

Investor briefing

Full year results to 31 March 2023

18 MAY 2023



xero

Beautiful business

Important notice

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

Information in this presentation:

- is for general information purposes only, and is not an offer or invitation for subscription, or purchase of, or a recommendation to invest in, Xero securities
- should be read in conjunction with, and is subject to, Xero's latest and prior interim and annual reports, including Xero's annual report for the period ended 31 March 2023, and Xero's market releases on the ASX
- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control – Xero's actual results or performance may differ materially from these statements
- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance
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- includes Non-GAAP measures as we believe they provide useful information for readers to assist in understanding Xero's financial performance. Non-GAAP financial measures do not have a standardised meaning and should not be viewed in isolation or considered as substitutes for measures reported in accordance with NZ IFRS. These measures have not been independently audited or reviewed

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

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

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

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

Agenda

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& summary of
results**



Sukhinder Singh Cassidy
CHIEF EXECUTIVE OFFICER

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Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

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Introduction & summary of results



Sukhinder Singh Cassidy
CHIEF EXECUTIVE OFFICER

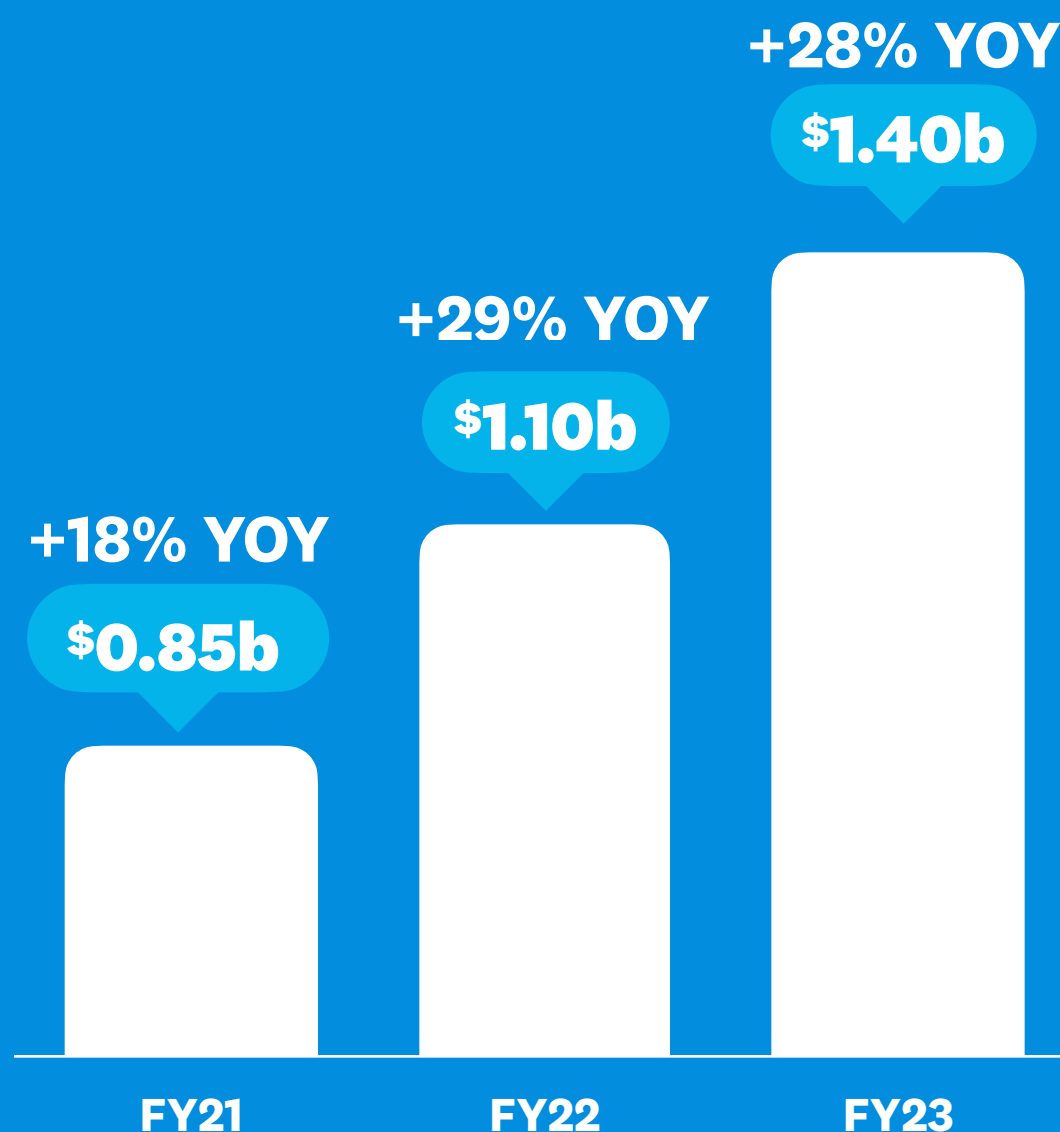
FY23: Strong operating result drives free cash flow generation

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

OPERATING REVENUE

\$1,399.9m

+ 28% YOY (25% in constant currency)



ADJUSTED EBITDA

\$301.7m

+ \$93.0m YOY

EBITDA

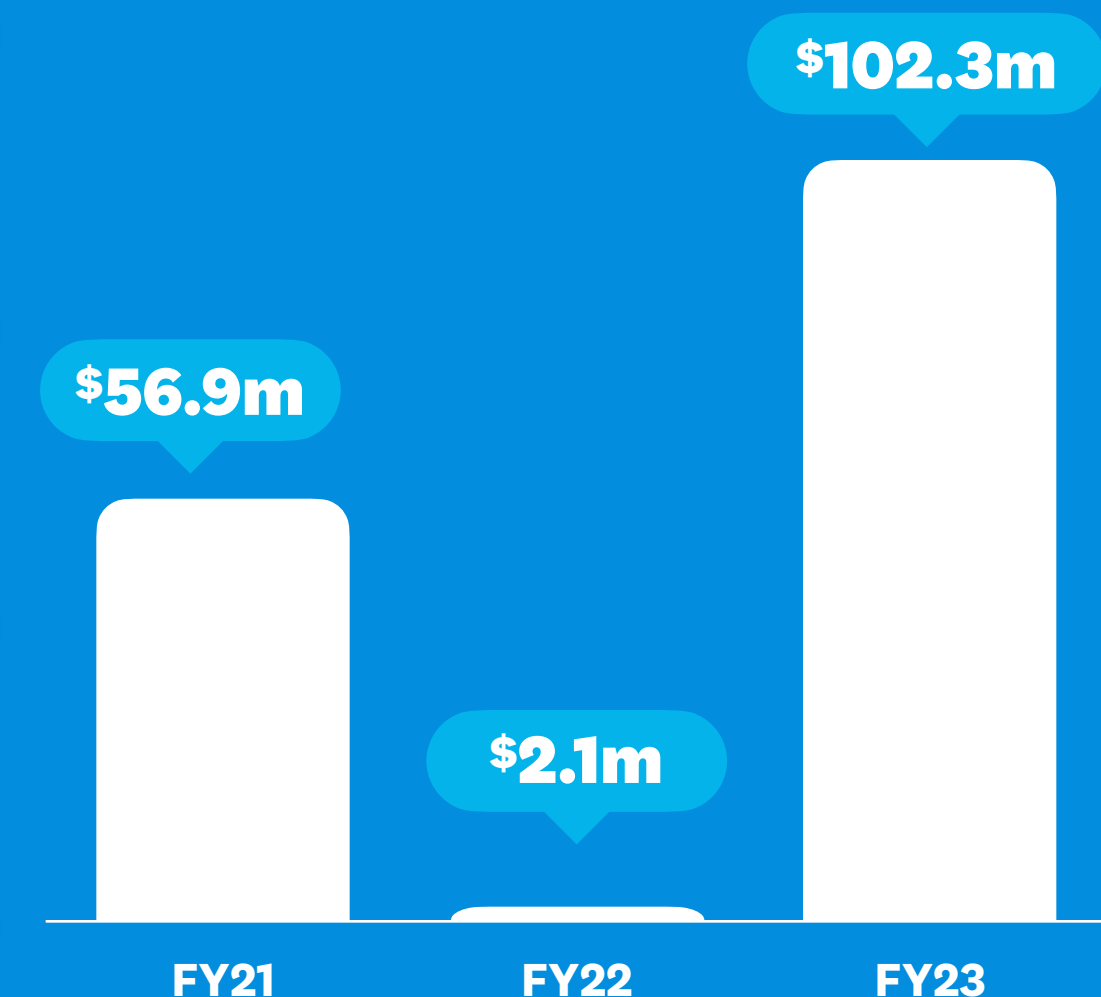
\$158.4m

- \$54.3m YOY

FREE CASH FLOW

\$102.3m

+ \$100.2m YOY



Key Themes

FY23 performance

Macro resilient business generating strong growth

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

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

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

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

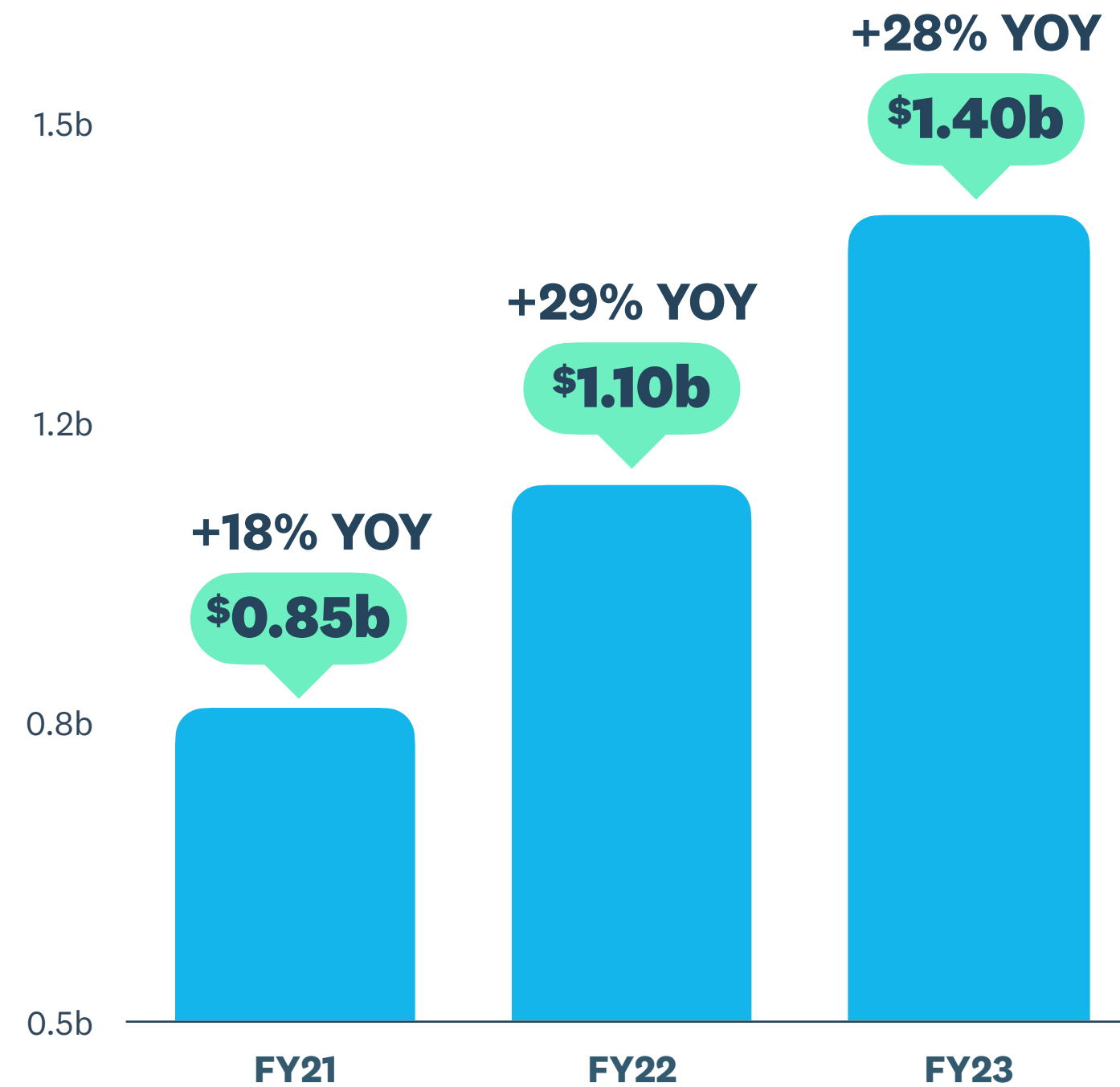
- Improving efficiency alongside continued revenue momentum drove **operating income margin higher**
- Targeting an operating expense to operating revenue ratio in **FY24 of around 75.0%**, **this will improve operating income margin compared to FY23¹**

1. This applies both including and excluding restructuring charges

Macro resilient business generating strong growth

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

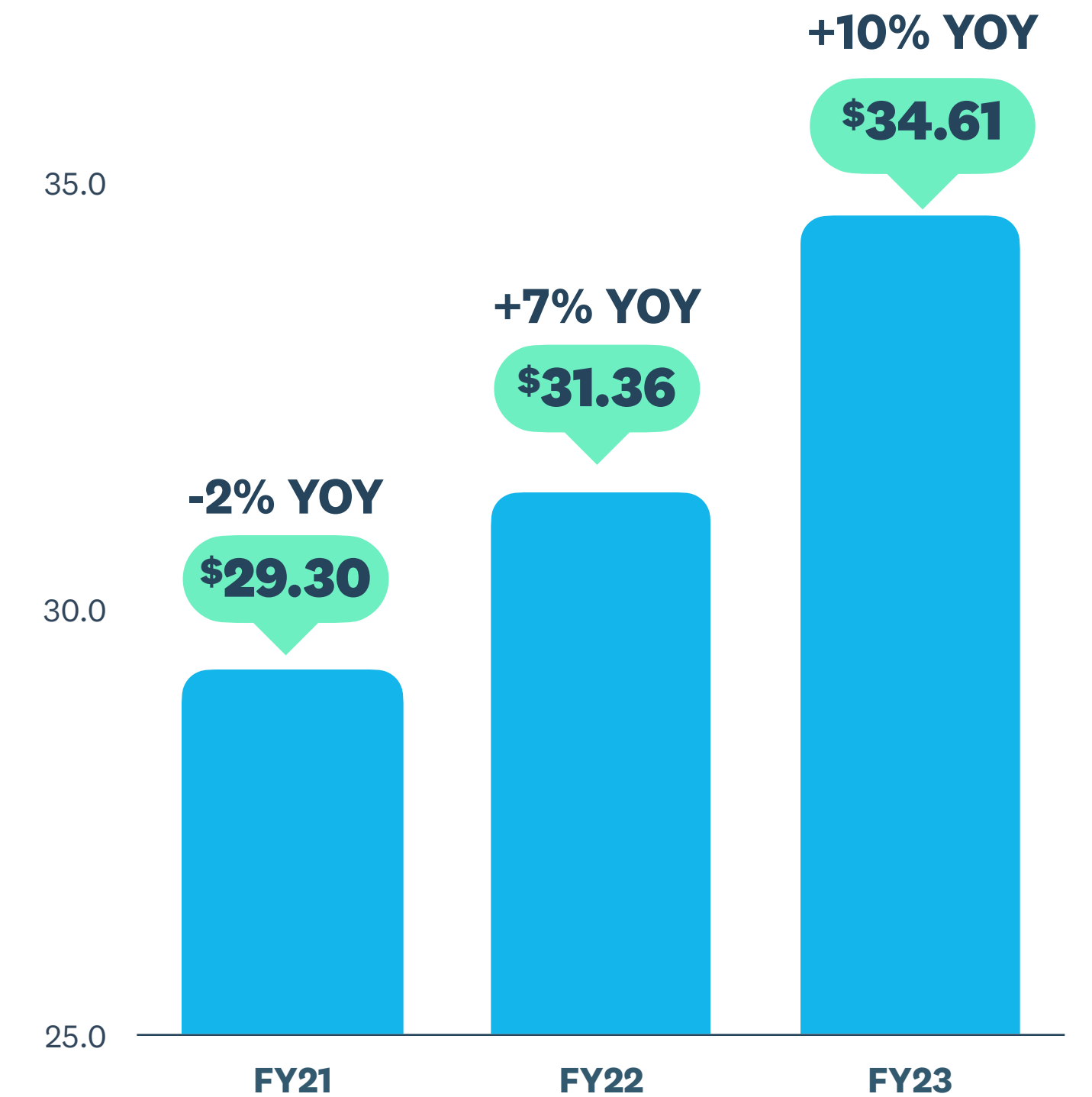
Revenue (\$)



