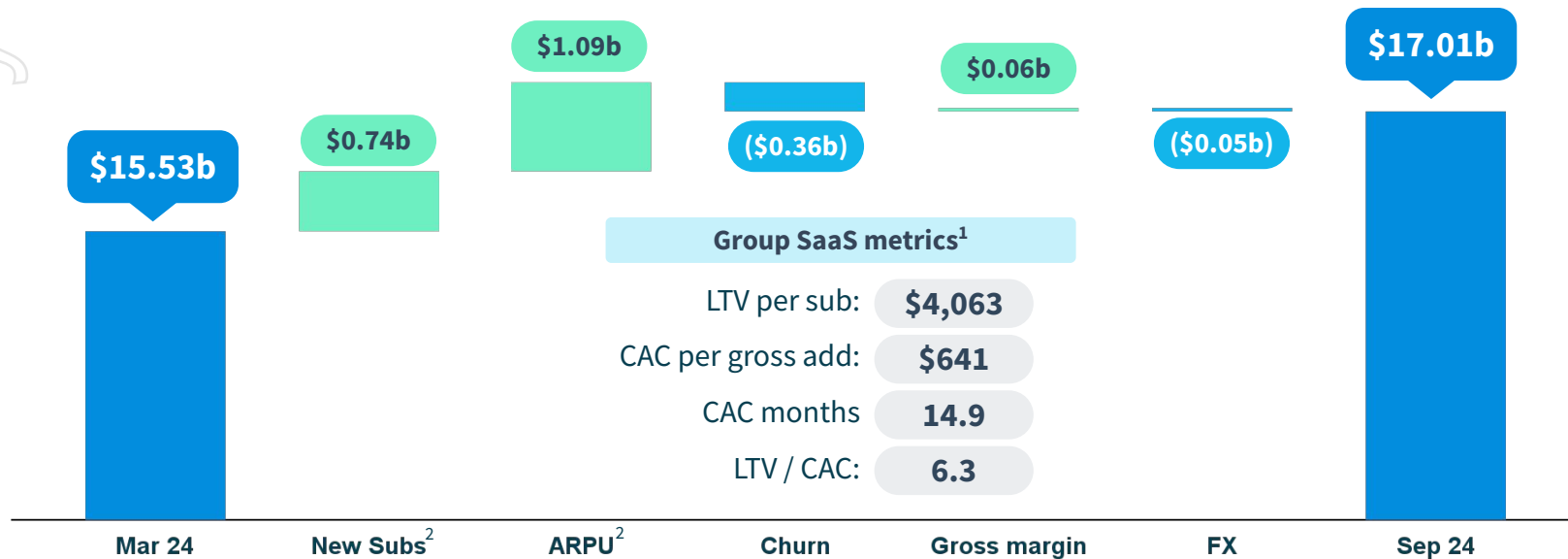
1. Underlying subscriber growth excludes the impact of the removal of long idle subscriptions. For further details refer to slide 31

2. Average calculated as MRR churn for the period FY16 - FY20



# LTV growth reflects strength of underlying business and focus on value creation

LTV movements by driver (\$b)<sup>1</sup>

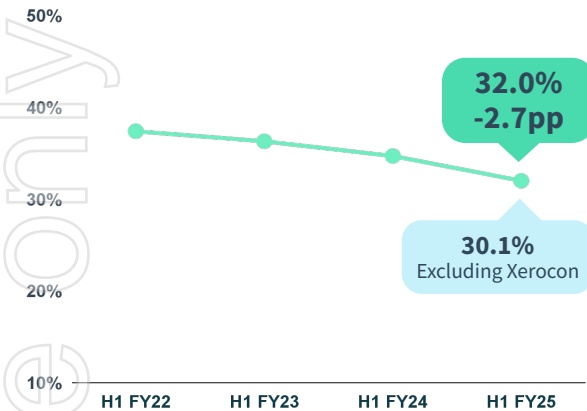


1. SaaS metrics including LTV, LTV per sub and LTV / CAC have been calculated using churn excluding the impact of the removal of long idle subscriptions of 1.00%, this reflects churn dynamics present in Xero's go-forward subscriber base. For further detail on the removal of these subscriptions refer to slide 31

2. Contribution from new subscribers and ARPU presented on an underlying basis to better reflect growth trends in H1 FY25

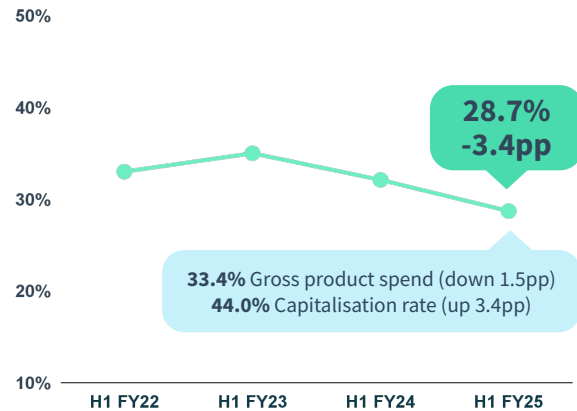
# Flow through of restructuring and scale benefits while purposefully allocating capital

## Sales & marketing as a % of revenue



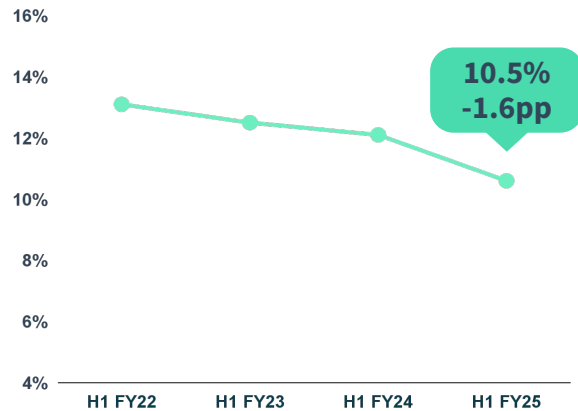
Sales and marketing costs increased by 15% YOY, driven by **increased investment in digital marketing** in our international markets, increased employee costs and **costs associated with hosting two Xerocons**. This was partly offset by **lower costs from our partnership with FIFA Women's Football**. Excluding Xerocon, these costs as a percentage of revenue fell to 30.1%

