Investor briefing

Half year results to 30 September 2023

9 NOVEMBER 2023

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 interim report for the period ended 30 September 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
- 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 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 42 for a glossary of the key terms used in this presentation.
Agenda

01 Introduction & summary of results

02 Financial results

03 Strategic themes

04 Q&A

Sukhinder Singh Cassidy
CHIEF EXECUTIVE OFFICER

Kirsty Godfrey-Billy
CHIEF FINANCIAL OFFICER
Introduction and summary of results
H1 FY24: Balancing growth and profitability

Financial and operating performance highlights for the half year ended 30 September 2023

**OPERATING REVENUE**
$799.5m
+21% YOY (20% in constant currency)

**EBITDA**
$206.1m
+ $97.5m YOY

**FREE CASH FLOW**
$106.7m
+ $91.1m YOY

**OPERATING INCOME**
$67.4m
+ $46.7m YOY
Key themes

H1 FY24 performance: Continued revenue momentum and emerging profitability

Continued revenue momentum

- **Xero has a strong value proposition** that continues to deliver strong revenue growth (revenue up 21% YOY, 20% CC)
- Outcome reflects a balance of subscriber additions (subscribers up 13% YOY) and robust ARPU expansion (ARPU up 6% YOY, 8% CC)

Emerging profitability

- We are **operating more efficiently** and effectively reflecting the benefits of embedding our restructure
- Combined with continued revenue growth this has delivered a 5.3pp increase in Operating income margin flowing through to Free cash flow of $107m reflecting a Free cash flow margin of 13%
Continued revenue momentum

Xero is a macro resilient business generating strong growth through both net subscriber additions and ARPU expansion

Revenue ($)

<table>
<thead>
<tr>
<th></th>
<th>H1 FY22</th>
<th>H1 FY23</th>
<th>H1 FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.2b</td>
<td>$0.4b</td>
<td>$0.6b</td>
<td>$0.8b</td>
</tr>
<tr>
<td>+21% YOY</td>
<td>+30% YOY</td>
<td>+23% YOY</td>
<td></td>
</tr>
<tr>
<td>$506m</td>
<td>$659m</td>
<td>$800m</td>
<td></td>
</tr>
</tbody>
</table>

Subscribers

<table>
<thead>
<tr>
<th></th>
<th>H1 FY22</th>
<th>H1 FY23</th>
<th>H1 FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0m</td>
<td>3.0m</td>
<td>3.5m</td>
<td>3.95m</td>
</tr>
<tr>
<td>+23% YOY</td>
<td>+16% YOY</td>
<td>+13% YOY</td>
<td></td>
</tr>
<tr>
<td>$506m</td>
<td>$659m</td>
<td>$800m</td>
<td></td>
</tr>
</tbody>
</table>

ARPU ($)

<table>
<thead>
<tr>
<th></th>
<th>H1 FY22</th>
<th>H1 FY23</th>
<th>H1 FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30.0</td>
<td>$31.32</td>
<td>$35.30</td>
<td>$37.38</td>
</tr>
<tr>
<td>+5% YOY</td>
<td>+13% YOY</td>
<td>+6% YOY</td>
<td></td>
</tr>
<tr>
<td>$30.0</td>
<td>$31.32</td>
<td>$35.30</td>
<td>$37.38</td>
</tr>
</tbody>
</table>
ANZ: Strong growth reflects value proposition

- **Double digit revenue and subscriber growth** in Australia
- Double digit revenue growth and pleasing subscriber growth for a highly penetrated market in New Zealand
- **Continued ARPU expansion** mainly through pricing\(^1\)
- Xerocon Sydney held in August 2023

### Australia

- **H1 FY24**
  - Revenue: $360m (+22% YOY, +24% YOY constant currency)
  - Subscribers: 1.69m (+15% YOY, +122k net additions in H1 FY24)

### New Zealand

- **H1 FY24**
  - Revenue: $96m (+15% YOY, +15% YOY constant currency)
  - Subscribers: 584k (+9%, +17k net additions in H1 FY24)

---

International: Strong revenue growth, factors different by market

$343M REVENUE (+22% YOY, 18% YOY constant currency)

1.67M SUBSCRIBERS (+12% YOY, 65k net additions in H1 FY24)

