



MARKET RELEASE

Xero Delivers H1 FY25 Rule of 40, Revenue up 25% to \$996 Million*Result reinforces Xero's ability to deliver**Strong revenue growth contribution from each of Xero's three large markets*

WELLINGTON, 14 November 2024 - Xero Limited (ASX: XRO) today reports its half year earnings to 30 September 2024 (H1 FY25) which further demonstrate Xero's ability to deliver strong results and provide more value to customers, while executing its strategy with focus and purpose.

Xero's strong operating results included operating revenue growth of 25% (23% in constant currency (CC)) and an operating expense to revenue ratio of 71.2%. This supported a 51% increase in EBITDA compared to H1 FY24, to \$311.7 million¹. This resulted in free cash flow increasing to \$208.7 million and a free cash flow margin of 21.0%, improving from 13.3% in the prior period. As a result, Xero continued to deliver a greater than Rule of 40² outcome of 43.9%.

CEO Sukhinder Singh Cassidy said: "This result reinforces our ability to deliver on our strategy. We have delivered a solid performance across the board this half including continued strong revenue growth, and a greater than Rule of 40 outcome for the second period running."

"We're executing our strategy with focus and purpose, through disciplined investment aligned to our strategic priorities. This has supported an improvement in product velocity for customers in line with our *Win the 3x3* strategic priority to build winning solutions for the three most critical small business jobs in our three largest markets."

H1 FY25 and Financial highlights (All \$ figures are in NZD and comparisons are made against H1 FY24)

Six months ended 30 September	2024	2023	change
Operating revenue (\$000s)	995,865	799,547	25%
Subscribers	4,186,000	3,945,000	6%
Net subscriber additions ^{3,4}	26,000	204,000	-87%
Net subscriber additions (excluding removed long idle subscriptions) ⁴	186,000	204,000	-9%
Average revenue per user ³ (\$)	43.08	37.38	15%
Annualised monthly recurring revenue ³ (\$000s)	2,164,131	1,769,524	22%
EBITDA (\$000s)	311,698	206,090	51%
Adjusted EBITDA (\$000s)	311,698	204,522	52%
Operating income ⁵ (\$000s)	176,384	67,413	162%
Net profit after tax (\$000s)	95,093	54,084	76%
Free cash flow (\$000s)	208,686	106,666	96%
Rule of 40	43.9%	33.6%	10.3pp*
Total lifetime value of subscribers ³ (\$b)	17.0	14.8	15%
Gross margin percentage	88.9%	87.5%	1.4pp

*pp stands for percentage points

¹There were no adjustments to EBITDA in H1 FY25 (i.e. EBITDA and adjusted EBITDA were \$311.7 million). Adjustments in H1 FY24 were \$1.6 million. Growth on an adjusted EBITDA basis was 52% or \$107.2 million

² 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)

³ Including impact of the removal of long idle subscriptions

⁴ For further details on the impact of the removal of long idle subscriptions and the definition of long idle subscriptions, see page 31 of Xero's H1 FY25 Investor Presentation

⁵ 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 \$995.9 million, supported by a balance of ARPU expansion and subscriber growth. Annualised monthly recurring revenue (AMRR) grew by 22% to \$2.2 billion (21% in CC).

In H1 FY24, Xero announced its intention to complete a program to remove long idle subscriptions⁶. This program was executed in H1 FY25 with 160,000 subscriptions removed. These subscriptions were a small percentage of Xero's overall subscribers and their removal had minimal effect on revenue.

Excluding the impact of these removals, 186,000 subscribers were added in H1 FY25. Total LTV increased 15% (14% in CC) to \$17.0 billion. Average monthly churn excluding the removal of these subscriptions (1.00%) remained below pre-pandemic levels, underscoring Xero's macro resilience and the customer value it provides.

Xero simplified its subscription plans to help meet the evolving needs of customers — making it easier for them to find, use and grow with Xero. This included introducing new, streamlined plans in Australia, the UK and New Zealand with more key features to help small businesses.

Product and feature velocity increased as Xero remains focused on investing to build winning customer solutions aligned to its *Win the 3x3* strategic priority. Product highlights for the half included:

- Launch of Tap to Pay in the Xero Accounting mobile app — Xero is the first major cloud accounting platform to offer Tap to Pay — enabling Australian and UK small businesses to accept instant payments from their smartphone
- Increased direct bank feeds in the US and Canada from 20 to more than 700 since February 2023
- The launch of a number of beta products including:
 - The release of Xero's GenAI-powered smart business companion Just Ask Xero (JAX)
 - A new embedded bill payment solution for US customers, powered by BILL
 - Improvements to the UK tax offering, with a new partnership tax solution
 - A new integrated experience that connects tax compliance with practice management tools
 - A new payroll manager dashboard giving customers a consolidated view of payroll data

In September, Xero announced plans to acquire Syft Analytics to accelerate its insights, advanced reporting and analytics offerings for Xero customers globally. The acquisition is an example of where Xero has used purposeful M&A to accelerate its *Win the 3x3* strategic priority, and demonstrates its disciplined approach to capital allocation.

Xero also announced today it has extended its partnership with existing payroll partner, Gusto, to deliver an embedded payroll solution for US customers to manage payroll within Xero. The announcement aligns with Xero's *Win the 3x3* strategic priority to provide a seamless customer experience in Xero for the most critical small business jobs in its three largest markets. Xero plans to build these capabilities in calendar year 2025.

Market highlights

Australia and New Zealand — Australia and New Zealand continued to deliver strong results with double-digit revenue growth, up 24% (23% in CC) to \$567.0 million. ARPU increased 12% to \$41.34, and

⁶ For further details on the impact of the removal of long idle subscriptions and the definition of long idle subscriptions, see page 31 of Xero's H1 FY25 Investor Presentation



total subscribers grew to 2.5 million. In Australia, Xero delivered 84,000 net subscriber additions to reach 1.9 million subscribers. In New Zealand, 9,000 net subscribers were added to reach 614,000 subscribers.

International — Ongoing growth continued in Xero’s International markets, with revenue increasing 25% (23% in CC) to \$428.8 million, ARPU rising 20% (19% CC) to \$45.59, and subscribers growing to 1.7 million.

Subscriber additions in the UK, North America and Rest of World were affected by the removal of long idle subscriptions. In the UK, Xero added 49,000 subscribers leading to 1.1 million total subscribers. North America added 12,000 subscribers bringing total subscribers to 365,000 subscribers. Rest of World added 13,000 subscribers leading to 278,000 total subscribers. The net reduction for the UK, North America and Rest of World, including the removal of long idle subscriptions, was 3,000; 57,000 and 7,000 subscribers respectively.

Aspiration⁷

Xero aspires to be a world-class SaaS business. Xero believes it has the opportunity to both double the size of its business⁸ and deliver Rule of 40 or greater performance^{9,10} 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. FY25 product design and development costs as a percentage of revenue are now expected to be broadly similar to FY24.

Xero’s earnings webcast

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 at the above link is encouraged. A recording 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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⁷ 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

⁸ 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 \$1,400 million, and H1 FY24 revenue (annualised on a straight line basis) is \$1,599 million

⁹ 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)

¹⁰ Rule of 40 outcomes, and the component parts, may vary from period to period as Xero identifies 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 ~\$46 million at 30 September 2024



Beautiful business

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.