## Product design & development as a % of revenue



Product design and development costs increased 11% YOY. Total product design and development costs (including amounts capitalised) increased 19% YOY. The difference between these two largely reflected an increase in the capitalisation rate, as **more developer time was spent on releasing new product features for customers in the lead up to our Xerocon events in London and Nashville**. This contributed to a 3.4pp decrease in these costs as a percentage of revenue YoY

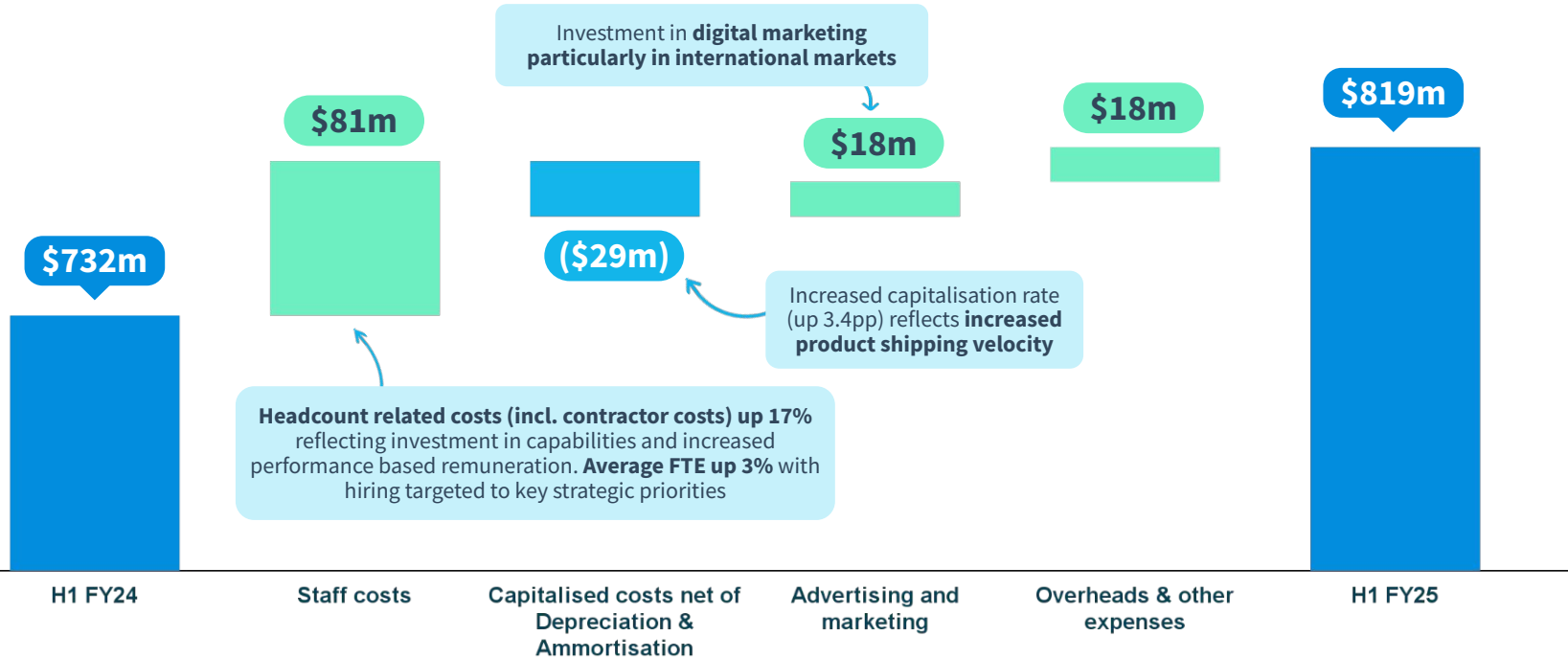
## General & administration as a % of revenue



General and administration (G&A) costs increased by 9% YOY, this primarily reflected increased headcount to support Xero's scale. This was lower than the growth in operating revenue in H1 FY25, resulting in a 1.6pp improvement in G&A as a percentage of revenue YoY