Subscribers

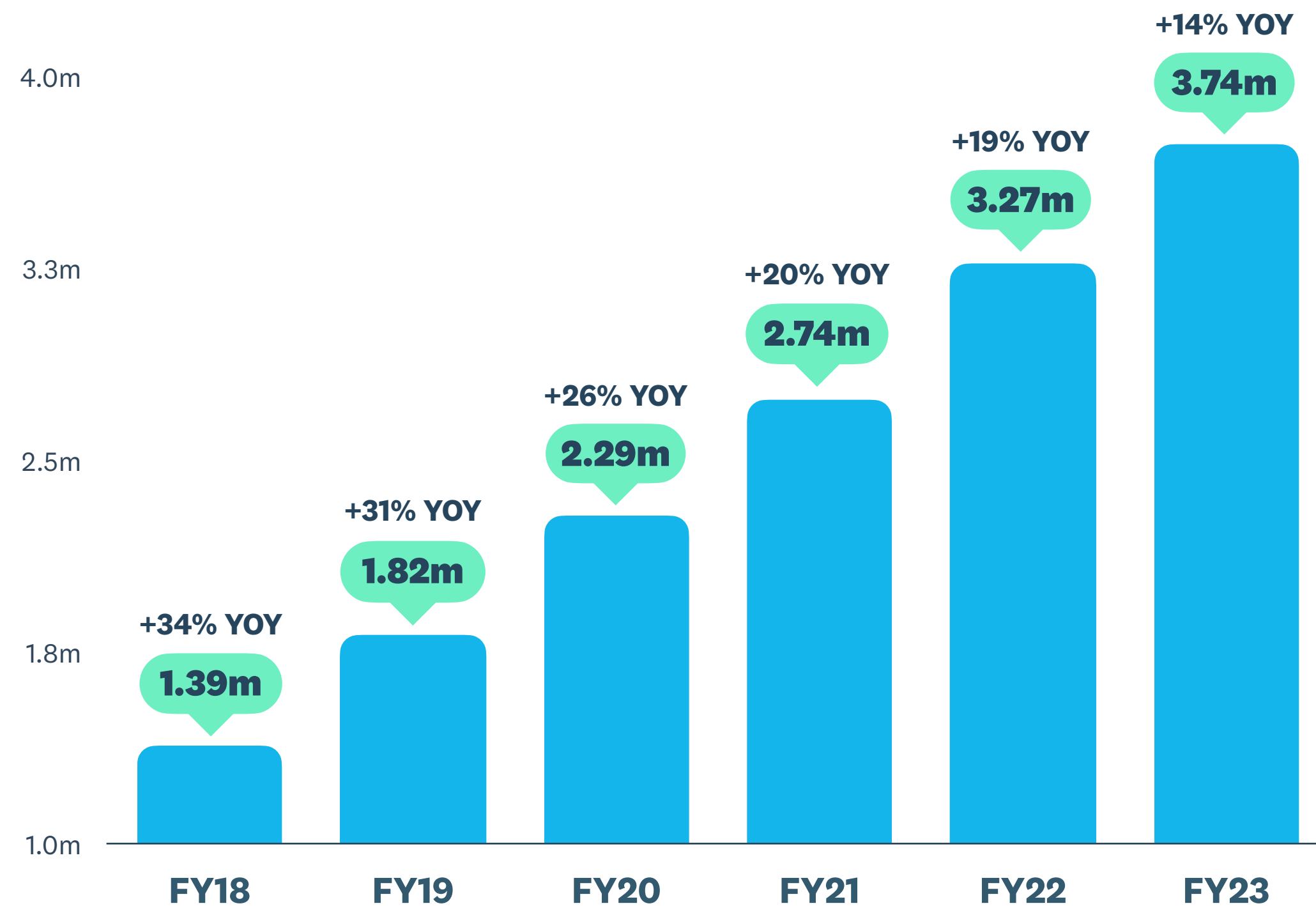


ARPU (\$)



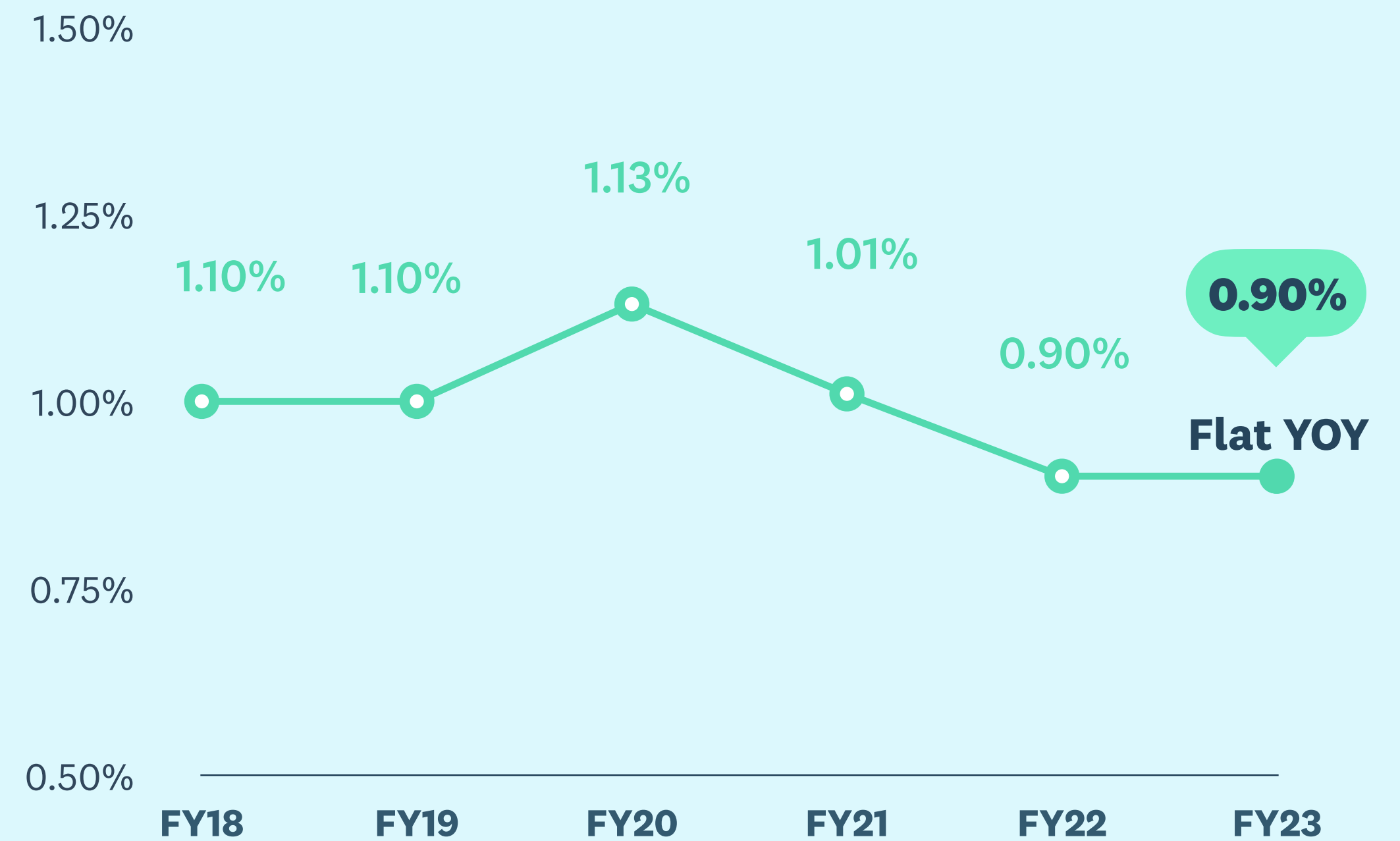
Xero has more subscribers than ever and they're staying with us longer

Total Subscribers



Churn

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



Providing more value for our customers

Examples of product range delivered

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

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

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

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

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



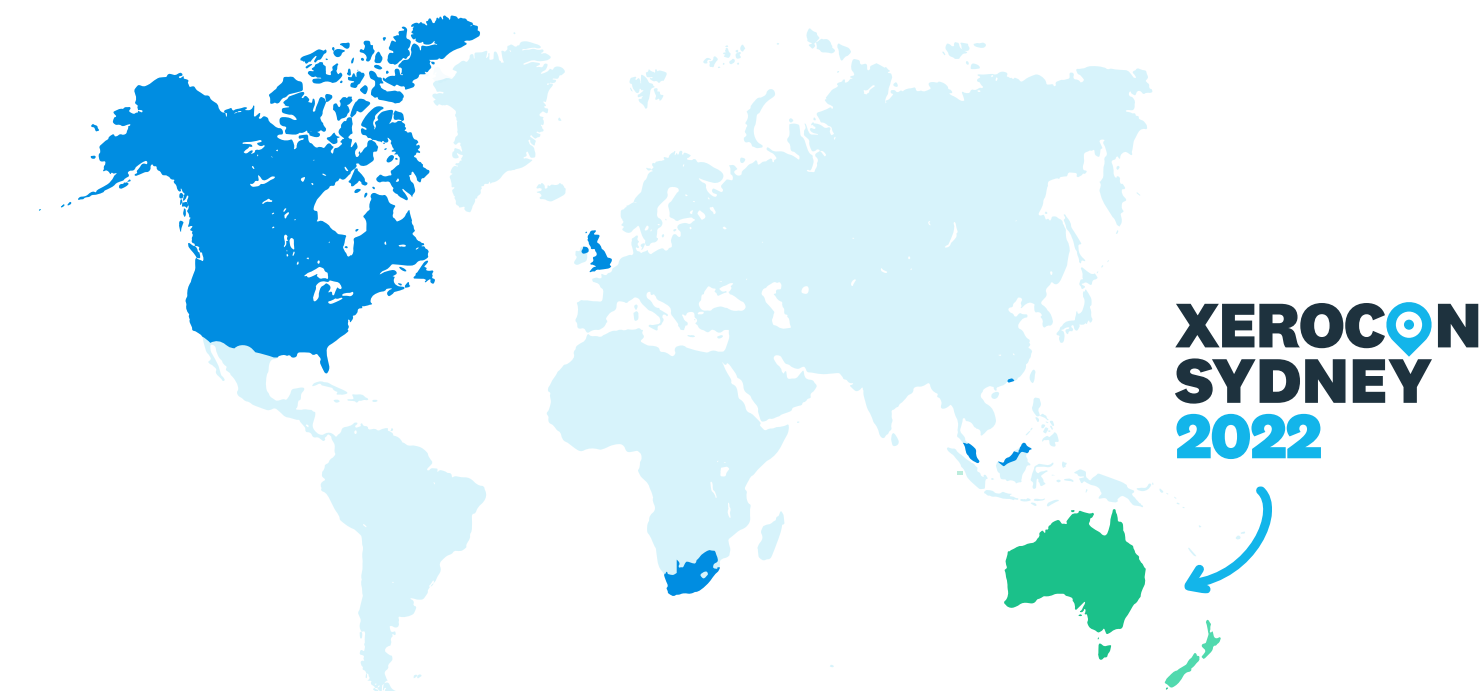
Hosted **Xerocons** in London, New Orleans and Sydney

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

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

Customer experience

ANZ: Continued strong progress



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

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

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

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

- Double digit growth in revenue and subscribers
- Strong performance reflects strength of offering in Australia and NZ, pleased with resilience of NZ business in challenging circumstances with natural disasters
- Continued ARPU expansion through pricing¹ and platform revenues
- Xerocon Sydney held in September 2022, scheduled again for August 2023

Australia

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

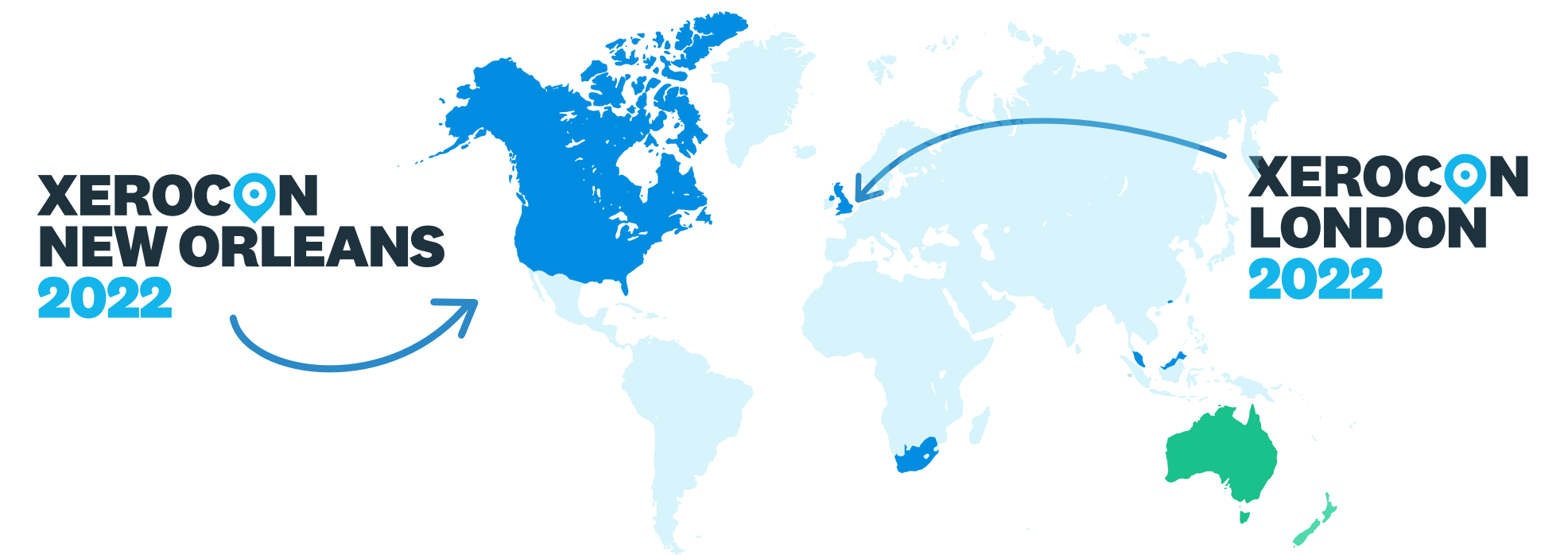
New Zealand

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



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

International: Momentum returned in second half



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

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

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

Positioned for the long term opportunity across our international segments

- Strong revenue growth and ARPU contribution across UK, North America and ROW¹
- UK H2 FY23 net additions of 76k, above H2 FY22 and in line with guidance. Reflects flow through of embedding our partner sales channel changes, final stage of MTD for VAT and continuing digitisation of small businesses
- North America H2 FY23 net additions of 30k, similar to H2 FY22 and in line with guidance reflecting seasonality and improved partner sales channel performance
- ROW performance was subdued reflecting emerging nature of these businesses

