



MARKET RELEASE

Xero's FY24 Revenue up 22% to \$1.7 Billion, delivers Rule of 40*Strong results demonstrate Xero's ability to deliver growth and profitability*

WELLINGTON, 23 May 2024 - Xero Limited (ASX: XRO) today reports its full year earnings to 31 March 2024 (FY24). The results highlight Xero's ability to execute towards its future aspirations and drive continued strong revenue growth and profitability.

Xero's strong operating results included operating revenue growth of 22% (21% in constant currency (CC)), and an operating expense to revenue ratio of 73.3% (in line with guidance). This supported a 75% increase in adjusted EBITDA compared to FY23, to \$526.5 million, with EBITDA of \$497.4 million (mainly impacted by the non-cash impairment of Xero Go of \$28.9 million). This resulted in free cash flow increasing to \$342.1 million and a free cash flow margin of 20.0%, improving from 7.3% in the prior period. As a result Xero delivered a Rule of 40¹ outcome of 41.0%, demonstrating our ability to drive both growth and profitability.

CEO Sukhinder Singh Cassidy said: "This result shows we're doing what we said we'd do. We've delivered a strong and profitable FY24 result and Rule of 40 outcome, demonstrating our commitment to balancing growth and profitability. We have a clear and focused strategy to *win on purpose*, and Xero is positioned well as we move into FY25."

"We're executing on our strategic priorities by purposefully allocating capital aligned to our market opportunities, and building great products for customers as we sharpen our focus on Xero's multiple growth levers. As we aspire to be a world-class SaaS business, we seek to capture our large global TAM opportunity and become an even more trusted platform for small businesses and their advisors."

FY24 and Financial highlights (All \$ figures are in NZD and comparisons are made against FY23)

Year ended 31 March	2024	2023	change
Operating revenue (\$000s)	1,713,767	1,399,884	22%
Subscribers	4,160,000	3,741,000	11%
Net subscriber additions	419,000	470,000	-11%
Average revenue per user (\$)	39.29	34.61	14%
Annualised monthly recurring revenue (\$000s)	1,961,368	1,553,803	26%
EBITDA (\$000s)	497,418	158,399	NM*
Adjusted EBITDA (\$000s)	526,545	301,689	75%
Operating income ² (\$000s)	255,709	57,293	NM
Net profit/(loss) after tax (\$000s)	174,640	(113,532)	NM
Free cash flow (\$000s)	342,146	102,340	NM
Total lifetime value of subscribers (\$b)	15.5	13.4	16%
Gross margin percentage	88.2%	87.3%	0.9pp**

*NM stands for not meaningful **pp stands for percentage points

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

² Operating income is a non-GAAP financial measure. Xero defines it as gross profit (total operating revenue, less cost of revenues), less total operating expenses



Operating revenue increased to \$1.7 billion, driven by APRU expansion and subscriber growth. Annualised monthly recurring revenue (AMRR) grew by 26% to \$1.96 billion (22% in CC). Total LTV grew 16% (12% in CC) to \$15.5 billion. Average monthly churn (0.99%) remained below pre-pandemic levels, and ARPU improved a further 14% (10% in CC), underscoring Xero's macro resilience and the value customers place in Xero to help them manage changing environments.

In FY24, Xero's product and feature delivery continued as Xero maintains its focus on investing in building great products for customers. FY24 product highlights included launching auto sales tax powered by Avalara in the US; expanding its North American bank feed network from 20 direct bank feeds in FY23 to more than 600 direct bank feeds in FY24, which includes bank feeds through aggregation partners such as Yodlee and Flinks; and launching the single client record to provide one source of truth for client records to practices. Xero had several other highlights in payments including launching two new UK products — Bill Pay using open banking and invoicing — and globally improving features in Stripe that more seamlessly support businesses to onboard and collect payments. Xero also announced a strategic partnership with BILL to build a US bill payment solution. In April 2024, Xero announced a strategic partnership with Deputy to bring workforce management together with Xero's payroll and accounting for Australian customers. Xero invested US\$25 million to take a minority position in Deputy to further increase the two businesses' focus and alignment.

Market highlights

Australia and New Zealand - Australia and New Zealand continued to deliver strong results in higher cloud-penetrated markets with continued double digit revenue growth, up 22% (22% in CC) to \$969.9 million. ARPU increased 11% to \$37.97 and total subscribers grew to 2.4 million. In Australia, Xero delivered 205,000 net subscriber additions to reach 1.8 million subscribers. In New Zealand, 38,000 net subscribers were added to reach 605,000 subscribers.

International - Growth momentum continued in Xero's international markets, with revenue increasing 24% (20% in CC) to \$743.9 million, ARPU rising 17% (11% CC) to \$41.05, and subscribers growing to 1.8 million.

In the UK, Xero delivered pleasing growth, adding 107,000 net subscribers, taking total subscribers to 1.1 million. Xero added 38,000 net subscribers in North America to reach 422,000 subscribers. Rest of World subscribers increased to 285,000 with 31,000 net subscriber additions.

The UK saw continued strong revenue and a solid subscriber growth outcome in a period where there were no Making Tax Digital tailwinds. Underlying momentum in North America was strong with the US delivering a good balance of subscriber growth and APRU expansion, while strong revenue growth continued in Xero's Rest of World markets.



Aspiration³

Xero aspires to be a world-class SaaS business. Xero believes it has the opportunity to both double the size of its business⁴ and deliver Rule of 40 or greater performance^{5,6} over time. As Xero grows, it will also seek to be more balanced between subscriber growth and ARPU expansion.

Outlook

Total operating expenses as a percentage of revenue is expected to be around 73% in FY25, and compared to FY24, product design and development costs as a percentage of revenue is expected to be higher.

Xero's earnings webcast

Xero's FY24 earnings webcast at 10:30am AEST on 23 May 2024 can be accessed at:

<https://webcast.openbriefing.com/xro-fyr-2024/>

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

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

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About Xero

[Xero](#) 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.

³ 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

⁴ Xero's FY23 revenue was \$1,400 million, and H1 FY24 revenue (annualised on a straight line basis) is \$1,599 million

⁵ Rule of 40 is defined as the sum of annual revenue growth percentage in constant currency and annual free cash flow margin percentage (free cash flow as a percentage of revenue)

⁶ 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 ~\$193 million at 31 March 2024