# Key drivers of our cost base reflect strategic priorities: investing in people, product and marketing

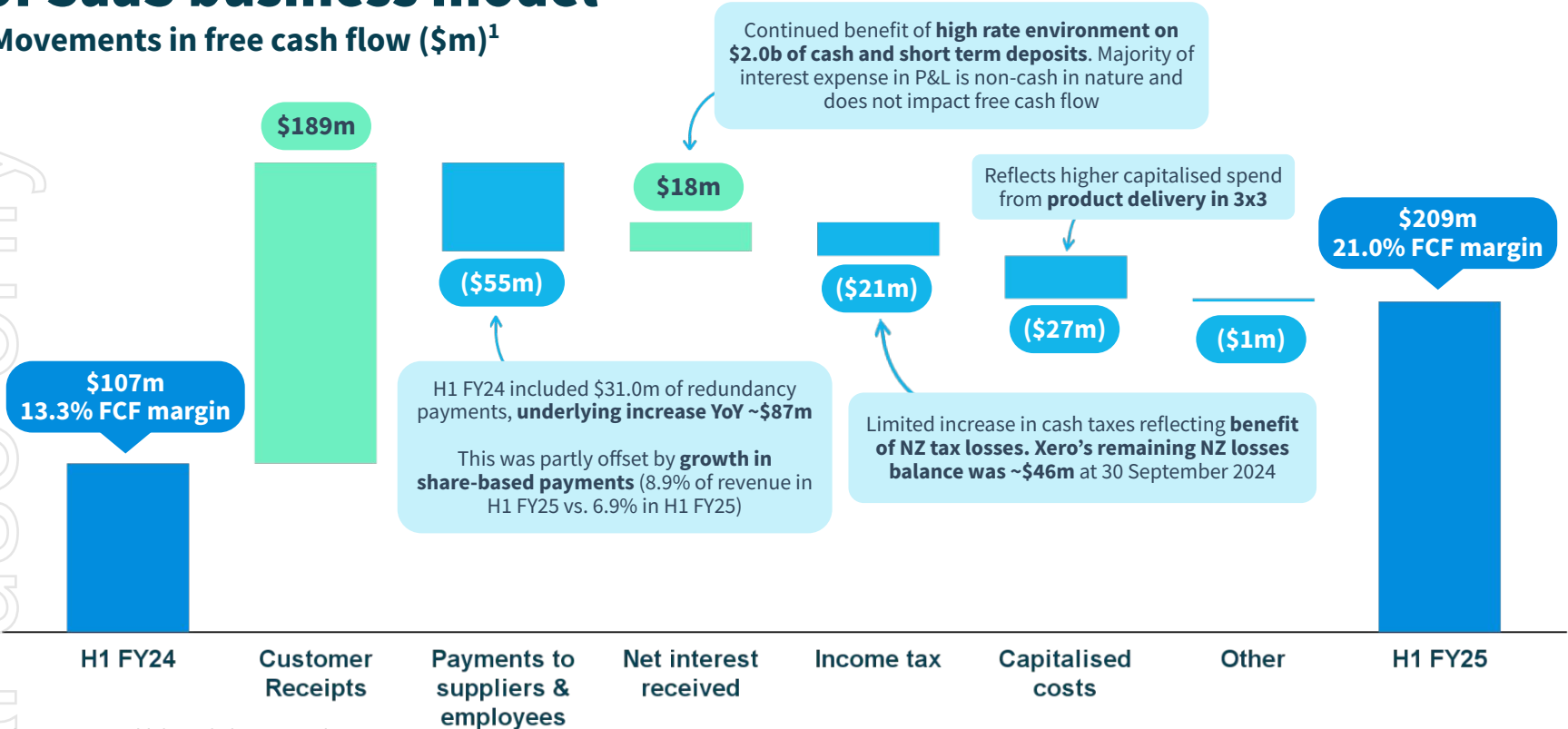
Movements in operating expenses & cost to serve (\$m)<sup>1</sup>



1. Data based on Note 5 of Xero's H1 FY25 Interim Financial Report. Chart may not add through due to rounding

# Strong free cash flow reflects scale benefits of SaaS business model

Movements in free cash flow (\$m)<sup>1</sup>



1. Chart may not add through due to rounding

# Balance sheet strength provides financial flexibility to pursue opportunity ahead

- Net cash position grew \$373 million YOY reaching \$469 million at 30 September 2024, reflecting **strong free cash generation**
- Total available liquid resources at 30 September 2024 of ~\$2.0 billion **includes new US\$925m 1.625% Coupon Convertible Note**
- **Strong FCF generation supports balance sheet strength and provides flexibility**



## Movement in net cash position

	H1 FY24 (\$000s)	H1 FY25 (\$000s)	Δ YOY (\$000s)
Cash and cash equivalents	365,278	<b>758,577</b>	393,299
Short-term deposits	896,407	<b>1,195,174</b>	298,767
<b>Total cash and short-term deposits</b>	<b>1,261,685</b>	<b>1,953,751</b>	<b>692,066</b>
Convertible notes – principle value of term debt	1,166,403	<b>1,485,097</b>	318,694
<b>Net cash</b>	<b>95,282</b>	<b>468,654</b>	<b>373,372</b>

# STRATEGIC THEMES



**SUKHINDER SINGH CASSIDY**  
CHIEF EXECUTIVE OFFICER



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# 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 3x3

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**

1. This aspirational opportunity 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 27 for important additional qualifications and information

# We are executing our strategy with focus and purpose



## Win the 3x3

- Xerocon London & Nashville highlight product velocity
- Announced acquisition of Syft Analytics
- Embedded BILL solution for bill payment in beta in the US



## A Winning GTM Playbook

- Completed removal of long idle subscriptions
- Launched simplified product packages in Australia, New Zealand & UK



## Focused Bets to Win the Future

- Just Ask Xero (JAX) GenAI tool in beta



## Unleash Xero(s) to Win

- Performance goals and management framework embedded



# Focused investment in 3x3 product areas is delivering for our customers

## Accounting

Continued to invest in US and Canada direct bank feed quality and coverage, **now over 700 direct feeds**

**Improved UK Tax offering** with partnership tax beta and integrated practice management beta for tax workflows

**Expanded Avalara sales tax** solution in the US



## Payroll

**UK Payroll manager dashboard in beta** for accountants and bookkeepers

**Continued to enhance UK payroll** including customising leave

Signed deeper partnership with Gusto for **embedded payroll in the US**



## Payments

**Beta launched for BILL integration**

**Launched Tap to Pay** in Xero Accounting mobile app for AU & UK

Added more ways to pay in Xero, including **bank transfers in US and Klarna BNPL in UK, US, CAD and NZ**