$37.91 ARPU^3 (+8% YOY, 7% YOY constant currency)

- **UK continued to deliver strong revenue growth** but subscriber growth was subdued due to:
  - Softness in MTD demand
  - Accountants and bookkeepers managing undeployed inventory^1, which had limited impact on MRR churn and revenue

- **North America momentum strong** with underlying revenue up 19%^2
  - US delivered a good balance of ARPU and subscriber growth
  - Canada subscriber growth disappointing. Sales approach changes supported revenue outcomes but impacted subscriber additions

- **Rest of World strong revenue growth**

---

1. Undeployed inventory or idle subscriptions are those purchased by accountants and bookkeepers as part of their digitisation process, but are yet to be attached to an underlying small business
2. Underlying revenue growth excludes revenue associated with Xerocon New Orleans and LOCATE in H1 FY23
3. Business Edition (BE) price changes effective September 2023 in the UK, October 2023 in North America and November 2023 in Rest of World. Partner edition (PE) price changes effective March 2023
Emerging profitability

Improving efficiency, alongside continued revenue momentum, translated to profitability and improved free cash flow

Improved bottom line outcomes alongside continued revenue growth reflects **Xero looking to Rule of 40** as a useful performance **evaluation** measure in managing the balance of growth and profitability

1. 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
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)
Financial results
Continued top-line momentum and gross margin

**AMRR**

Growth in AMRR of **$288.6m** or **19% YOY** (22% in constant currency) reflects subscriber growth of **13%**, and ARPU expansion of **6% YOY** (8% in constant currency)

**Gross profit and gross margin**

Gross Profit increased by **$126.9m** or **22% YOY**, reflecting **21%** revenue growth and a **0.5pp** increase in gross profit margin as cost of revenue was well managed
Revenue contribution across our portfolio of business

Revenue composition

- **Core accounting**
- **Platform**
- **Other**

- **Group operating revenue** grew 21% YOY or 20% in constant currency
- **Core accounting revenues** grew 24% YOY or 23% in constant currency, driven by subscriber growth and price changes
- **Platform revenues** increased by 21% YOY or 17% in constant currency
- **Other revenues** decreased 34% YOY, due to lower Xerocon revenue (one event scheduled in H1 FY24 vs three in H1 FY23)
Platform revenue drivers

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)
Continued ARPU expansion, churn remains low

ARPU movement contributors
ARPU has increased by $2.77 since 31 March 2023

<table>
<thead>
<tr>
<th></th>
<th>ARPU at 31 March 2023</th>
<th>ARPU at 30 September 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product mix</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FX movements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other$^1$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Price changes, Product mix, FX movements

Churn (MRR)
Churn is reported on a percentage of monthly recurring revenue basis. It has remained below pre-COVID-19 pandemic levels

<table>
<thead>
<tr>
<th></th>
<th>H1 FY21</th>
<th>H2 FY21</th>
<th>H1 FY22</th>
<th>H2 FY22</th>
<th>H1 FY23</th>
<th>H2 FY23</th>
<th>H1 FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Churn (%)</td>
<td>1.11%</td>
<td>1.01%</td>
<td>0.88%</td>
<td>0.90%</td>
<td>0.90%</td>
<td>0.91%</td>
<td>0.90%</td>
</tr>
<tr>
<td>COVID-19</td>
<td>0.94%</td>
<td>+3bps</td>
<td>YOY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Other includes platform revenues such as Payments, Payroll, Planday and other items
SaaS metrics reflect macro resilient value creation

Total LTV over time

- LTV 3 year CAGR 31% for ANZ and 40% for International
- Average subscriber lifetime of 8.9 years

- $1.8b added YOY

<table>
<thead>
<tr>
<th>Year</th>
<th>ANZ</th>
<th>International</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ARPU</td>
<td>Churn</td>
<td>LTV/CAC</td>
</tr>
<tr>
<td>H1 FY21</td>
<td>$36.99</td>
<td>0.72%</td>
<td>14.6</td>
</tr>
<tr>
<td>H1 FY22</td>
<td>$37.91</td>
<td>1.24%</td>
<td>3.0</td>
</tr>
<tr>
<td>H1 FY23</td>
<td>$37.38</td>
<td>0.94%</td>
<td>6.4</td>
</tr>
<tr>
<td>H1 FY24</td>
<td>$37.38</td>
<td>0.94%</td>
<td>6.4</td>
</tr>
</tbody>
</table>
Continued uplift in lifetime value of subscribers

LTV movements by driver
From 31 March 2023 to 30 September 2023

Value of a Xero subscriber
At 30 September 2023
Improving operating cost efficiency...