United Kingdom

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

North America

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

Rest of World

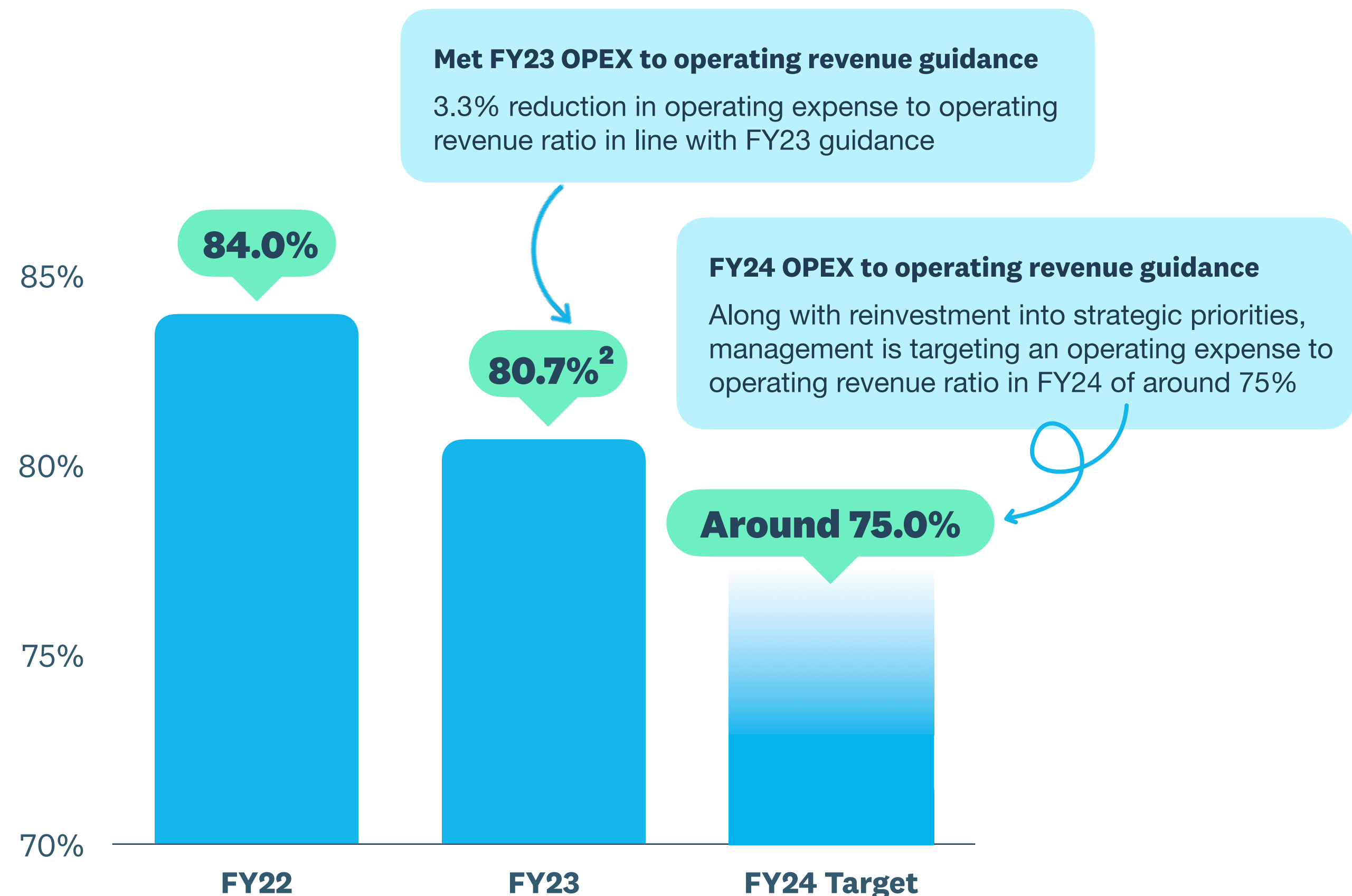
	FY23	Δ YOY	
Revenue	\$136m	+36%	+26% YOY constant currency
Subscribers	254k	+12%	+28k net additions in FY23

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

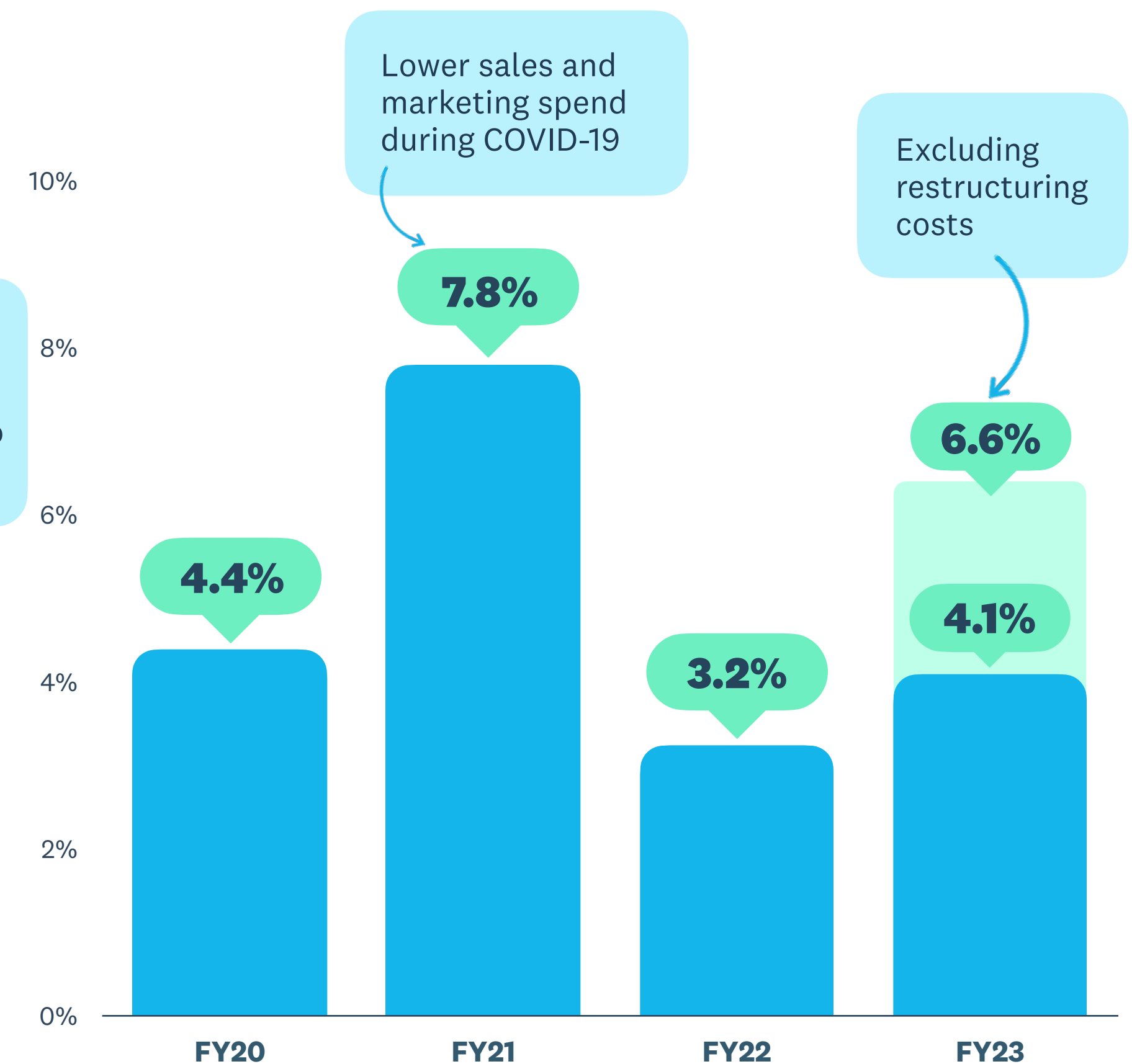
Growing with efficiency: Improved operating leverage drives increase in operating income margin

Improving efficiency alongside continued revenue momentum drove operating income margin higher. Targeting an operating expense to operating revenue ratio in FY24 of around **75.0%**, this will improve operating income margin compared to FY23¹

Operating expenses as a % of operating revenue



Operating Income Margin³



1. This applies both including and excluding restructuring costs

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

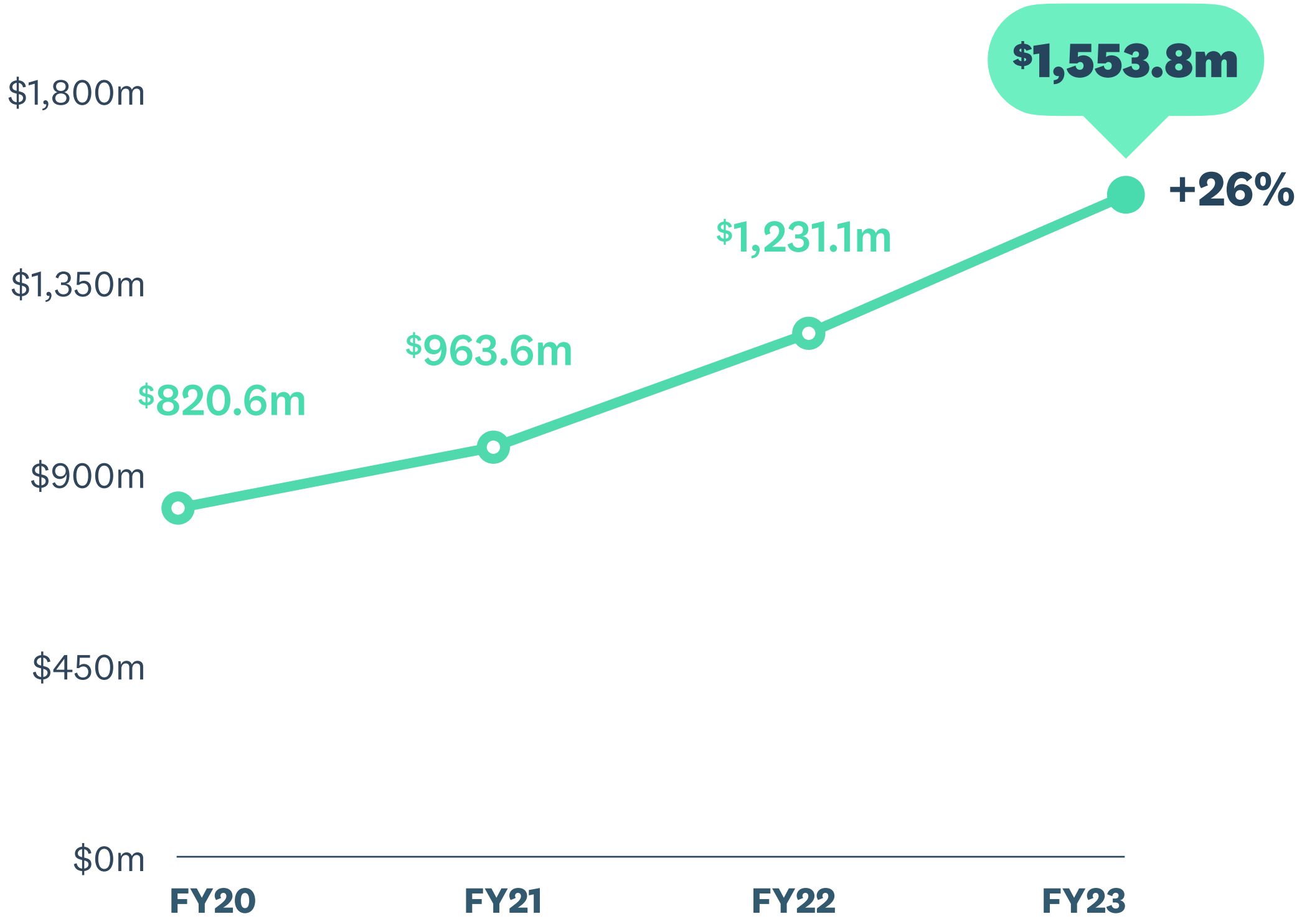
Financial results



Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER

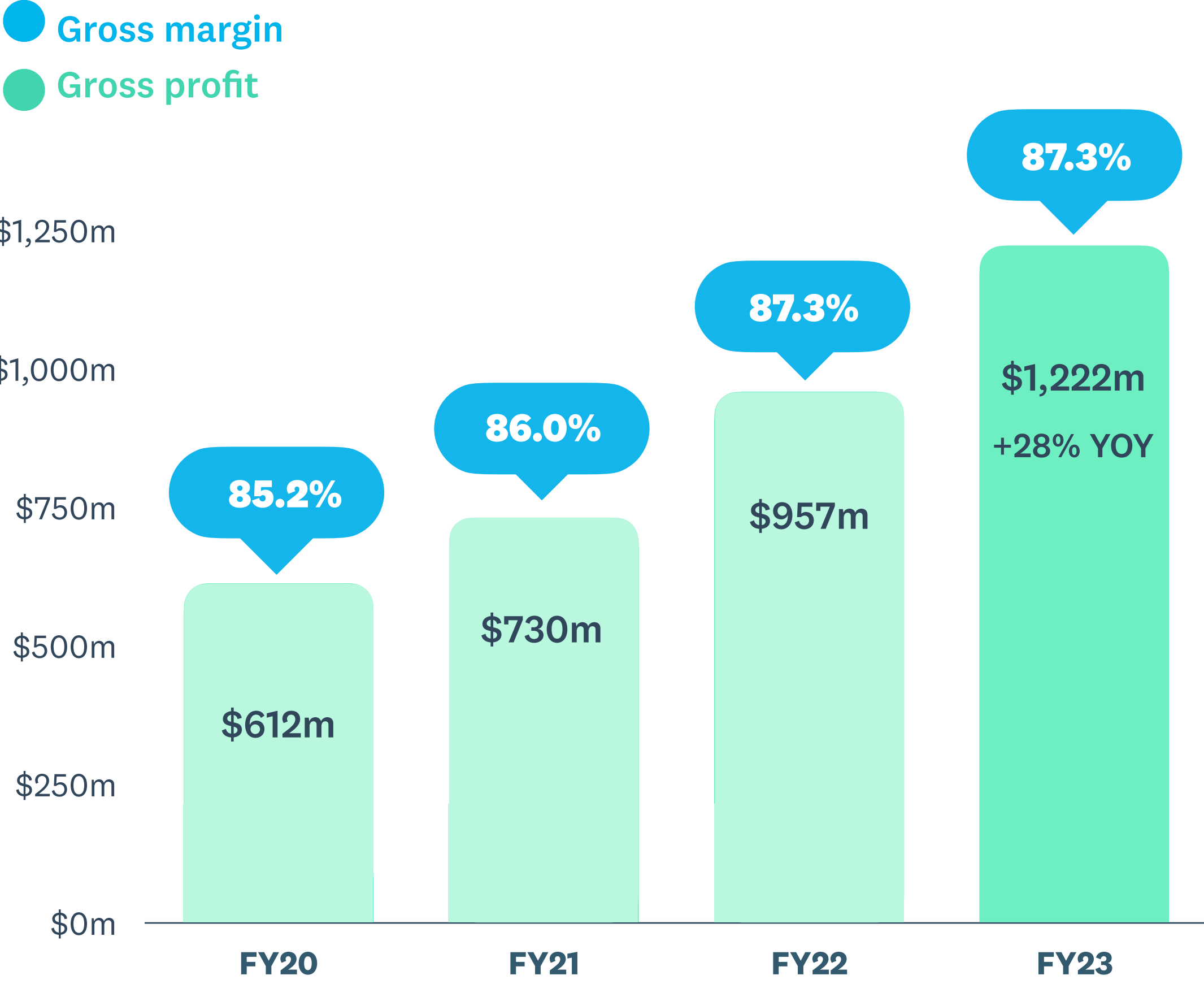
Continued top line momentum reflects macro resilience