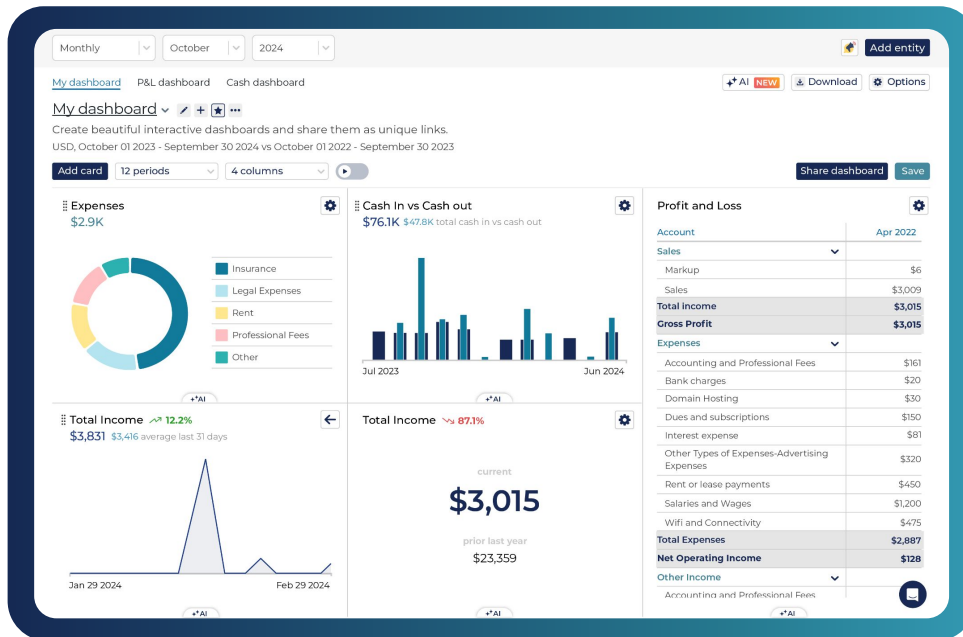
**Just Ask Xero (JAX) GenAI interface in Beta with customers**

# Syft to enhance reporting and insights capability



Tightly aligned with 3x3 strategy and our M&A criteria delivering **best in class capabilities across:**

- **Forecasting** and **modelling** tools
- **Customised** reporting, **visualisation** and **benchmarking** across industries
- **Interactive live** view, **collaboration** between Accountants/Bookkeepers and small businesses
- **Multi-entity** consolidation



Dashboards



Forecasting



Multi-entity



# FY25 Outlook



Total operating expenses as a percentage of revenue is expected to be around 73% in FY25. FY25 product design and development costs as a percentage of revenue are now expected to be broadly similar to FY24



# 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's aspiration statement was made at the 29 February 2024 Investor Day. This was prior to its FY24 results announcement. For context, Xero's 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 in constant currency and Free cash flow margin percentage (free cash flow as a percentage of revenue)

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 NZ tax losses during the FY25-27 strategic period. Xero's remaining NZ losses balance was ~\$46m at 31 March 2024

# Wrap up of H1 FY25 Key Themes



**Strong revenue growth, with all large markets contributing**



**Continued to deliver a greater than Rule of 40 outcome**



**We are executing our strategy with focus and purpose**

# APPENDIX



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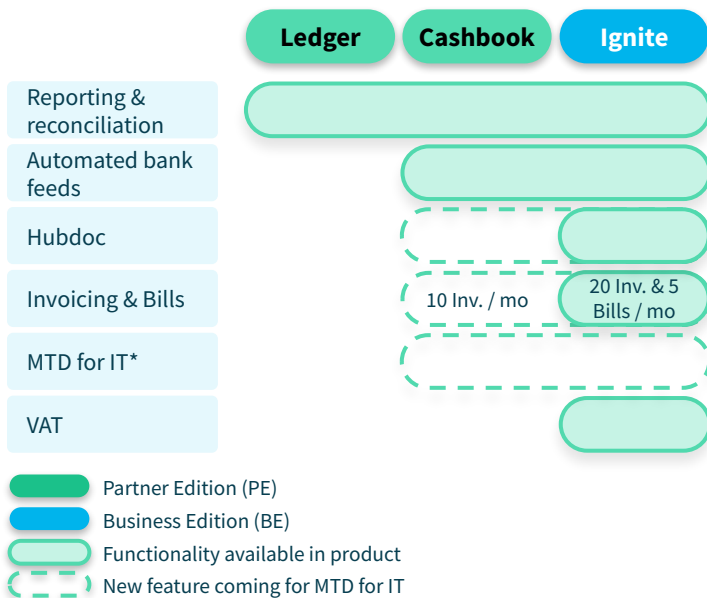
# Next wave of Making Tax Digital (MTD) is coming to the UK

## MTD for Income Tax (IT) Confirmed

Implementation in phases (>£50k from Apr 2026, £30-50k from Apr 2027, and £20-30k timing still to be determined) covering all small businesses with turnover greater than £20k. **Total impacted small businesses<sup>1</sup> is ~2.7m, ~0.4m of which are already VAT registered<sup>2</sup>**

Compliance with MTD for IT will drive cloud accounting adoption, however **many of these customers are in our secondary segment**, but can be important clients for our accountant and bookkeeper partners

## Enhanced UK product ladder will meet MTD for Income Tax needs



Xero will add **IT functionality** to Cashbook and all Business Edition subscriptions

**We will further enhance our Cashbook subscriptions with new features including:**

- Easy data capture with Hubdoc
- Ability to send up to 10 invoices and quotes per month
- Improved client access options

The enhanced Cashbook subscription **will be available for small businesses to purchase directly** later in calendar year 2025

1. This includes sole traders and landlords with self employment and/or property income

2. These businesses were likely captured in MTD Phase 2 which required digital VAT compliance

# Removal of long idle subscriptions complete, impact mainly in the International segment

## Background information

- Long idle subscriptions were those that had been **undeployed for more than 24 months and were not expected to be deployed in a reasonable timeframe**. These subscriptions **were low value** and largely located in the International segment
- **These subscriptions were removed over H1 FY25**. Their removal will allow our sales teams to better focus on solving more of our customers' Jobs To be Done (JTBD) in order to improve customer mix, while also working with accountants and bookkeepers to acquire and deploy their Xero inventory through smaller and more frequent sales motions
- **Underlying metrics better reflect Xero's underlying performance during the period** i.e. excluding the impact of long idle subscriptions