**FY23 Full Year OPEX to operating revenue guidance achieved**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>OPEX to Operating Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 FY23</td>
<td>83.9%</td>
</tr>
<tr>
<td>H2 FY23</td>
<td>77.9%</td>
</tr>
</tbody>
</table>

**FY24 Full Year OPEX to operating revenue guidance**

Along with reinvestment into strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%.

**Operating expenses as a % of operating revenue**

- H1 FY23: 83.9%
- H2 FY23: 77.9%
- H1 FY24: 79.1%
- H2 FY24: FY24 target ~75%

1. Total operating expenses (including integration costs and excluding restructuring costs) as a percentage of operating revenue for FY23 were expected to be towards the lower end of a range 80-85%.
2. H2 FY23 operating expenses as a percentage of operating revenue excludes restructuring charges.
...across all areas of our business

Sales & marketing as a % of revenue

Sales and marketing costs increased by 16% YOY which was lower than the growth in operating revenue in H1 FY24. This resulted in a 1.6pp improvement in CAC as a percentage of revenue. Excluding Xerocon, this ratio falls to 33.9% 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 H1 FY24. This resulted in 0.4pp improvement in G&A as a percentage of revenue YOY.

Product design & development as a % of revenue

Product design and development costs increased 11% YOY, lower than the growth in operating revenue in H1 FY24. This resulted in a 2.9pp decrease in these costs as a percentage of revenue YOY. This was largely due to our restructure and reshaping of our organisation in H1 FY24.
## Strong operating performance

<table>
<thead>
<tr>
<th></th>
<th>H1 FY23 ($000s)</th>
<th>H1 FY24 ($000s)</th>
<th>Δ YOY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total operating revenue</strong></td>
<td>658,512</td>
<td>799,547</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Cost of revenue</strong></td>
<td>(85,600)</td>
<td>(99,757)</td>
<td>17%</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>572,912</td>
<td>699,790</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td>87.0%</td>
<td>87.5%</td>
<td>0.5pp</td>
</tr>
<tr>
<td><strong>Total operating expenses excluding restructuring costs</strong></td>
<td>(552,191)</td>
<td>(630,246)</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Restructuring costs</strong></td>
<td>-</td>
<td>(2,131)</td>
<td>NM</td>
</tr>
<tr>
<td><strong>Total operating expenses including restructuring costs</strong></td>
<td>(552,191)</td>
<td>(632,377)</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>20,721</td>
<td>67,413</td>
<td>NM</td>
</tr>
<tr>
<td><strong>Asset impairments and other income &amp; expenses</strong></td>
<td>(14,344)</td>
<td>12,039</td>
<td>NM</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>6,377</td>
<td>79,452</td>
<td>NM</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>108,551</td>
<td>206,090</td>
<td>90%</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>16.5%</td>
<td>25.8%</td>
<td>9.3pp</td>
</tr>
<tr>
<td><strong>Net Profit/(Loss)</strong></td>
<td>(16,130)</td>
<td>54,084</td>
<td>NM</td>
</tr>
</tbody>
</table>

- **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 Waddle in H1 FY23, 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 Free cash flow growth

### Movements in Free cash flow ($ million)

<table>
<thead>
<tr>
<th>Description</th>
<th>H1 FY23</th>
<th>H1 FY24</th>
</tr>
</thead>
<tbody>
<tr>
<td>CUSTOMER RECEIPTS</td>
<td>144.0</td>
<td></td>
</tr>
<tr>
<td>PAYMENTS TO SUPPLIERS &amp; EMPLOYEES</td>
<td>(100.0)</td>
<td></td>
</tr>
<tr>
<td>NET INTEREST</td>
<td>24.5</td>
<td>21.3</td>
</tr>
<tr>
<td>INCOME TAX</td>
<td>0.3</td>
<td>0.9</td>
</tr>
<tr>
<td>CAPITALISED COSTS</td>
<td></td>
<td>106.7</td>
</tr>
<tr>
<td>OTHER</td>
<td>15.6</td>
<td></td>
</tr>
</tbody>
</table>