AMRR



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

Gross profit and gross margin

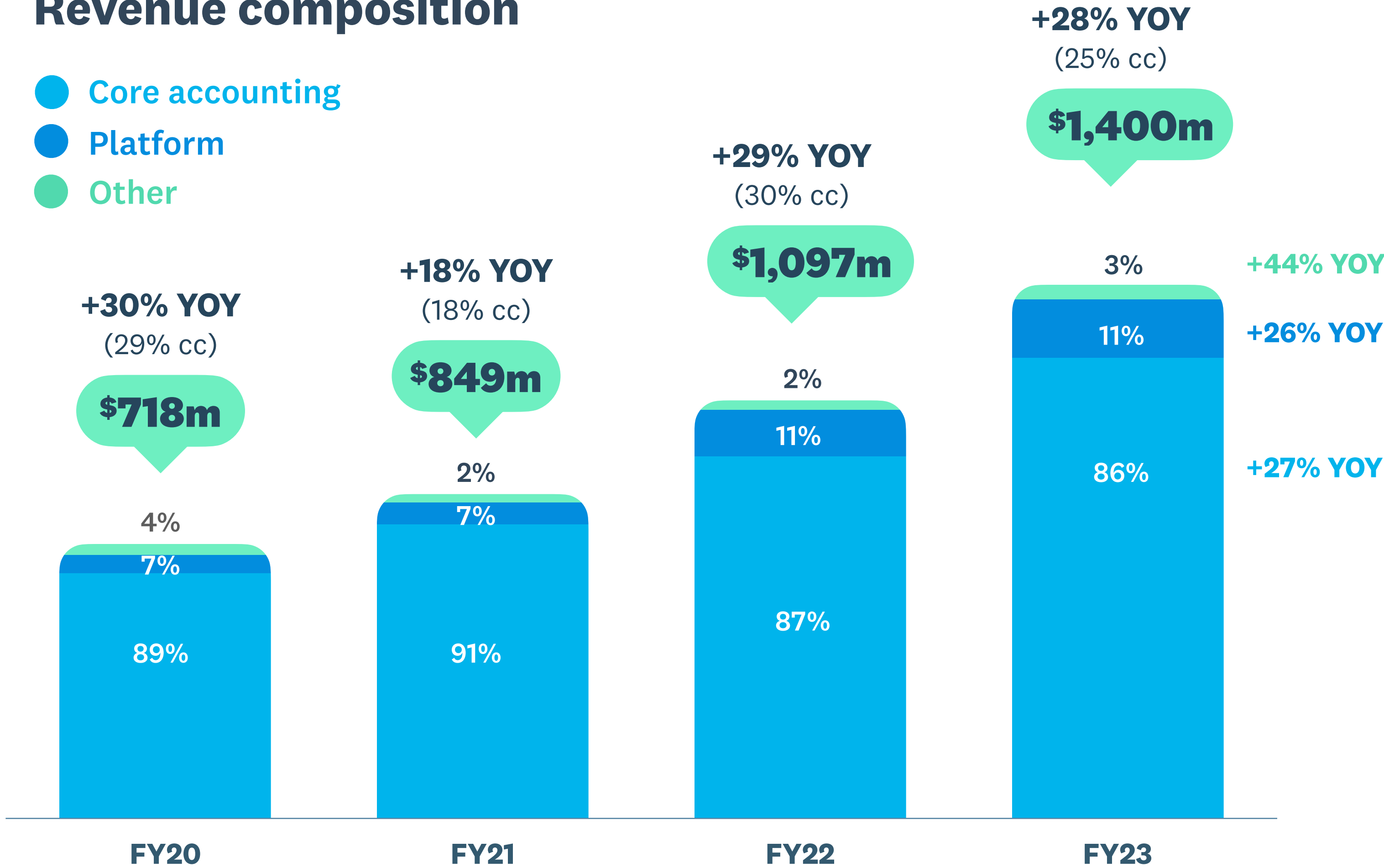


Gross Profit increased by **\$264.5m** or **28%** YOY, reflecting **28%** revenue growth and a flat gross profit margin as cost of revenue was well managed

Strong revenue growth from our portfolio of businesses

Revenue composition

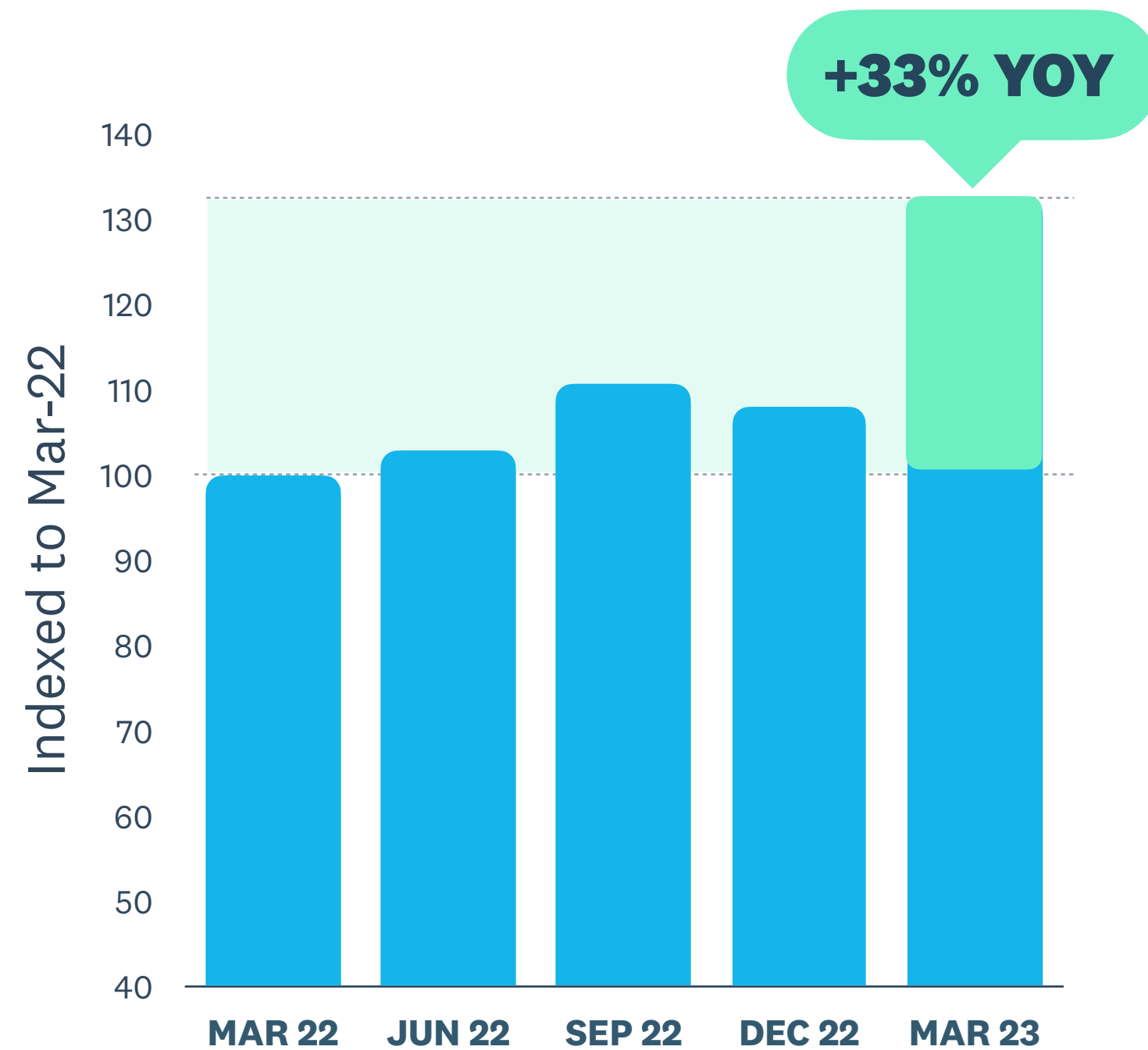
- Core accounting
- Platform
- Other



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

Core components of platform revenue

Total payment value¹



Planday users²



Employees paid through Xero Payroll³

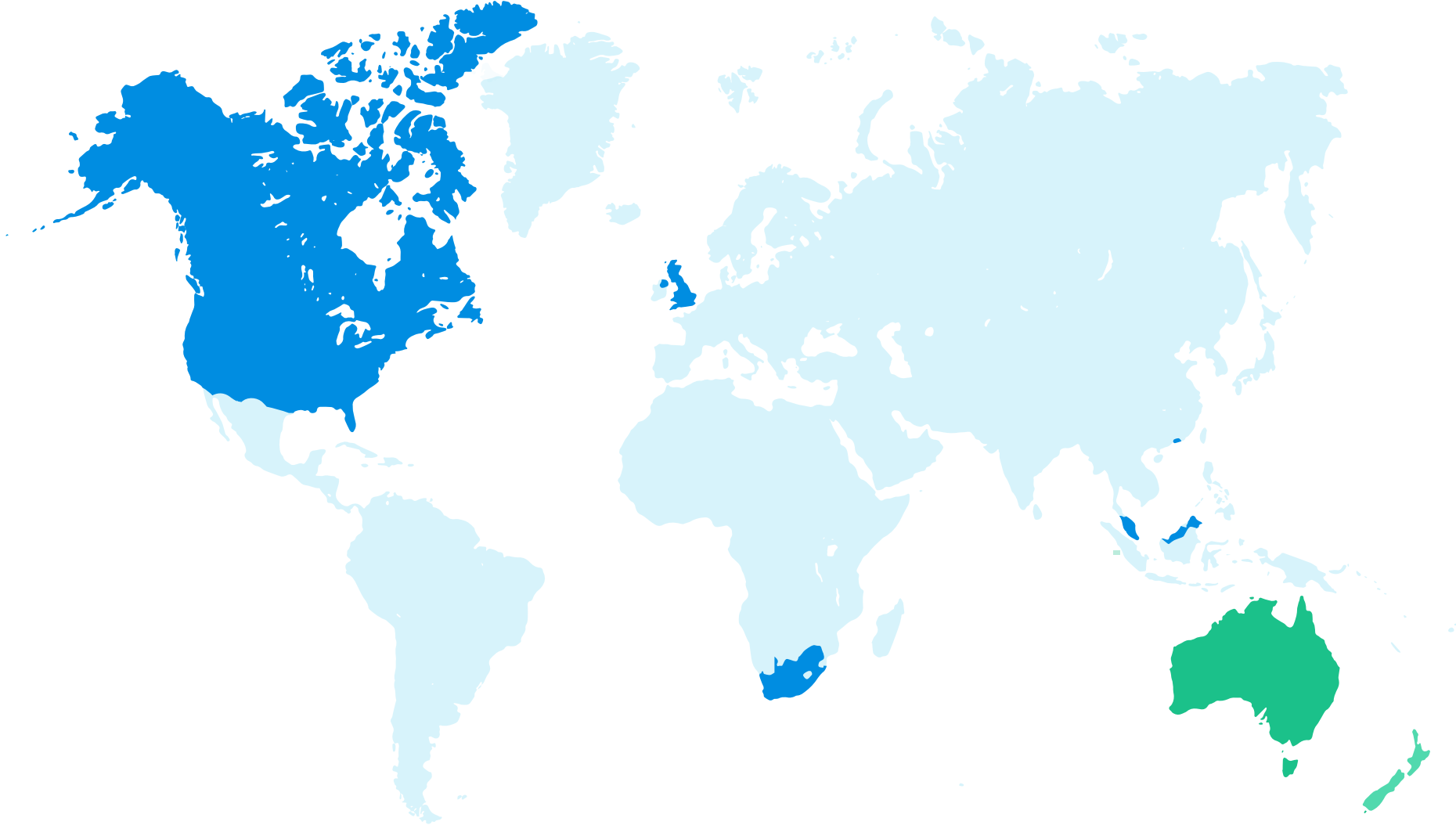
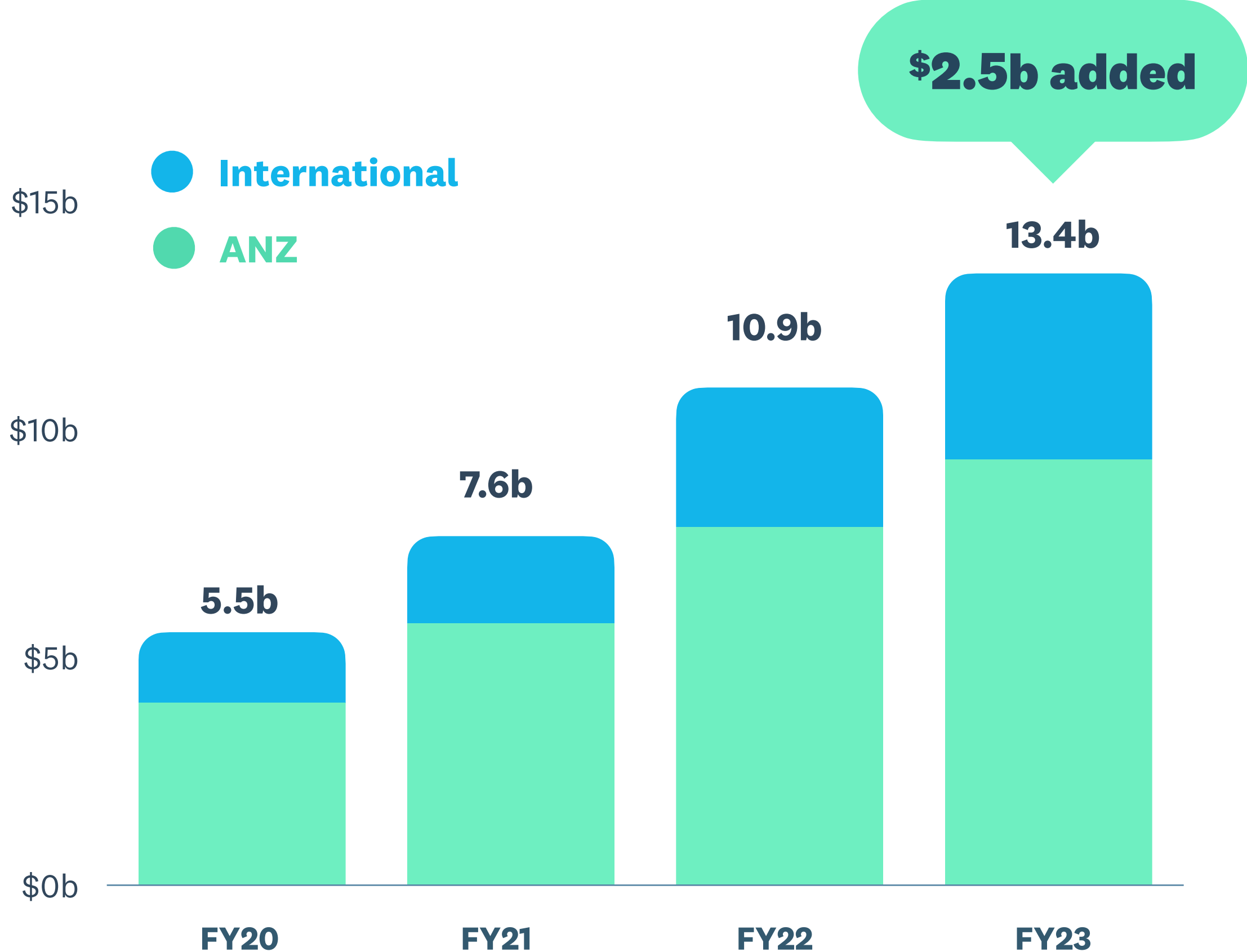