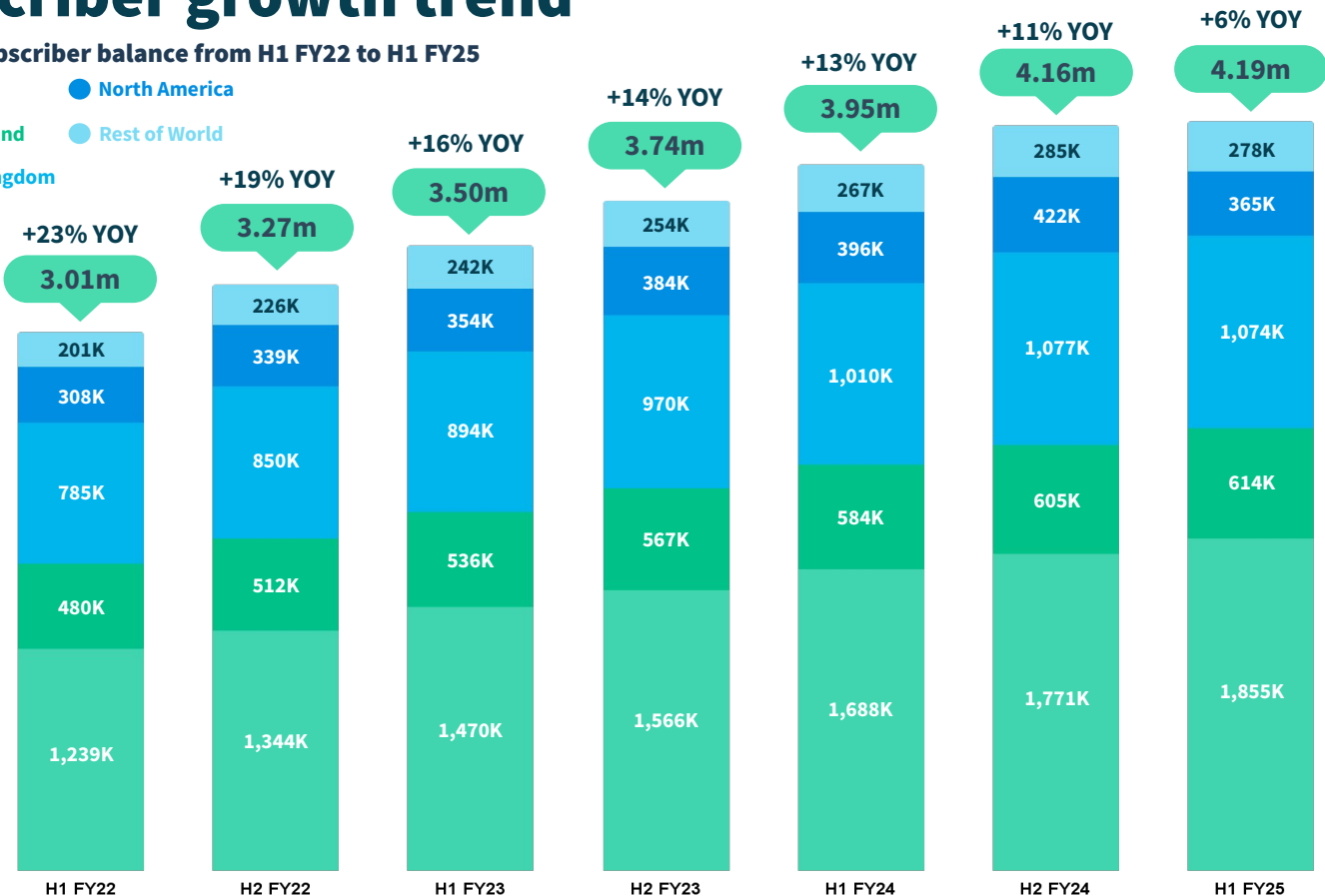
	Headline				Underlying		
	Subscriber growth YoY	ARPU	ARPU Growth YoY	Churn	Subscriber growth YoY	ARPU Growth YoY	Churn
ANZ	8.7%	\$41.34	11.8%	0.80%	9.5%	11.0%	0.79%
International	2.6%	\$45.59	20.3%	1.36%	11.1%	12.0%	1.27%
Group	6.1%	\$43.08	15.3%	1.04%	10.2%	11.4%	1.00%



# Subscriber growth trend

Closing subscriber balance from H1 FY22 to H1 FY25

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



Includes impact of 160k long idle subscriptions removed during H1 FY25. Underlying subscriber growth was 10%

Internal use only

# SaaS metrics summary<sup>1</sup>

## ANZ

Australia, New Zealand

## International

UK, US, CA, ROW

## Group

Global Total

	H2 FY23	H1 FY24	H2 FY24	H1 FY25	H2 FY23	H1 FY24	H2 FY24	H1 FY25	H2 FY23	H1 FY24	H2 FY24	H1 FY25
ARPU	\$34.24	\$36.99	\$37.97	<b>\$41.34</b>	\$35.10	\$37.91	\$41.05	<b>\$45.59</b>	\$34.61	\$37.38	\$39.29	<b>\$43.08</b>
CAC months	9.1	8.4	8.1	<b>8.1</b>	23.3	23.5	22.4	<b>21.1</b>	15.9	15.6	15.2	<b>14.9</b>
Churn <sup>1</sup>	0.68%	0.72%	0.76%	<b>0.79%</b>	1.21%	1.24%	1.28%	<b>1.27%</b>	0.90%	0.94%	0.99%	<b>1.00%</b>
Subscribers	2,133,000	2,272,000	2,376,000	<b>2,469,000</b>	1,608,000	1,673,000	1,784,000	<b>1,717,000</b>	3,741,000	3,945,000	4,160,000	<b>4,186,000</b>
Net additions <sup>2</sup>	277,000	139,000	243,000	<b>93,000</b>	193,000	65,000	176,000	<b>(67,000)</b>	470,000	204,000	419,000	<b>26,000</b>
LTV per sub	\$4,374	\$4,543	\$4,431	<b>\$4,669</b>	\$2,542	\$2,654	\$2,802	<b>\$3,191</b>	\$3,587	\$3,742	\$3,732	<b>\$4,063</b>
LTV/CAC	14.0	14.6	14.3	<b>14.0</b>	3.1	3.0	3.1	<b>3.3</b>	6.5	6.4	6.2	<b>6.3</b>
Total LTV	\$9.33b	\$10.32b	\$10.53b	<b>\$11.53b</b>	\$4.09b	\$4.44b	\$5.00b	<b>\$5.48b</b>	\$13.42b	\$14.76b	\$15.53b	<b>\$17.01b</b>