### Notes:

- Benefit of high rate environment on $1.3b of cash and short term deposits. **Majority of interest expense in P&L is non cash** in nature and does not impact free cash flow.
- Includes **$31.0m of redundancy payments** associated with restructuring, alongside seasonal payment of technology license agreements that occur in H1.
- Minimal change in cash tax paid reflects **utilisation of tax losses from prior years**.
- Includes $31.0m of redundancy payments associated with restructuring, alongside seasonal payment of technology license agreements that occur in H1.
- Includes $31.0m of redundancy payments associated with restructuring, alongside seasonal payment of technology license agreements that occur in H1.

**H1 FY23** includes $31.0m of redundancy payments associated with restructuring, alongside seasonal payment of technology license agreements that occur in H1.
Solid balance sheet with total liquid resources of $1.3 billion

- Net cash position continued to grow by $155 million YOY reaching $179 million at 30 September 2023
- Total available liquid resources at 30 September 2023 of $1.3 billion
- Improved positive FCF outcome reflects emerging profitability

### Movement in net cash position

<table>
<thead>
<tr>
<th></th>
<th>H1 FY23 ($000s)</th>
<th>H1 FY24 ($000s)</th>
<th>Δ YOY ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>395,092</td>
<td>365,278</td>
<td>(29,814)</td>
</tr>
<tr>
<td>Short-term deposits</td>
<td>730,470</td>
<td>896,407</td>
<td>165,937</td>
</tr>
<tr>
<td>Total cash and short-term deposits</td>
<td>1,125,562</td>
<td>1,261,685</td>
<td>136,123</td>
</tr>
<tr>
<td>Convertible notes – term debt liability</td>
<td>(1,101,523)</td>
<td>(1,082,673)</td>
<td>(18,850)</td>
</tr>
<tr>
<td>Net cash</td>
<td>24,039</td>
<td>179,012</td>
<td>154,973</td>
</tr>
</tbody>
</table>
CEO Sukhinder Singh Cassidy
CHIEF EXECUTIVE OFFICER

strategic themes
Xero is evolving to deliver on our global aspirations

We are sharpening our focus and adding new capabilities

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 profitability

Xero has multiple levers for growth

Key levers:
- Product mix, attachment and volume of usage

Key levers:
- Regions, customer segments and channels

DEEPEN ENGAGEMENT
- ARPU expansion

TAM PENETRATION
- Subscriber growth

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)
Strategic key themes

1. Sharpening our focus on segments and mix as a key lever for growth
   - We will focus on balancing mix and subscriber volume to deliver smarter growth

2. US review: Opportunity to be more focused on two key segments with more consistent execution
   - Highly varied sales and product motions during our time in the US has led to inconsistent growth
   - Opportunity to be more disciplined in our growth and invest at a reasonable rate relative to top line growth

3. We have evolved our global leadership team to get ready for Xero’s next chapter
   - We have made a number of strategic appointments to our executive leadership team and evolved our structures

4. AI already powers Xero: Continue to invest, and experiment further
   - AI is core to Xero’s offering today
   - Our opportunity is to expand AI use for customers and internally, through investment and experimentation
Sharpening our focus on segments and mix

Accountants and bookkeepers support small businesses across the range of Jobs To Be Done (JTBD)

As we grow revenues, we will seek a balance of subscriber volume and mix
Improving focus on mix by addressing long idle subscriptions

- We identified a **small pool of paid for but long idle** subscriptions that are no longer expected to deploy in a timely manner. Removing these subscriptions allows us to **focus our sales teams and allocate resources** to engaging higher value subscribers.

- Going forward, our teams will work with accountants and bookkeepers to **improve mix** as well as **acquire and deploy** their Xero inventory **through smaller and more frequent sales** motions.