1. Total invoice payment value across our connected online payment service providers who process the payment of invoices on the Xero platform
2. Employee users of Planday
3. Total employees paid through Xero Payroll in Australia, New Zealand and the UK (markets with a Xero Payroll solution)

SaaS metrics reflect consistent value creation

Total LTV over time

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

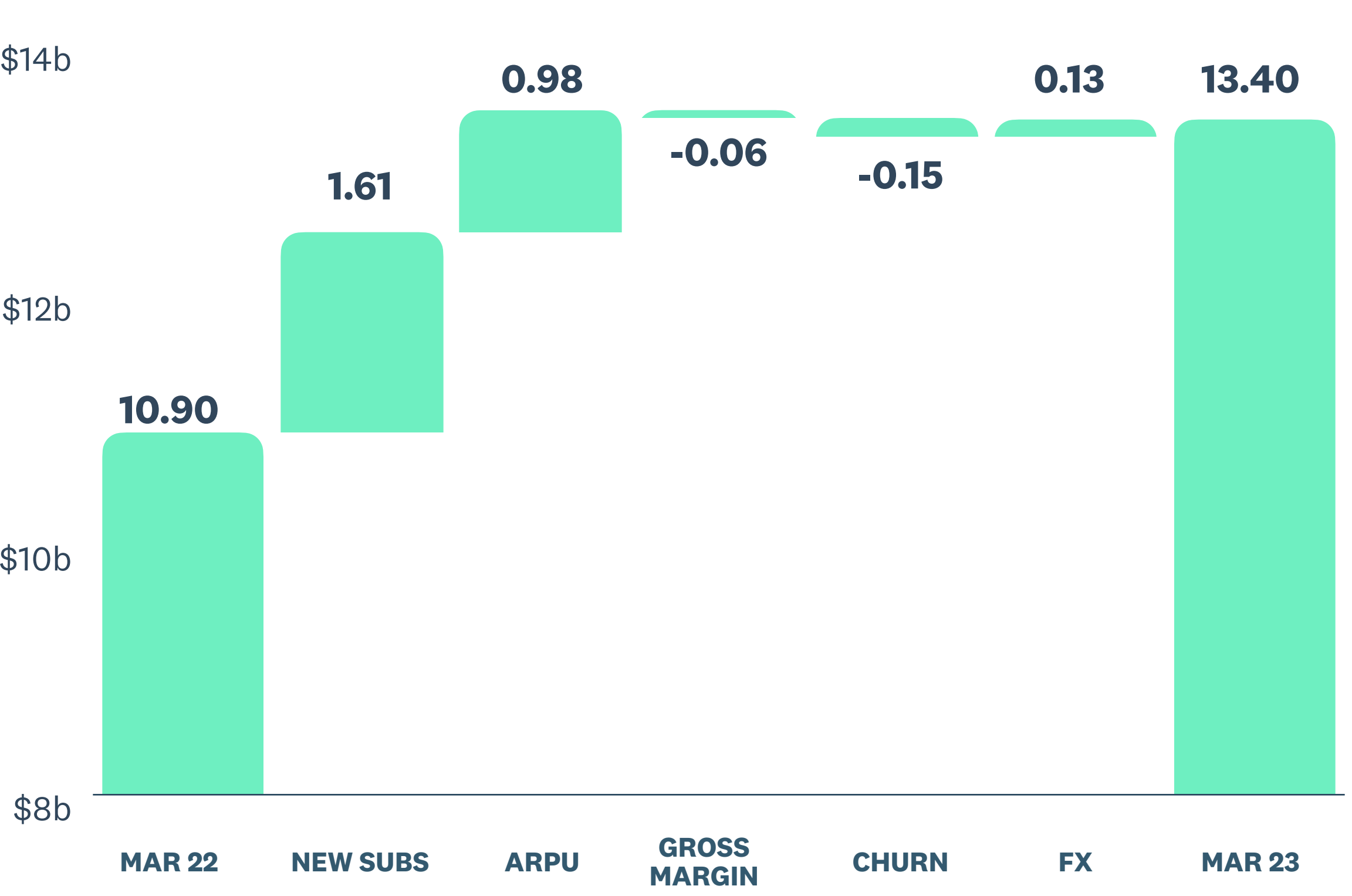


	ANZ	International	Group
ARPU	\$34.24	\$35.10	\$34.61
Churn	0.68%	1.21%	0.90%
LTV/CAC	14.0	3.1	6.5