1. SaaS metrics including Churn, LTV, LTV per subscriber and LTV/CAC have been calculated excluding the impact of the removal of long idle subscriptions on churn, this reflects churn dynamics present in Xero's go-forward subscription base 2. Includes impact of removed long idle subscriptions

# No impact from impairments & exits on adjusted EBITDA

	H1 FY24 (\$000s)	H1 FY25 (\$000s)	Δ YOY (%)
Total operating revenue	799,547	995,865	25%
Cost of revenue	(99,757)	(110,533)	11%
<b>Gross profit</b>	699,790	885,332	27%
<i>Gross margin</i>	87.5%	88.9%	1.4pp
<b>Total operating expenses</b>	(632,377)	(708,948)	12%
<i>Percentage of operating revenue</i>	79.1%	71.2%	(7.9pp)
<b>Operating income</b>	67,413	176,384	162%
Asset impairments, disposals & reversals	1,636	(2,228)	NM
Other income & expenses	10,403	856	NM
EBIT	79,452	175,012	120%
<b>EBITDA</b>	206,090	311,698	51%
<i>EBITDA margin</i>	25.8%	31.3%	5.5pp
<b>Net profit</b>	54,084	95,093	76%

**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

	H1 FY24 (\$000s)	H1 FY25 (\$000s)
<b>EBITDA</b>	206,090	311,698
Add back: restructuring costs	2,131	-
Add back: Non-cash impairment and costs relating to the exit of Waddle	(6,777)	-
Add back: Non-cash revaluations	3,078	-
<b>Adjusted EBITDA</b>	204,522	311,698
<i>EBITDA margin</i>	25.6%	31.3%
Add back: share-based payments	44,140	65,923
<b>Adjusted EBITDA (excl. Share-based payments)</b>	248,662	377,621
<i>Adjusted EBITDA margin (excluding share-based payments)</i>	31.1%	37.9%

**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. Xero's adjusted EBITDA includes share-based payments

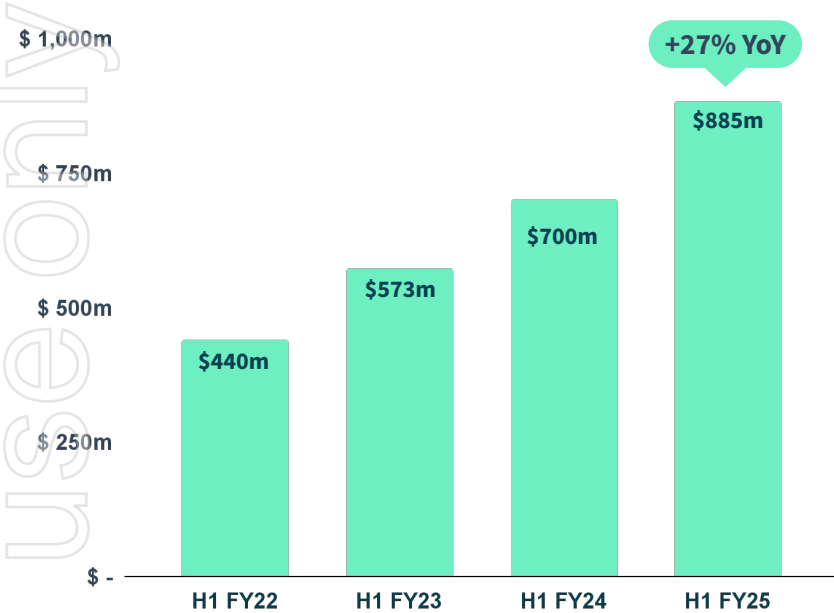
To aid in comparison to global tech peers **adjusted EBITDA excl. share-based payments** is presented net of capitalised amounts. Share-based payments (incl. amounts capitalised) totalled \$88.5m or 8.9% of revenue in H1 FY25