**Outcome and impact**

This is a small percentage of our subscriptions. We expect it to have minimal impact on FY25 revenue. We estimate this pool is between **150k-200k subscriptions**. The majority are located in our International segment across North America and the UK, with a smaller portion in Australia and Rest of World.

We plan to remove these subscriptions after the end of FY24 during H1 FY25. Based on the midpoint of that range, as at 30 September 2023 these subscriptions had an **ARPU of approximately $3.70** and, if they were removed at that date, group ARPU would **increase by approximately 3-5%**.

1. Long idle subscriptions are those that have been undeployed for more than 24 months, and that are not expected to be deployed in a reasonable timeframe.
US review: Shows a strong value proposition for two key segments through targeted execution with a reasonable rate of investment

1. What we’ve done less well historically

Inconsistent and unfocused execution creating varied approaches has been a key challenge.

2. What is working in the business

We have a good product fit which is desired and offers value to two key segments:
- Small businesses with multiple JTBD
- The Client Advisory Services (CAS) segment of accountants and bookkeepers

Historic US investment spend per year

Our average annual net investment in the US over the last 10 years has been NZD ~$30m² which we believe is in line with US venture capital backed businesses.

3. Go forward approach for the US

- A focused growth plan for our two key segments
- More targeted go-to-market investment, centring on increased onboarding funnel efficiency and spend in geographies that reinforce our core Accountant and Bookkeeper channel
- An improved operating model for the US with direct accountability alongside more US based product & engineering support
- Leveraging our open ecosystem as an important differentiator
- Removing long idle lower value subscriptions, to focus our sales teams and allocate resources to engaging higher value customers

4. Our investment plan

We will be targeted and invest at a reasonable rate, relative to top line growth generated, with a focus on investment in the right products, with the right marketing, for the right segments

1. See Appendix for more detail
2. Net investment refers to direct Sales and marketing, and direct Product design and development costs for Xero’s US operations netted off with Revenue from and Costs to serve for US customers
Evolving our global executive leadership team

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

Ashley Grech
Chief Revenue Officer
Ex Square, Recharge

Kirsty Godfrey-Billy
Chief Financial Officer
Xero - 7yrs
Ex PwC

Diya Jolly
Chief Product Officer
Ex Okta, Google

Damien Coleman
Chief Legal Officer & Company Secretary
Xero - 2yrs
Ex Telstra

Nicole Reid
Chief People Officer
Xero - 4yrs
Ex AMP, Microsoft

Angad Soin
Chief Business Operations & Strategy Officer
Xero - 2yrs
Ex Deloitte

Michael Strickman
Chief Marketing Officer
Ex Uber, TripAdvisor

Kirsty Godfrey-Billy
Chief Financial Officer
Xero - 7yrs
Ex PwC

Diya Jolly
Chief Product Officer
Ex Okta, Google

Damien Coleman
Chief Legal Officer & Company Secretary
Xero - 2yrs
Ex Telstra

Nicole Reid
Chief People Officer
Xero - 4yrs
Ex AMP, Microsoft

Angad Soin
Chief Business Operations & Strategy Officer
Xero - 2yrs
Ex Deloitte

Michael Strickman
Chief Marketing Officer
Ex Uber, TripAdvisor

Based in the northern hemisphere
SH Based in the southern hemisphere

Existing Xero
New Xero

Chris Patalano
EVP Product Engineering
Ex Realtor.com, Pandora
AI is already core to Xero; Opportunity to invest and experiment

Focus on the customer, security and trust in every solution we launch — historically and going forward

Reduced toil for customers

- **Machine learning embedded** in bank reconciliations, document capture and data entry to accelerate repetitive manual processes

AI powered insights

- Cash flow **predictions powered by Xero Analytics Plus** give small businesses greater insights

Conversational interfaces using Gen-AI

- **First Gen-AI product for customers launched** start of October 2023 with generative answers in Xero Central

Increasing internal productivity using Gen-AI

- **Experimentation underway** in marketing and engineering functions

---

1. Performance metrics for Gen-AI product based on early differential testing performed following initial product launch
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