Continued uplift in lifetime value of subscribers

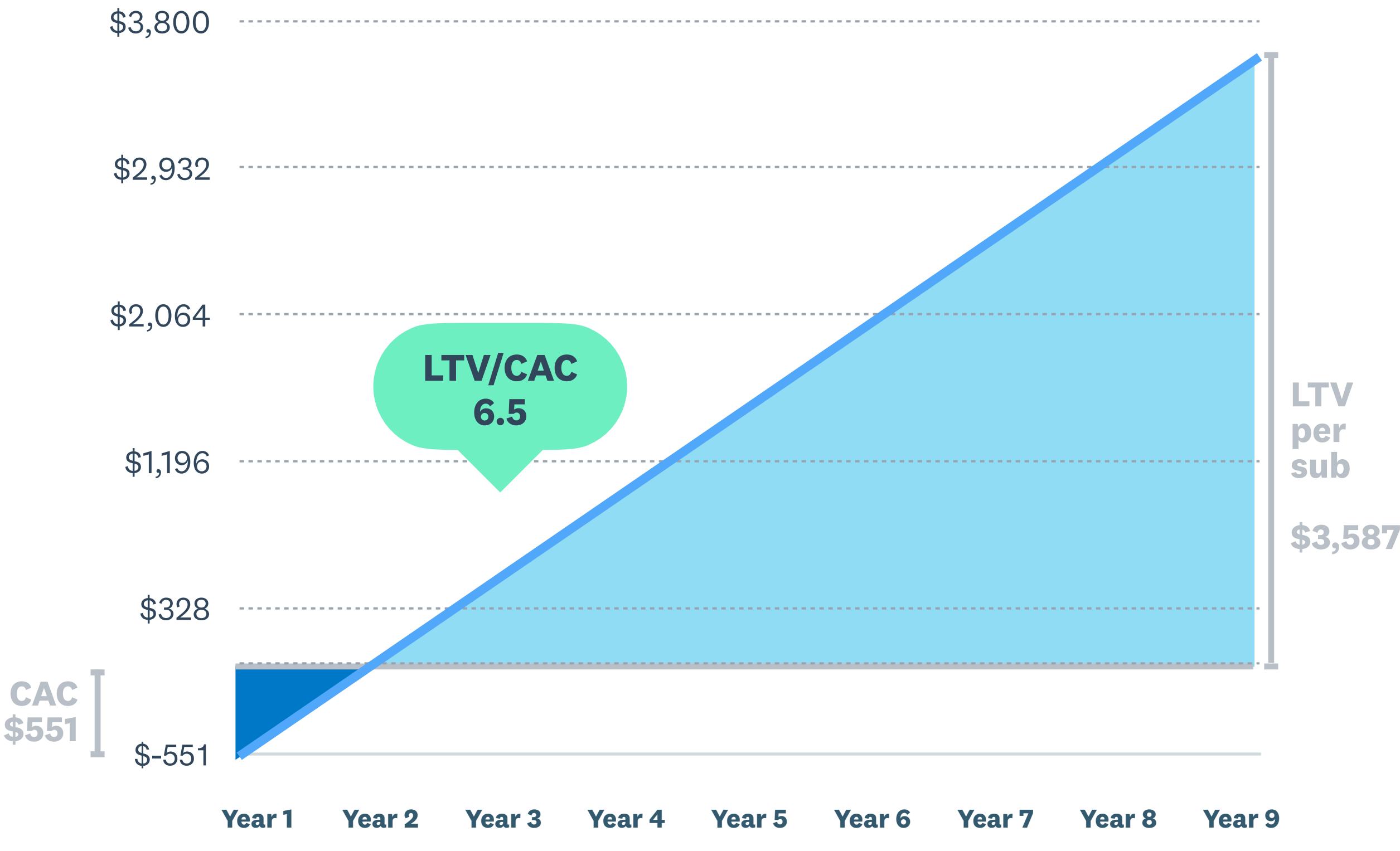
LTV movements by driver

From 31 March 2022 to 31 March 2023



Value of a Xero subscriber

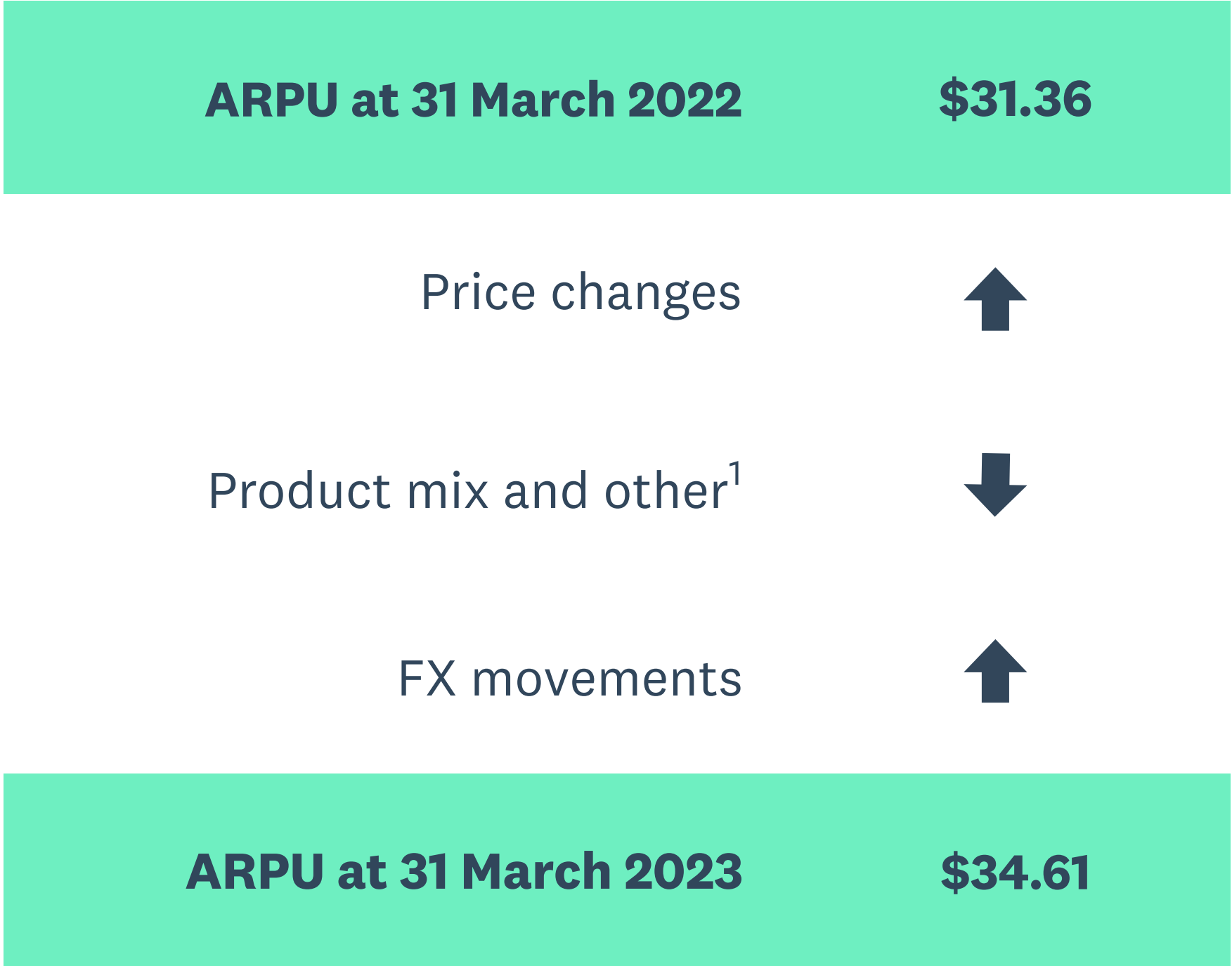
At 31 March 2023



Higher ARPU, continued low churn

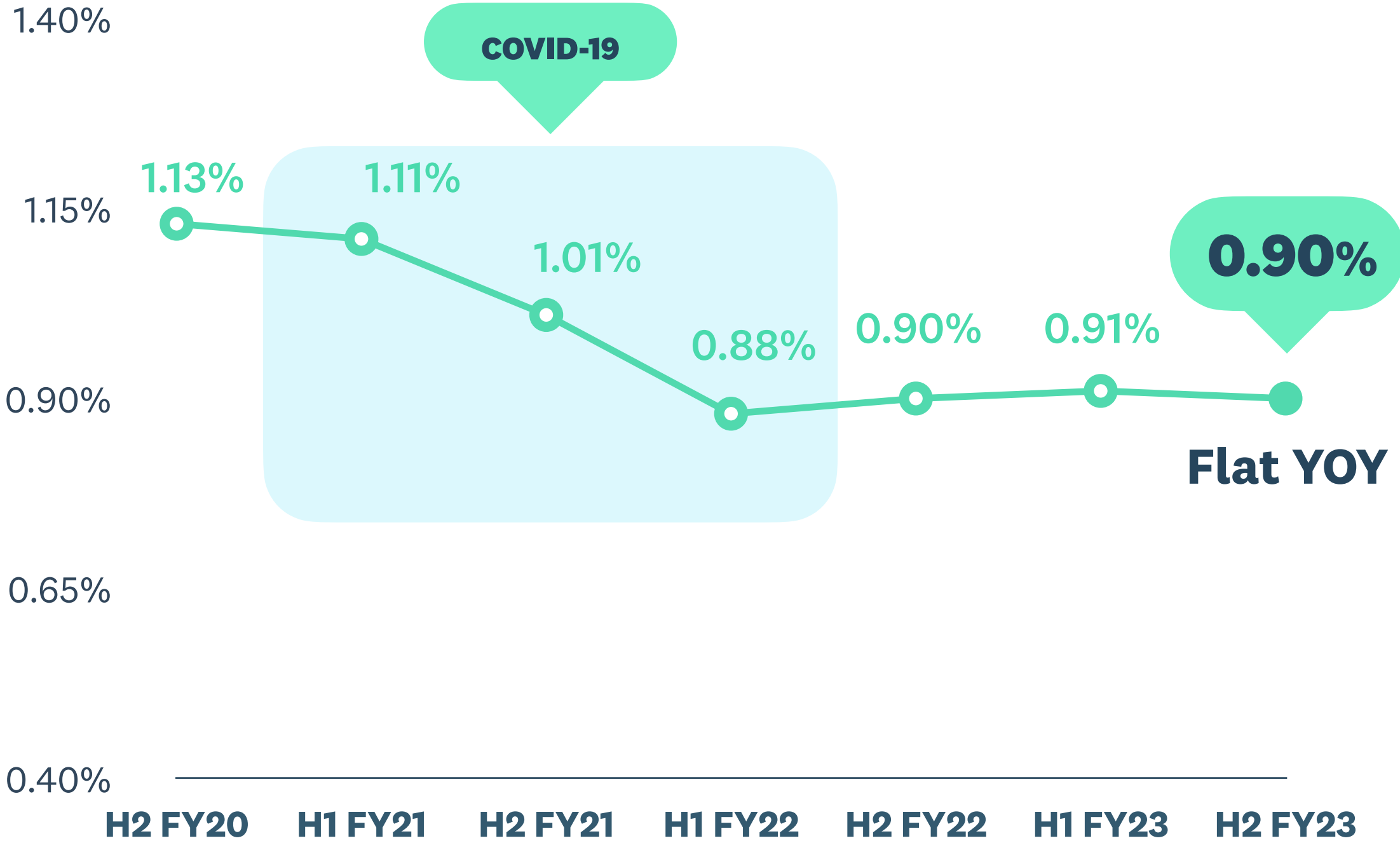
ARPU movement contributors

ARPU has increased by \$3.25 since 31 March 2022



Churn

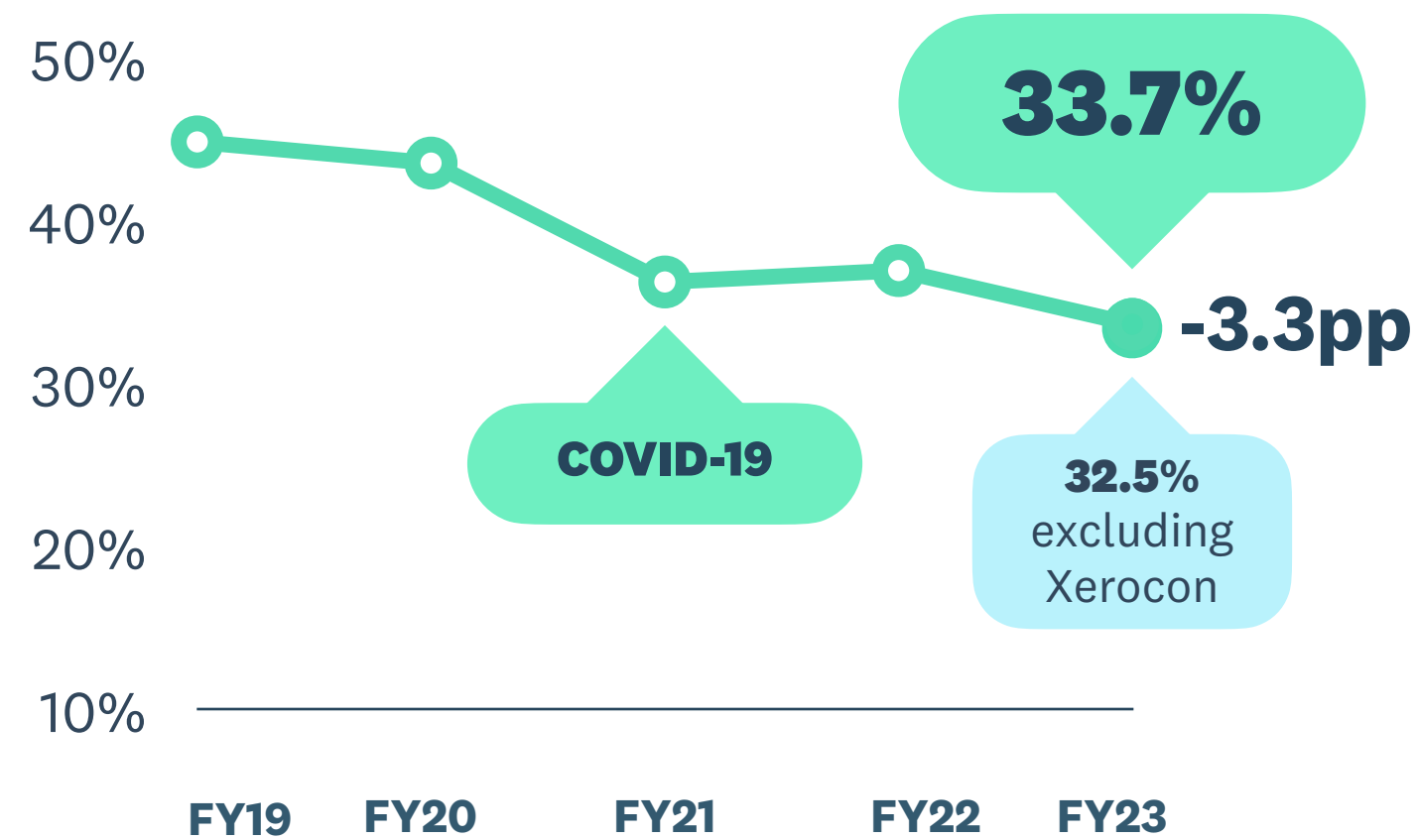
Churn has remained consistently below pre-COVID-19 pandemic levels



1. Other includes platform revenues

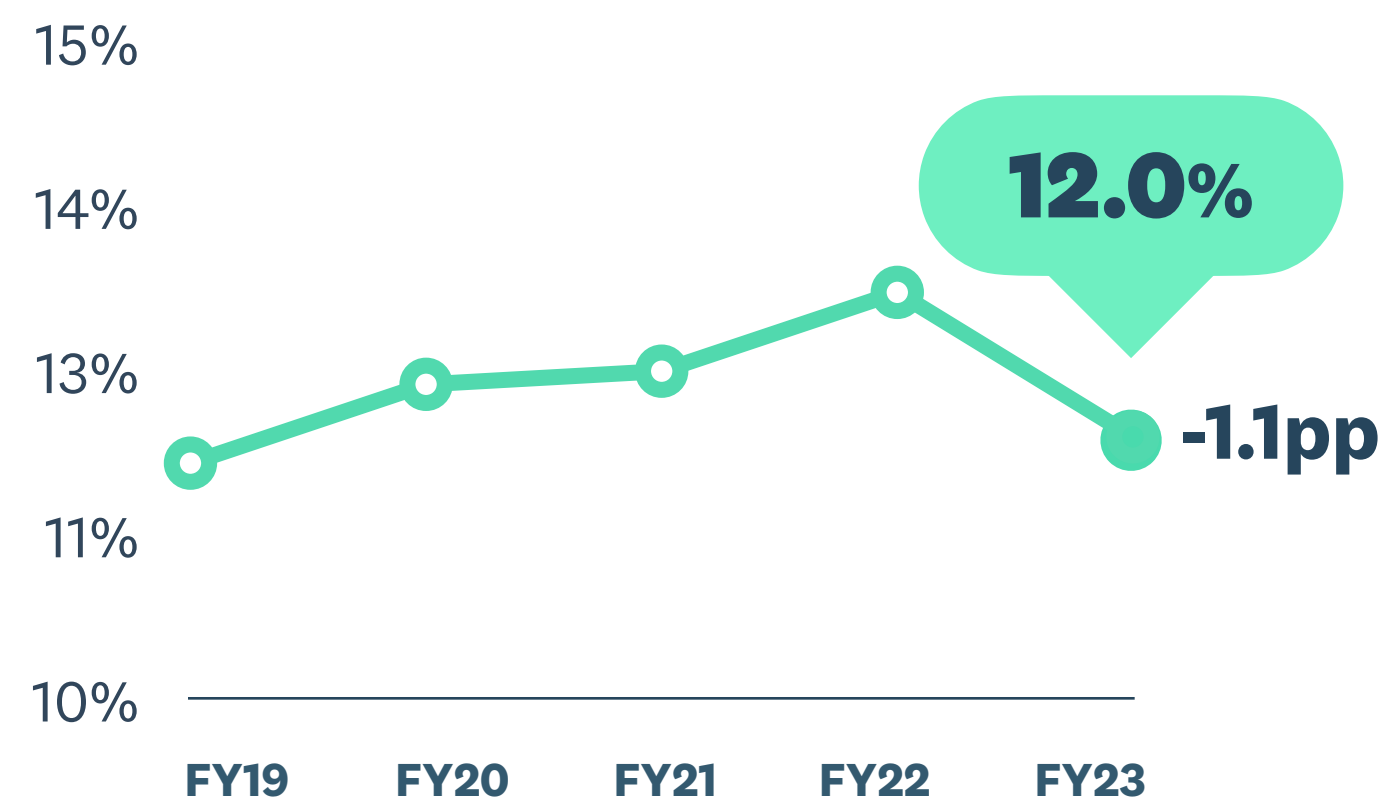
Balancing cost discipline with long term investment

Sales & marketing as a % of revenue



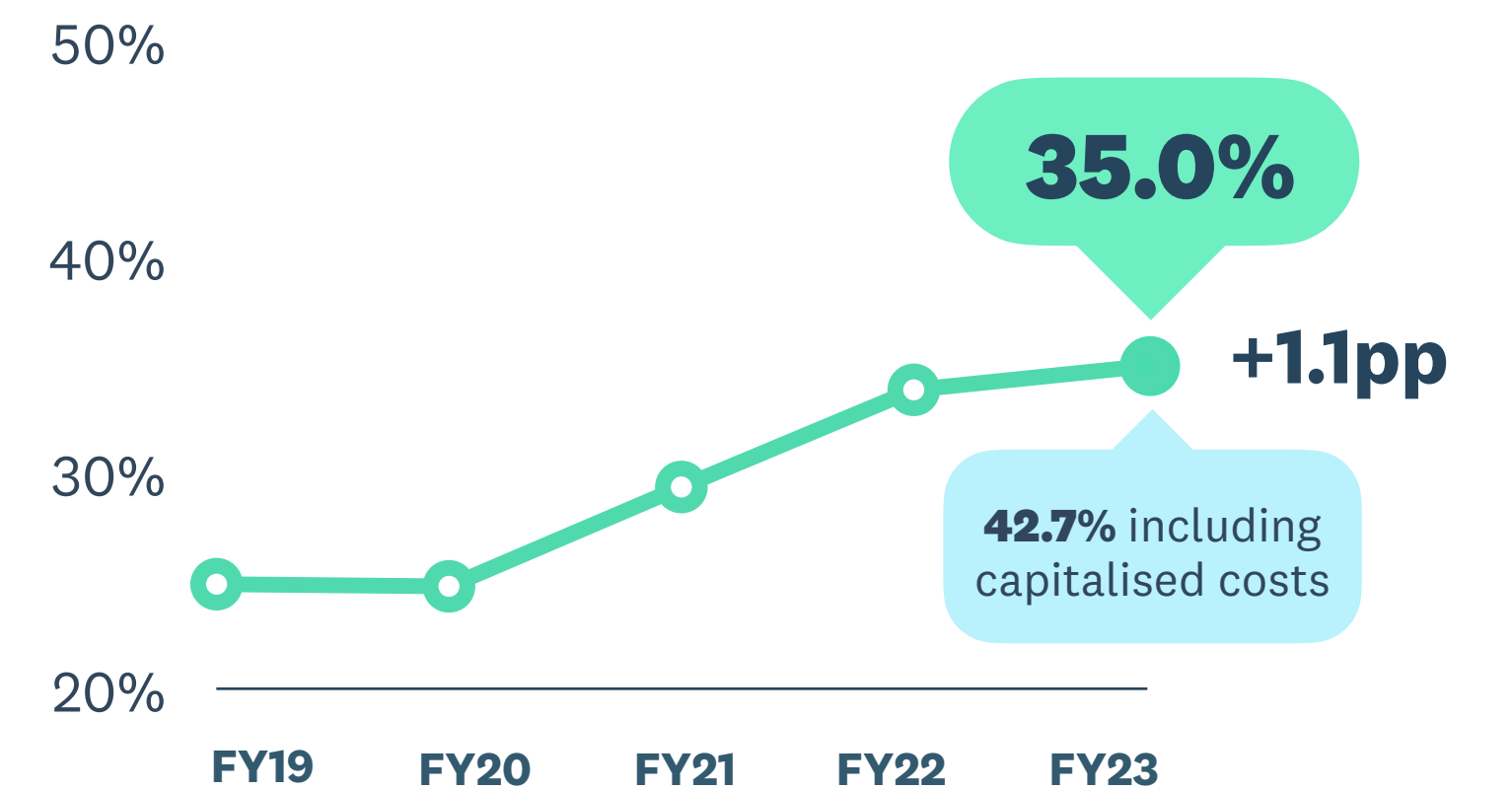
Sales and marketing costs increased by 16% YOY which was lower than the growth in operating revenue in FY23. This resulted in a 3.3pp improvement in CAC as a percentage of revenue. Excluding Xerocon, this ratio falls to 32.5% of revenue

General & administration as a % of revenue



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

Product design & development as a % of revenue



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

Strong operating performance

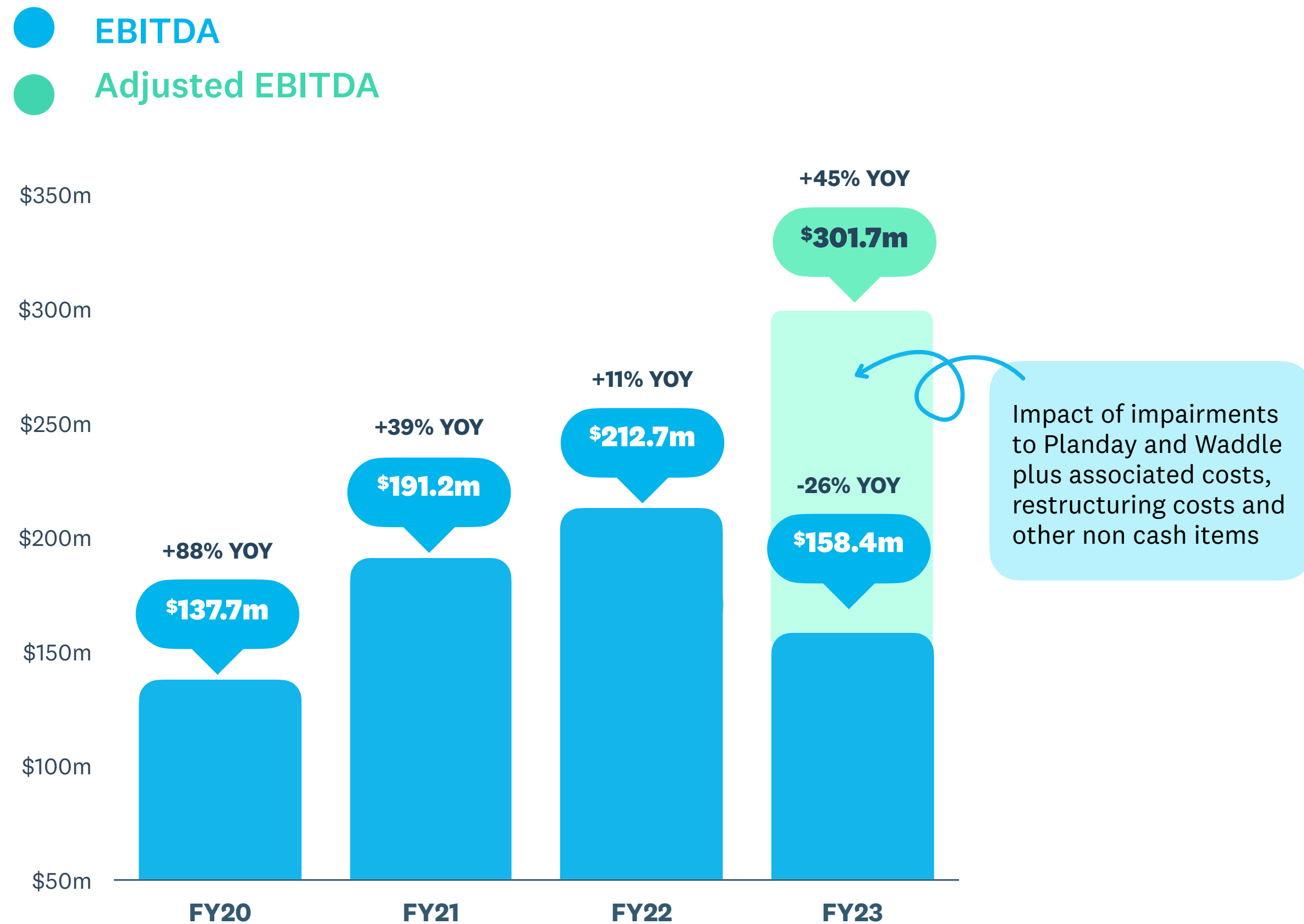
	FY22 (\$000s)	FY23 (\$000s)
EBITDA	212,661	158,399
Add back: restructuring costs	-	34,692
Add back: Non-cash impairments of Planday	-	77,927
Add back: Non-cash impairments and other costs relating to the exit of Waddle	22,122	48,527
Add back: Non-cash revaluations	(26,063)	(17,856)
Adjusted EBITDA	208,720	301,689