# Financial performance

	H1 FY22	H2 FY22	H1 FY23	H2 FY23	H1 FY24	H2 FY24	H1 FY25
Total operating revenue	505,703	591,116	658,512	741,372	799,547	914,220	995,865
<b>Gross profit</b>	<b>440,417</b>	<b>517,014</b>	<b>572,912</b>	<b>649,029</b>	<b>699,790</b>	<b>811,472</b>	<b>885,332</b>
<i>Gross margin</i>	87.1%	87.5%	87.0%	87.5%	87.5%	88.8%	88.9%
Sales & marketing costs	(189,017)	(216,636)	(238,980)	(232,851)	(277,220)	(264,015)	(318,239)
<i>Percentage of operating revenue</i>	37.4%	36.6%	36.3%	31.4%	34.7%	28.9%	32.0%
Product design & development	(166,833)	(205,191)	(230,710)	(259,338)	(256,392)	(269,791)	(285,650)
<i>Percentage of operating revenue</i>	33.0%	34.7%	35.0%	35.0%	32.1%	29.5%	28.7%
General & administration	(66,144)	(78,028)	(82,501)	(85,576)	(96,634)	(88,488)	(105,059)
<i>Percentage of operating revenue</i>	13.1%	13.2%	12.5%	11.5%	12.1%	9.7%	10.5%
<b>Total operating expenses excl restructuring costs</b>	<b>(421,994)</b>	<b>(499,855)</b>	<b>(552,191)</b>	<b>(577,765)</b>	<b>(630,246)</b>	<b>(622,294)</b>	<b>(708,948)</b>
<i>Percentage of operating revenue</i>	83.4%	84.6%	83.9%	77.9%	78.8%	68.1%	71.2%
Restructuring costs	-	-	-	(34,692)	(2,131)	(882)	-
<b>Total operating expenses incl restructuring costs</b>	<b>(421,994)</b>	<b>(499,855)</b>	<b>(552,191)</b>	<b>(612,457)</b>	<b>(632,377)</b>	<b>(623,176)</b>	<b>(708,948)</b>
<i>Percentage of operating revenue</i>	83.4%	84.6%	83.9%	82.6%	79.1%	68.2%	71.2%
<b>Operating income</b>	<b>18,423</b>	<b>17,159</b>	<b>20,721</b>	<b>36,572</b>	<b>67,413</b>	<b>188,296</b>	<b>176,384</b>
Asset impairments, disposals and reversals	(2,898)	(21,797)	(26,532)	(96,148)	1,636	(26,116)	(2,228)
Other income & expenses	1,398	29,689	12,188	(6,598)	10,403	(2,077)	856
<b>EBIT</b>	<b>16,923</b>	<b>25,051</b>	<b>6,377</b>	<b>(66,174)</b>	<b>79,452</b>	<b>160,103</b>	<b>175,012</b>
<b>EBITDA</b>	<b>98,080</b>	<b>114,581</b>	<b>108,551</b>	<b>49,848</b>	<b>206,090</b>	<b>291,328</b>	<b>311,698</b>
<i>EBITDA margin</i>	19.4%	19.4%	16.5%	6.7%	25.8%	31.9%	31.3%
<b>Adjusted EBITDA</b>	<b>98,603</b>	<b>110,117</b>	<b>123,709</b>	<b>177,980</b>	<b>204,522</b>	<b>322,023</b>	<b>311,698</b>
<i>Adjusted EBITDA margin</i>	19.5%	18.6%	18.8%	24.0%	25.6%	35.2%	31.3%
<b>Net profit/(loss)</b>	<b>(5,922)</b>	<b>(3,192)</b>	<b>(16,130)</b>	<b>(97,402)</b>	<b>54,084</b>	<b>120,556</b>	<b>95,093</b>

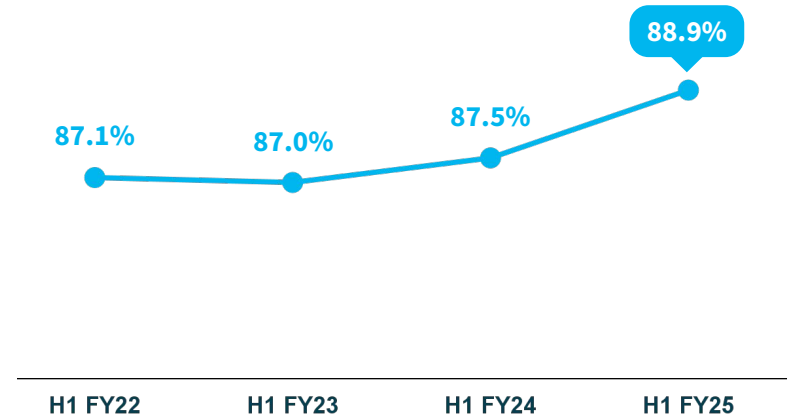
# Cost to serve well managed, operating leverage delivering margin improvement

## Gross profit (\$m)



## Gross margin (%)

**Gross profit increased** by \$185m or 27% YOY, more than the 25% growth in revenue. This resulted in a 1.4pp increase in gross profit margin reflecting scale benefits



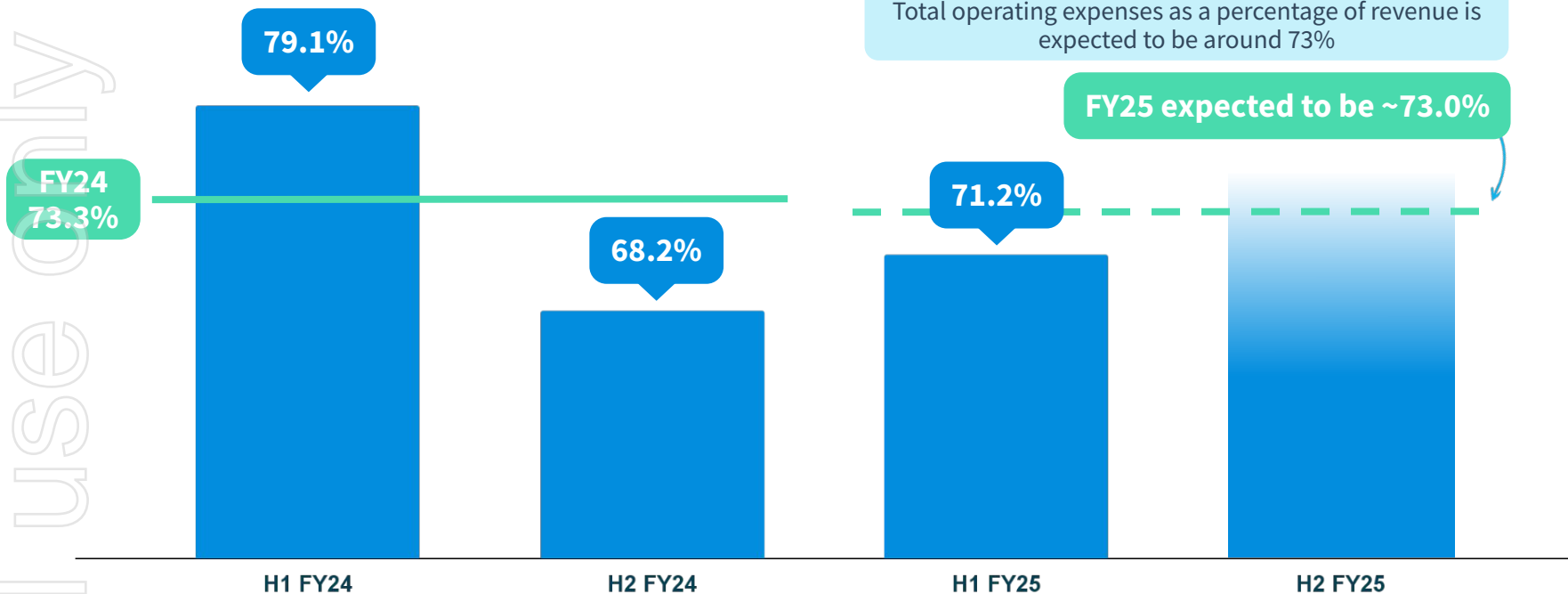
# Reinvesting in line with our FY25-27 strategy to support revenue growth