<table>
<thead>
<tr>
<th>EXPENSE RATIO</th>
<th>H1 FY24</th>
<th>FY24 EXPECTATION</th>
<th>LONG TERM ASPIRATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALES &amp; MARKETING</td>
<td>34.7%</td>
<td>Expected ratio trend vs FY23: Flat to down</td>
<td></td>
</tr>
<tr>
<td>of revenue</td>
<td>32.1%</td>
<td>Expected ratio trend vs FY23: Down</td>
<td></td>
</tr>
<tr>
<td>PRODUCT DESIGN &amp; DEVELOPMENT</td>
<td>32.1%</td>
<td>Expected ratio trend vs FY23: Down</td>
<td></td>
</tr>
<tr>
<td>of revenue</td>
<td>12.1%</td>
<td>Expected ratio trend vs FY23: Down</td>
<td></td>
</tr>
<tr>
<td>GENERAL &amp; ADMINISTRATION</td>
<td>12.1%</td>
<td>Expected ratio trend vs FY23: Down</td>
<td></td>
</tr>
<tr>
<td>of revenue</td>
<td>79.1%</td>
<td>Along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%</td>
<td></td>
</tr>
<tr>
<td>TOTAL OPERATING EXPENSEES</td>
<td>79.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of revenue</td>
<td>1. Numbers do not add through due to $2.1 million of restructuring costs incurred in H1 FY24, this is included in total operating expenses</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%.
US review: Shows a strong value proposition for two key segments

We have had varied approaches over a number of years, we now better understand where we offer value

1 What we’ve done less well historically

Inconsistent and unfocused execution has been a key challenge

We have had varied approaches over a number of years:

- Inconsistent sales motions (targeting multiple segments with sub-optimal onboarding)
- Frequent sales leadership changes
- Inconsistent approach to Product & Technology investment

2 What is working in the business:

We have a good product fit which is desired and offers value to two key segments

- Small businesses with multiple JTBD
- The Client Advisory Services (CAS) segment of accountants and bookkeepers

We’re happy with our sales approach and increasingly aligned focus on right customer segments with targeted investment

Our open ecosystem and partnering approach serves us well in a market where small businesses and accountants/bookkeepers use a variety of applications and want choice in their app stack

Historic US investment spend per year

Our average annual net investment in the US over the last 10 years has been NZD ~$30m\(^1\) which we believe is in line with US venture capital backed businesses

---

\(^1\) Net investment refers to direct Sales and marketing, and direct Product design and development costs for Xero’s US operations netted off with Revenue from and Costs to serve for US customers
US review: More consistent and targeted execution with a reasonable rate of investment

3 Which areas will you focus on to drive growth going forward?

- A targeted growth plan for our two key segments in the US:
  - **Small businesses with more JTBD** who have greater needs for our broader product set, allowing us to scale ARPU over time — through Xero and our ecosystem partners
  - **The CAS segment** of accountants and bookkeepers who serve small businesses, these practises are looking to leverage our tools so they can move up the value chain to advisory
  - We will continue to improve product fit for these segments as we add new features

- **We plan to remove long idle lower value subscriptions** after the end of FY24 during H1 FY25. Removing these subscriptions will allow us to focus our sales teams and allocate resources to engaging higher value subscribers and working with accountants and bookkeepers to acquire and deploy their Xero inventory through smaller and more frequent motions

- **We will be more targeted in our go-to-market investment** through increasing the efficiency of our onboarding funnel and targeting our spend in geographies that reinforce our core accountant and bookkeeper channel

- **We will improve our operating model for the US.** We have created direct accountability for the US into our Global Chief Revenue Officer, and we will have more US based product & engineering support, to better respond to US needs i.e. bank feeds

- **We will continue to leverage our open ecosystem as an important differentiator** and opportunity for customer choice and customisation in their app stack

4 What is your Investment plan?

We will be targeted and invest at a reasonable rate, relative to top line growth generated, with a focus on investment in the right products, with the right marketing, for the right segments

---

1. Long idle subscriptions are those that have been undeployed for more than 24 months, and that are not expected to be deployed in a reasonable timeframe
H1 FY24: Emerging profitability driven by strong growth and improved efficiency

Financial and operating performance highlights for the half year ended 30 September 2023