	FY22 (\$000s)	FY23 (\$000s)	Δ YOY (%)
Total operating revenue	1,096,819	1,399,884	28%
Cost of revenue	(139,388)	(177,943)	28%
Gross profit	957,431	1,221,941	28%
Gross margin	87.3%	87.3%	0.0pp
Total operating expenses excluding restructuring costs	(921,849)	(1,129,956)	23%
Restructuring costs	-	(34,692)	NM
Total operating expenses including restructuring costs	(921,849)	(1,164,648)	26%
Operating Income	35,582	57,293	61%
Asset impairments and other income & expenses	6,392	(117,090)	NM
EBIT	41,974	(59,797)	NM
EBITDA	212,661	158,399	-26%
EBITDA margin	19.4%	11.3%	-8.1pp
Net loss	(9,114)	(113,532)	NM

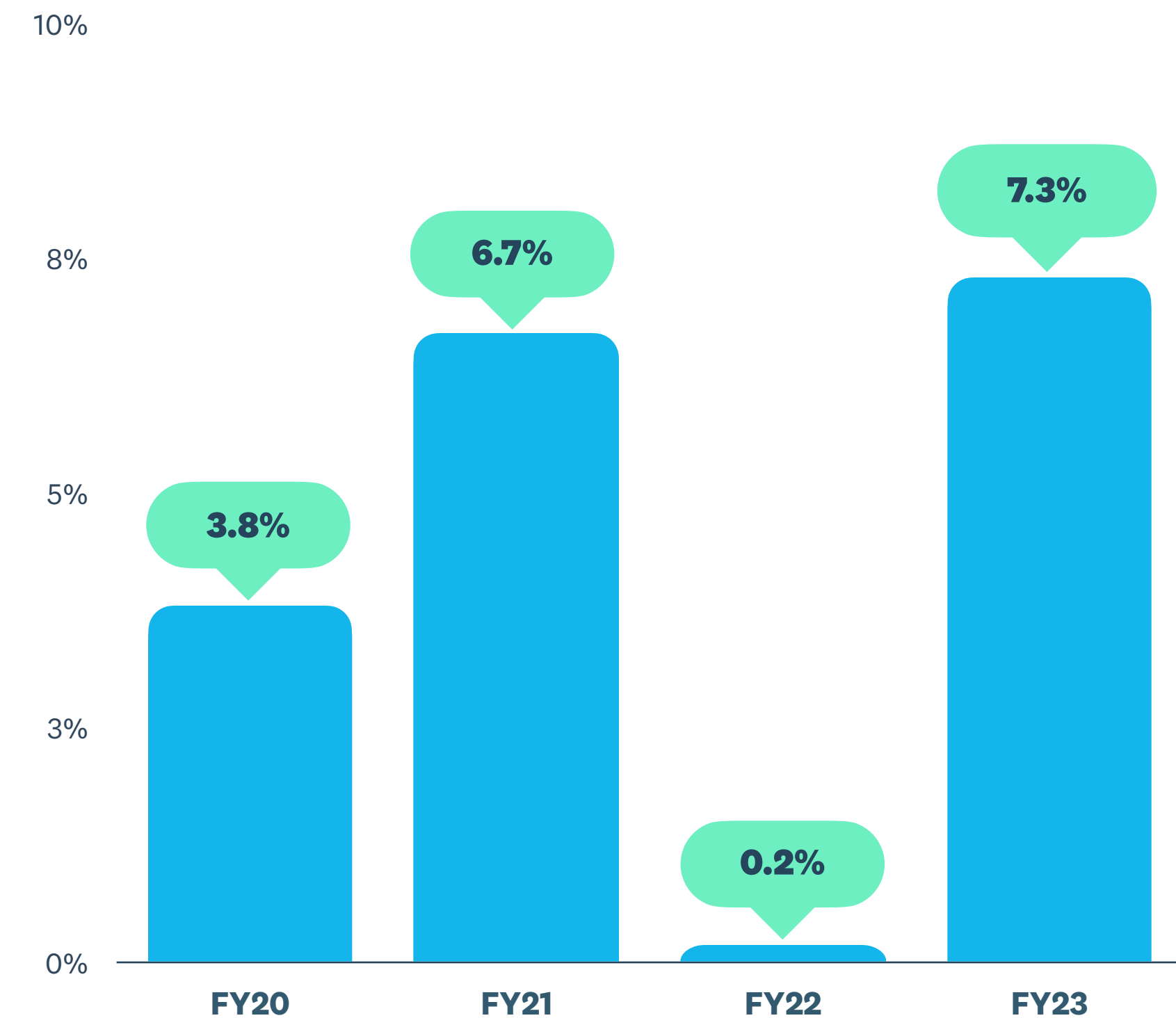
- **Operating income** is a non GAAP financial measure that has been included to demonstrate the operating performance of the business. Xero defines operating income as gross profit (total operating revenue less cost of revenue) less total operating expenses
- **EBITDA** impacted by impairments to Planday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

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

EBITDA and Adjusted EBITDA

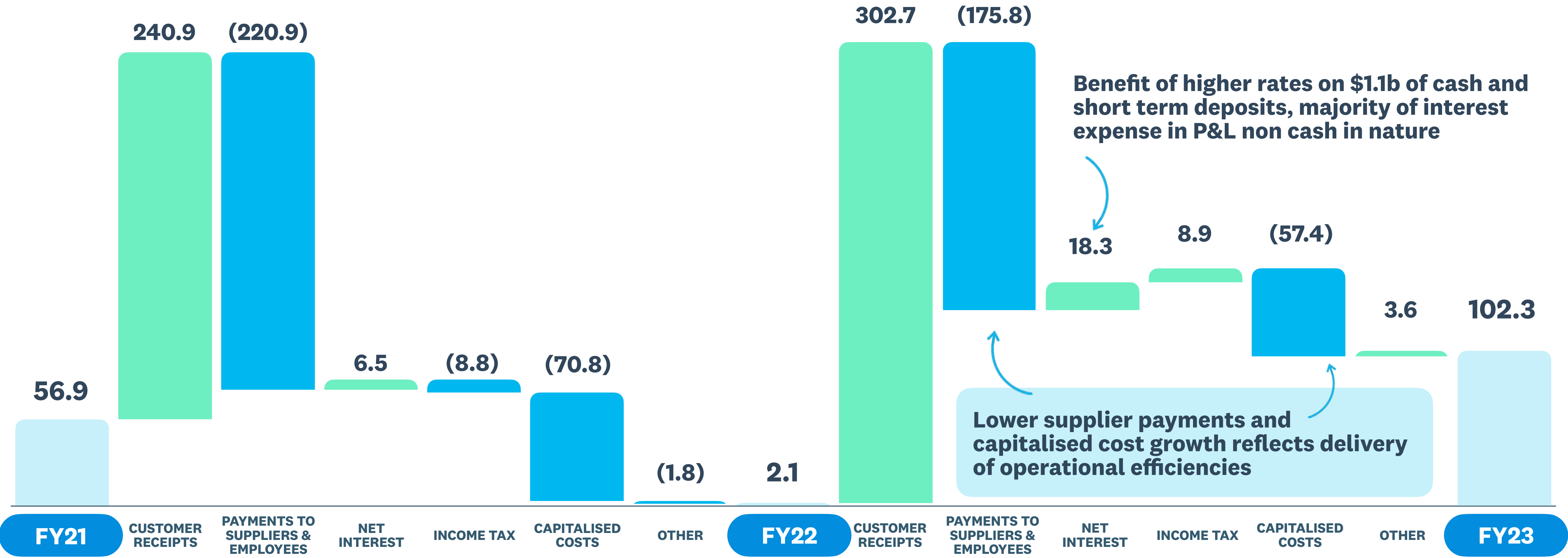


Free Cash Flow Margin



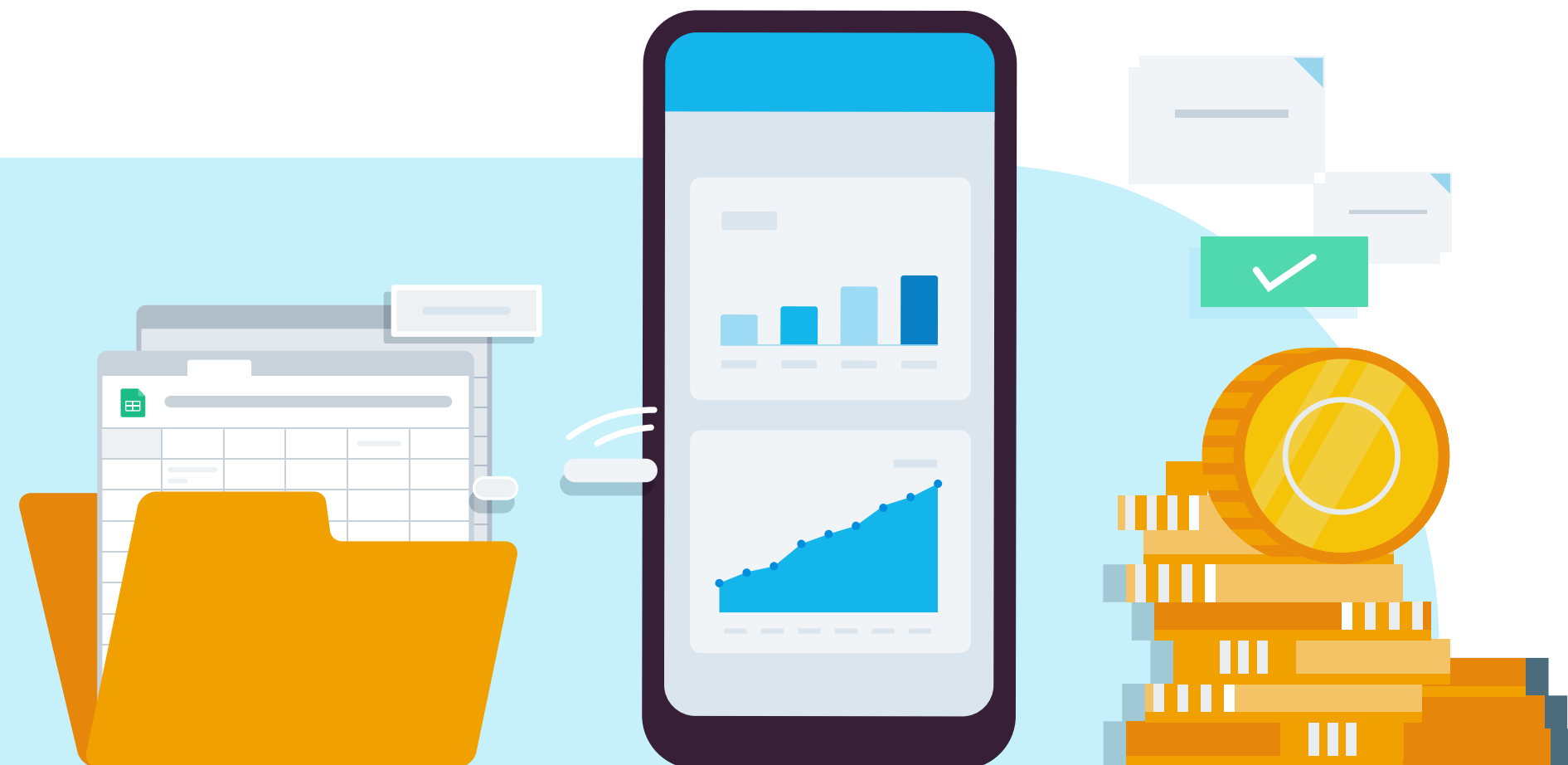
Improved Free Cash flow generation in FY23

Movements in Free Cash Flow (\$ million)



Total liquid resources of \$1.1 billion

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



Movement in net cash position

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

Observations from new CEO and Outlook



Sukhinder Singh Cassidy
CHIEF EXECUTIVE OFFICER

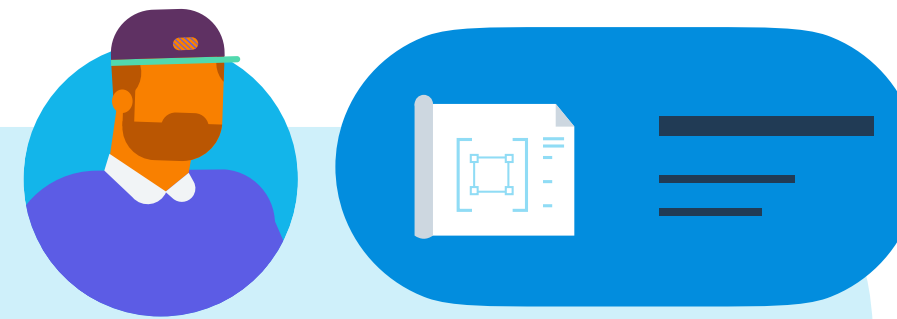
Observations from new CEO

Areas to touch on



North America

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



Planday

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



Modernisation

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

Key Themes

Observations from new CEO

Well positioned for significant long term opportunity

- The **long term opportunity for cloud accounting adoption is significant** across our portfolio of businesses (**TAM of 45m¹**) and we are well positioned