Operating expenses as a % of operating revenue

**FY25 Full Year OPEX to Operating revenue guidance**

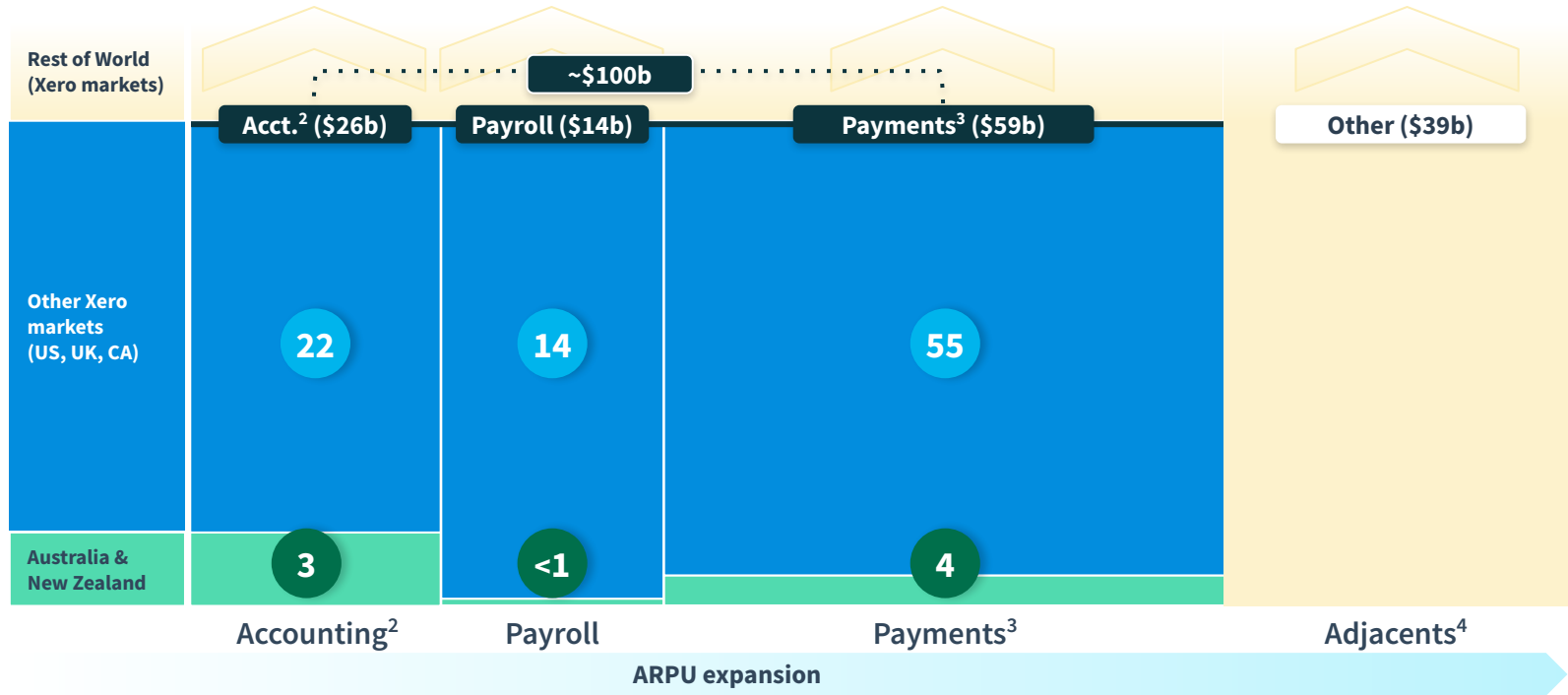
Total operating expenses as a percentage of revenue is expected to be around 73%

**FY25 expected to be ~73.0%**



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

Subscriber growth



1. Figures may not sum due to rounding. Total Addressable Market estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s). 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

# 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



# 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
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## JOB AREAS

Data In	Book-keeping	Annual Tax	Reporting & Insights	Invoicing & Payments	Bills & Payments	Payroll	TAS	Expenses	Projects	Inventory
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- **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

# 2024 Exchange rates

<i>Six months ended / as at 30 September</i>	2024		2023	
	Average rate	Closing rate	Average rate	Closing rate
NZD / AUD	<b>0.915</b>	<b>0.918</b>	0.925	0.932
NZD / CAD	<b>0.831</b>	<b>0.858</b>	0.821	0.814
NZD / EUR	<b>0.559</b>	<b>0.568</b>	0.562	0.567
NZD / GBP	<b>0.475</b>	<b>0.474</b>	0.486	0.492
NZD / SGD	<b>0.813</b>	<b>0.812</b>	0.822	0.820
NZD / USD	<b>0.608</b>	<b>0.634</b>	0.612	0.600

# 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 30 September, 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 30 September 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 6 months ended 30 September 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

## Rule of 40

Rule of 40 is defined as the sum of annual Revenue growth percentage in constant currency and Free cash flow margin percentage (Free cash flow as a percentage of revenue)

## 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

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