**Subscribers**
- 3.95m
- + 204,000 net subscriber additions for H1 FY24 or 13% YOY

**ARPU**
- $37.38
- + 6% YOY (8% in constant currency)

**Operating Revenue**
- $799.5m
- + 21% YOY (20% in constant currency)

**Operating Income**
- $67.4m
- +46.7m YOY

**EBITDA**
- $206.1m
- + $97.5m YOY

**Adjusted EBITDA**
- $204.5m
- + $80.8m YOY

**Net Profit**
- $54.1m
- + $70.2m YOY

**Free Cash Flow**
- $106.7m
- + $91.1m YOY
Subscriber growth trend

Closing subscribers from H1 FY21 to H1 FY24

1. Growth rates presented year on year
## SaaS metrics summary

<table>
<thead>
<tr>
<th></th>
<th>ANZ</th>
<th>International</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY22</td>
<td>H1 FY23</td>
<td>FY23</td>
</tr>
<tr>
<td>ARPU</td>
<td>$32.00</td>
<td>$35.56</td>
<td>$34.24</td>
</tr>
<tr>
<td>CAC months</td>
<td>8.8</td>
<td>8.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Churn</td>
<td>0.66%</td>
<td>0.66%</td>
<td>0.68%</td>
</tr>
<tr>
<td>Subscribers</td>
<td>1,856,000</td>
<td>2,006,000</td>
<td>2,133,000</td>
</tr>
<tr>
<td>Net additions</td>
<td>295,000</td>
<td>150,000</td>
<td>277,000</td>
</tr>
<tr>
<td>LTV per sub</td>
<td>$4,225</td>
<td>$4,664</td>
<td>$4,374</td>
</tr>
<tr>
<td>LTV/CAC</td>
<td>14.9</td>
<td>15.1</td>
<td>14.0</td>
</tr>
<tr>
<td>Total LTV</td>
<td>$7.84b</td>
<td>$9.36b</td>
<td>$9.33b</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Region</th>
<th>Subscribers H1FY24</th>
<th>Δ YOY</th>
<th>TAM: 45m¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.69m</td>
<td>+15%</td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>584k</td>
<td>+9%</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.01m</td>
<td>+13%</td>
<td></td>
</tr>
<tr>
<td>North America</td>
<td>396k</td>
<td>+12%</td>
<td></td>
</tr>
<tr>
<td>Rest of World</td>
<td>267k</td>
<td>+10%</td>
<td></td>
</tr>
</tbody>
</table>