Multiple levers for growth available to Xero

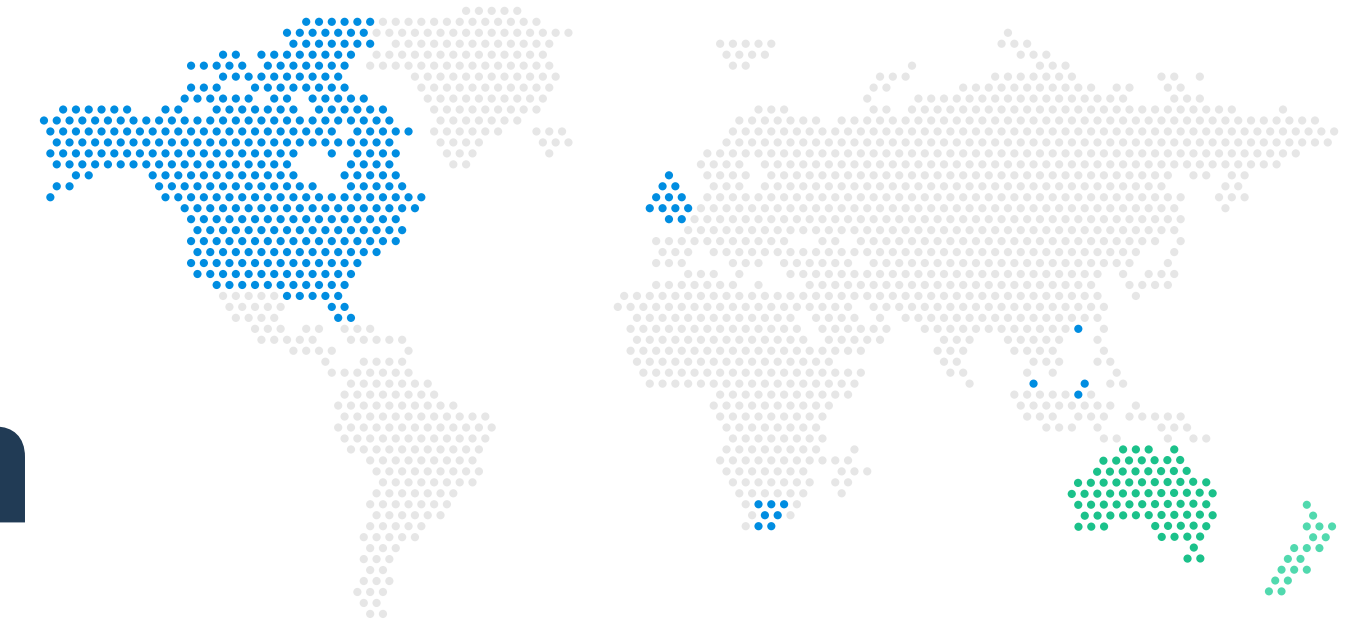
- We have multiple levers to deliver growth including **deepening customer engagement** and driving **further cloud accounting adoption**

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

- We will become **more focused on customers**, we will **be more dynamic in short term** capital allocation, and **more measured on long term** investment and returns
- We will be **more balanced** and look to **Rule of 40²** as a useful performance evaluation measure in managing the balance of growth and profitability

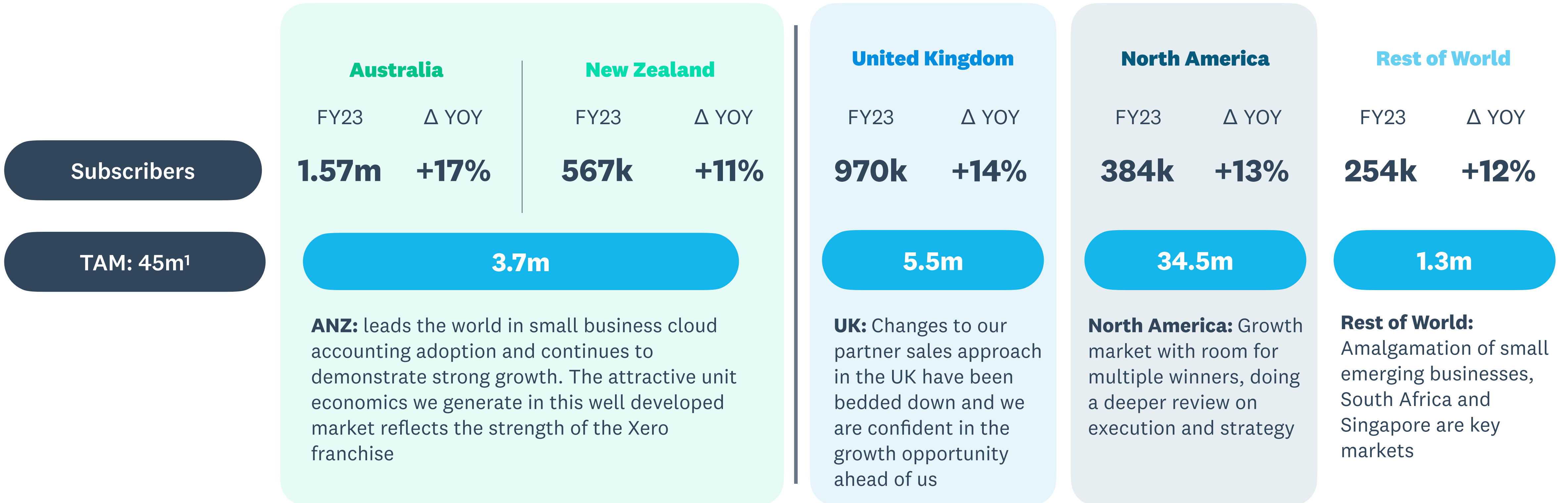
1. Estimated TAM across English speaking cloud accounting markets that Xero has a presence in, based on publicly available data of number of small businesses

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



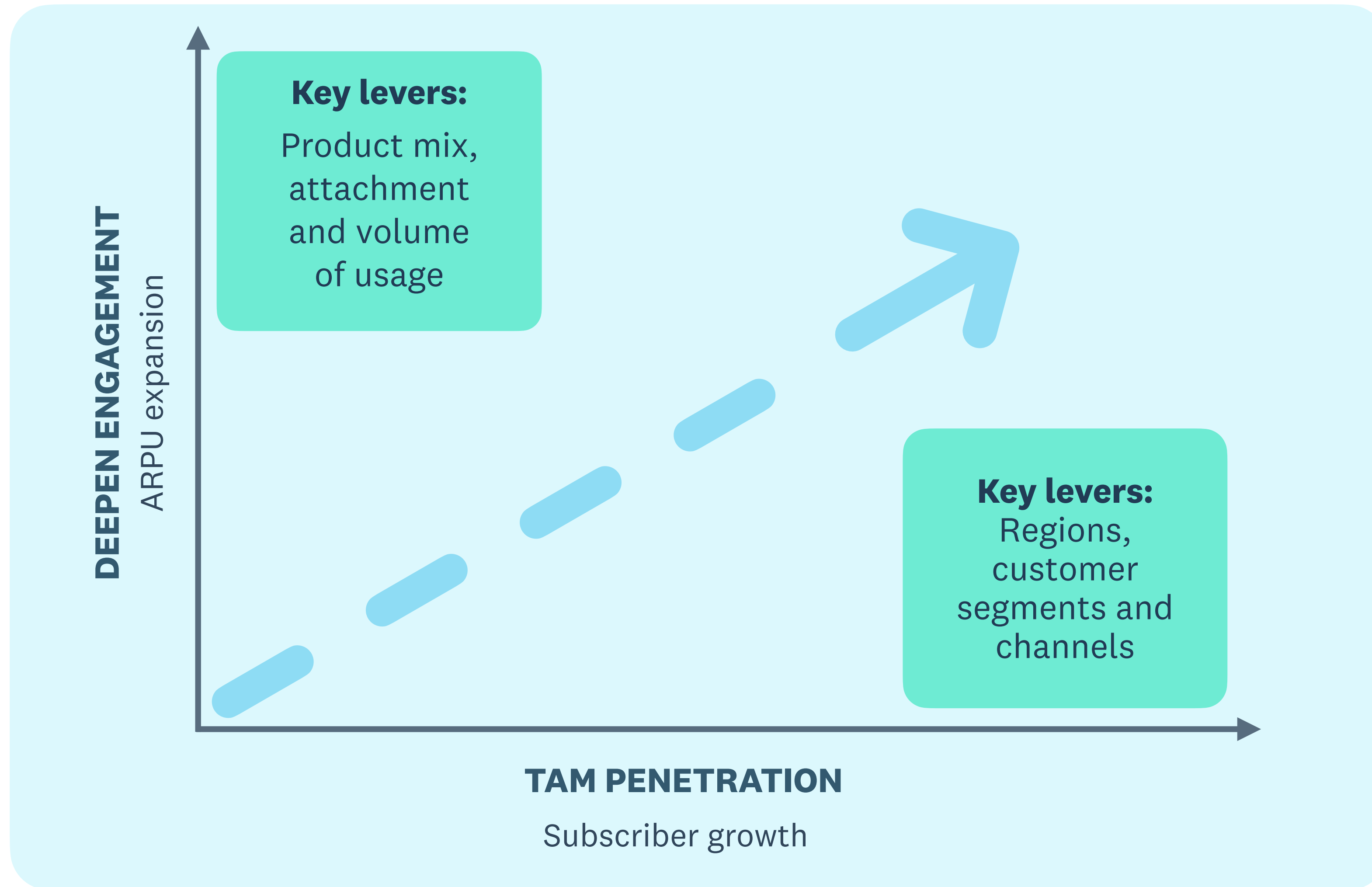
Well positioned for significant long term opportunity

The long term opportunity for cloud accounting adoption is significant across our portfolio of businesses (TAM of **45m¹**). We are well positioned and have multiple levers to deliver growth including deepening customer engagement and driving further cloud adoption



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

Multiple levers for growth available to Xero¹



1. Chart included is for illustrative purposes only

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

Being more focused...

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



Being more dynamic...

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



Being more measured...

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



Being more balanced...

...Xero will look to “**Rule of 40**” as a useful performance evaluation measure in managing the balance of growth and profitability¹



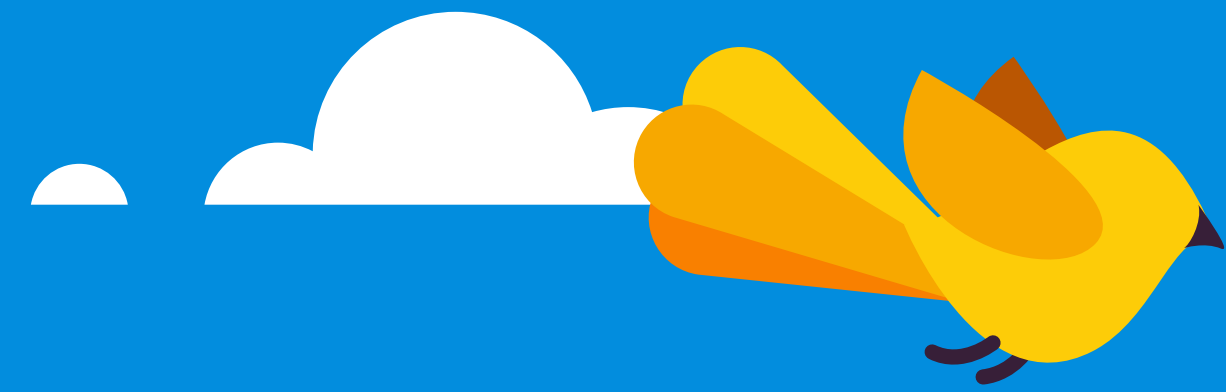
1. Rule of 40 is defined as the sum of annual revenue growth percentage and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

Outlook





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

Along with reinvestment in strategic priorities management is targeting an operating expense to operating revenue ratio in FY24 of around 75%. This will improve operating income margin compared to FY23

Xero's long-term aspiration is to continue to improve its operating expense ratio and its operating income margin, although a specific timeline has not been set. These ratios, and their component parts, may vary from period to period as we identify opportunities for disciplined, customer-focused growth



Evolution of Xero's financial profile

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

1. Excluding \$34.7m of restructuring costs

Q&A



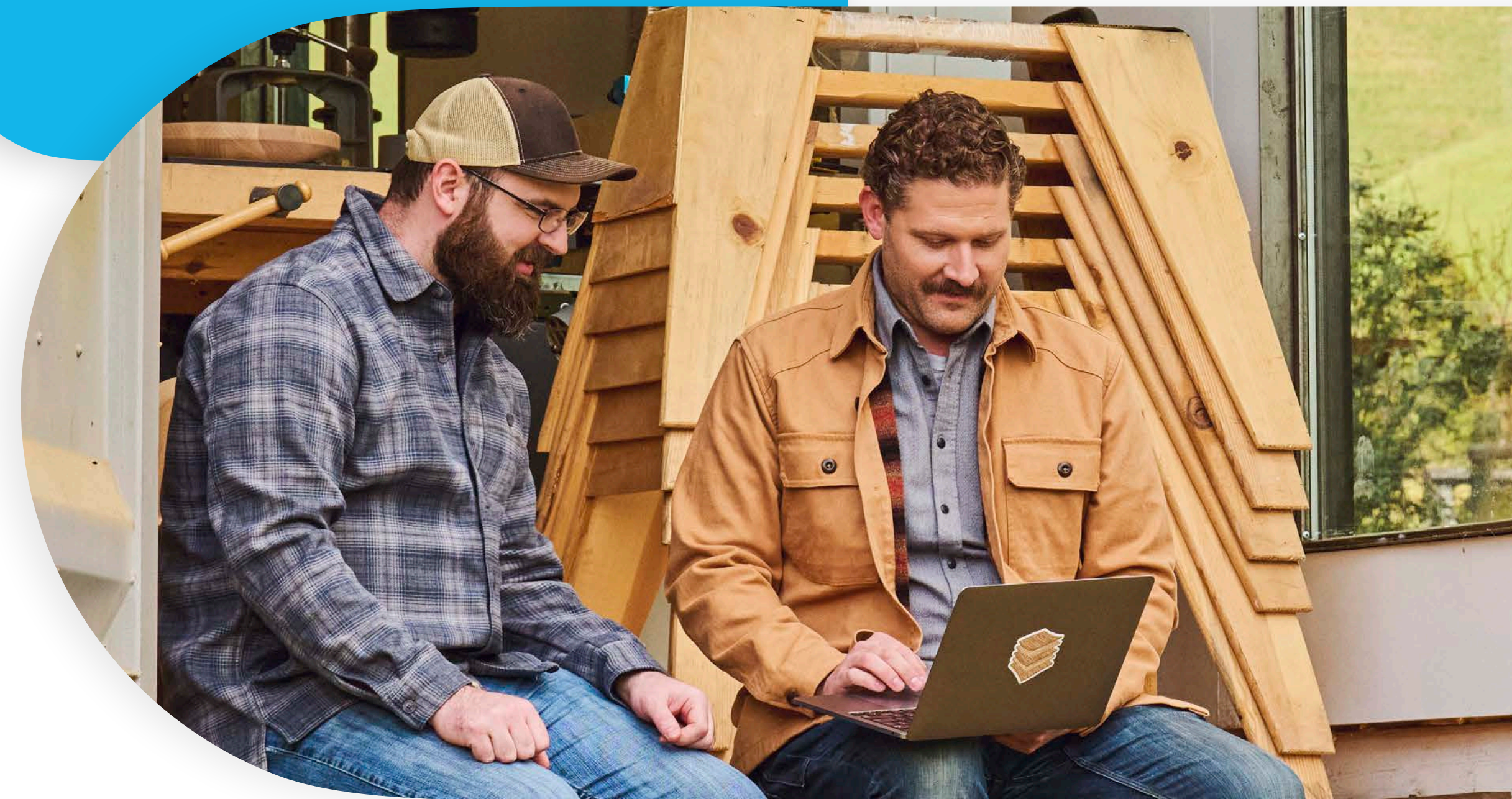
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