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

---

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.
## Financial performance

Overview of financial performance from H1 FY22 to H1 FY24

<table>
<thead>
<tr>
<th></th>
<th>H1 FY22 ($000s)</th>
<th>H2 FY22 ($000s)</th>
<th>H1 FY23 ($000s)</th>
<th>H2 FY23 ($000s)</th>
<th>H1 FY24 ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating revenue</td>
<td>505,703</td>
<td>591,116</td>
<td>658,512</td>
<td>741,372</td>
<td>799,547</td>
</tr>
<tr>
<td>Gross profit</td>
<td>440,417</td>
<td>517,014</td>
<td>572,912</td>
<td>649,029</td>
<td>699,790</td>
</tr>
<tr>
<td>Gross margin</td>
<td>87.1%</td>
<td>87.5%</td>
<td>87.0%</td>
<td>87.5%</td>
<td>87.5%</td>
</tr>
<tr>
<td>Sales &amp; marketing costs</td>
<td>(189,017)</td>
<td>(216,636)</td>
<td>(238,980)</td>
<td>(232,851)</td>
<td>(277,220)</td>
</tr>
<tr>
<td>Percentage of operating revenue</td>
<td>37.4%</td>
<td>36.6%</td>
<td>36.3%</td>
<td>31.4%</td>
<td>34.7%</td>
</tr>
<tr>
<td>Product design &amp; development</td>
<td>(166,833)</td>
<td>(205,191)</td>
<td>(230,710)</td>
<td>(259,338)</td>
<td>(256,392)</td>
</tr>
<tr>
<td>Percentage of operating revenue</td>
<td>33.0%</td>
<td>34.7%</td>
<td>35.0%</td>
<td>35.0%</td>
<td>32.1%</td>
</tr>
<tr>
<td>General &amp; administration</td>
<td>(66,144)</td>
<td>(78,028)</td>
<td>(82,501)</td>
<td>(85,576)</td>
<td>(96,634)</td>
</tr>
<tr>
<td>Percentage of operating revenue</td>
<td>13.1%</td>
<td>13.2%</td>
<td>12.5%</td>
<td>11.5%</td>
<td>12.1%</td>
</tr>
<tr>
<td>Total operating expenses excluding restructuring costs</td>
<td>(421,994)</td>
<td>(499,855)</td>
<td>(552,191)</td>
<td>(577,765)</td>
<td>(630,246)</td>
</tr>
<tr>
<td>Percentage of operating revenue</td>
<td>83.4%</td>
<td>84.6%</td>
<td>83.9%</td>
<td>77.9%</td>
<td>78.8%</td>
</tr>
<tr>
<td>Restructuring costs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(34,692)</td>
<td>(2,131)</td>
</tr>
<tr>
<td>Total operating expenses including restructuring costs</td>
<td>(421,994)</td>
<td>(499,855)</td>
<td>(552,191)</td>
<td>(612,457)</td>
<td>(632,377)</td>
</tr>
<tr>
<td>Percentage of operating revenue</td>
<td>83.4%</td>
<td>84.6%</td>
<td>83.9%</td>
<td>82.6%</td>
<td>79.1%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>18,423</td>
<td>17,515</td>
<td>20,721</td>
<td>36,572</td>
<td>67,413</td>
</tr>
<tr>
<td>Asset impairments and disposals</td>
<td>(2,898)</td>
<td>(21,797)</td>
<td>(26,532)</td>
<td>(96,148)</td>
<td>1,636</td>
</tr>
<tr>
<td>Other income &amp; expenses</td>
<td>1,398</td>
<td>29,689</td>
<td>12,188</td>
<td>(6,598)</td>
<td>10,403</td>
</tr>
<tr>
<td><strong>EBIT</strong></td>
<td>16,923</td>
<td>25,051</td>
<td>6,377</td>
<td>(66,174)</td>
<td>79,452</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>98,080</td>
<td>114,581</td>
<td>108,551</td>
<td>49,848</td>
<td>206,090</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>19.4%</td>
<td>19.4%</td>
<td>16.5%</td>
<td>6.7%</td>
<td>25.8%</td>
</tr>
<tr>
<td><strong>Net profit/(loss)</strong></td>
<td>(5,922)</td>
<td>(3,192)</td>
<td>(16,130)</td>
<td>(97,402)</td>
<td>54,084</td>
</tr>
</tbody>
</table>
# Exchange rates

The table below outlines the principal exchange rates used in the current and prior period:

<table>
<thead>
<tr>
<th>Currency Pair</th>
<th>2023 Average rate</th>
<th>2023 Closing rate</th>
<th>2022 Average rate</th>
<th>2022 Closing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZD / AUD</td>
<td>0.925</td>
<td>0.932</td>
<td>0.904</td>
<td>0.880</td>
</tr>
<tr>
<td>NZD / CAD</td>
<td>0.821</td>
<td>0.814</td>
<td>0.815</td>
<td>0.782</td>
</tr>
<tr>
<td>NZD / EUR</td>
<td>0.562</td>
<td>0.567</td>
<td>0.610</td>
<td>0.582</td>
</tr>
<tr>
<td>NZD / GBP</td>
<td>0.486</td>
<td>0.492</td>
<td>0.519</td>
<td>0.515</td>
</tr>
<tr>
<td>NZD / SGD</td>
<td>0.822</td>
<td>0.820</td>
<td>0.876</td>
<td>0.817</td>
</tr>
<tr>
<td>NZD / USD</td>
<td>0.612</td>
<td>0.600</td>
<td>0.632</td>
<td>0.570</td>
</tr>
</tbody>
</table>
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 12 months ended 30 September 2022. Comparisons for ARPU, AMRR and LTV are based on exchange rates at 30 September 2022.

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.

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.

TAM
Total addressable market.
Contact

Nicole Mehalski
INVESTOR RELATIONS
nicole.mehalski@xero.com
+61 400 947 145

Kate McLaughlin
COMMUNICATIONS
kate.mclaughlin@xero.com
+64 27 533 4529
Beautiful business

xero.com/investors