XERO LIMITED

INTERIM REPORT FY25


xero

HIGHLIGHTS[1]

Operating revenue

$996m

↑ Up 25% YoY (23% in constant currency)

EBITDA

$312m

↑ Up $106m YoY

Subscribers

4.2m

↑ Up 241,000 YoY (401,000 excluding the impact of removing long idle subscriptions[2])

Average revenue per user

$43.08

↑ Up 15% YoY (11% excluding the impact of removing long idle subscriptions[2])

Annualised monthly recurring revenue

$2.2b

↑ Up 22% YoY

Operating expense ratio

71.2%

↓ Down 7.9pp YoY

Rule of 40[3]

43.9%

↑ Up 10.3pp YoY

Free cash flow

$209m

↑ Up $102m YoY

[1] Operating revenue, EBITDA, operating expense ratio, Rule of 40 and free cash flow are reported for the six months ended 30 September 2024. Subscribers, annualised monthly recurring revenue and average revenue per user are as at 30 September 2024

[2] Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 14 and SaaS metrics on page 22 for further detail

[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)

CHAIR AND CEO REVIEW

David Thodey, AO
Chair of the Board

Sukhinder Singh Cassidy
CEO

Dear shareholder,

Xero has reported a strong result in the first half of the 2025 financial year (H1 FY25), reinforcing our ability to deliver and provide more value to customers. This is highlighted by:

- Continued strong revenue growth of 25% to $995.9 million, with strong contributions from each of our three largest markets (Australia, the UK and the US)
- A greater than Rule of 40[1] outcome of 43.9% as we balance growth with profitability

We're executing our strategy with focus and purpose. During the half, we made several key moves aligned to our product priorities within our *Win the 3x3* strategic priority and our efforts to *Build a Winning Go-To-Market (GTM) Playbook*. These moves demonstrate our disciplined approach to capital allocation in line with our strategy:

1. We accelerated our product delivery and targeted our investment to deliver features faster for customers, with highlights showcased at Xerocons in London and Nashville. This included delivering important product features and updates — such as the new bank reconciliation to a period beta in the US, a new partnership tax solution beta in the UK, and Tap to Pay in the Xero Accounting mobile app for Australia and the UK — to help customers in our three largest markets complete their three most important Jobs to be Done (JTBD): accounting, payroll and payments.
2. In September, we announced the acquisition of Syft Analytics (Syft), a leading global cloud-based reporting, insights and analytics platform. The acquisition is an example of where we have used purposeful M&A to accelerate our *Win the 3x3* strategic priority. Syft will deliver best-in-class capabilities to enhance Xero's insights, advanced reporting and analytics, and the majority of Syft's customers are located in our largest markets. We expect to complete this acquisition in November 2024.
3. We made a series of changes to help us *Build a Winning GTM Playbook*. During the half, we simplified our subscription plans to help meet the evolving needs of our customers — making it easier for them to find, use and grow with Xero. We also completed the removal of 160,000 long idle subscriptions[2] to support the evolution of our sales motions. These represent early steps in our longer-term journey to improve product mix, by putting the right products in the hands of the right customers, at the right time. There have been positive signs in product mix for new customers in Australia from these changes, with increased uptake of higher-end Business Edition plans — however, we are early in the journey of using this lever for growth.

Alongside these key moves, we continued to purposefully allocate capital to invest for the longer term. This half, we continued our focus on strategic investments in AI and mobile, in line with our *Focused Bets to Win the Future* strategic priority. We're excited about the opportunity in this space, including the launch of our GenAI-powered smart business companion, Just Ask Xero (JAX) in beta in August, which helps small businesses and their advisors run their business more efficiently.

"WE CONTINUE TO DO WHAT WE SAID WE WOULD DO, AND WE'RE WELL POSITIONED TO CAPTURE THE SIGNIFICANT OPPORTUNITY AHEAD"

[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)*
[2] *Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 14 and SaaS metrics on page 22 for further detail*

H1 FY25 financial highlights

We're pleased to share Xero's strong operating results for the first half of FY25. Operating revenue grew by 25% (23% in constant currency (CC)) to $995.9 million, and we delivered an operating expense to revenue ratio of 71.2%. This was supported by a strong contribution from each of our largest markets, with a balance between ARPU and underlying subscriber growth.

We delivered a 51% increase in EBITDA compared to H1 FY24, to $311.7 million[3]. This resulted in free cash flow increasing to $208.7 million with a margin of 21.0%, improving from 13.3% in the prior year. As a result, we delivered a greater than Rule of 40[4] outcome of 43.9%, demonstrating our ability to balance growth and profitability.

Annualised monthly recurring revenue (AMRR) grew by 22% (21% in CC) to $2.2 billion. During H1 FY25 we removed 160,000 long idle subscriptions[5] — excluding this, ARPU improved 11% (10% in CC), with underlying subscriber growth of 10%. Total subscriber lifetime value (LTV) grew 15% (14% in CC) to $17.0 billion. Average monthly churn remained below pre-pandemic levels at 1.00% (excluding the removal of idle subscriptions), underscoring Xero's macro resilience and the customer value we deliver.

This result reinforces our ability to deliver on our strategy. We've continued to generate strong revenue growth in the half, and a greater than Rule of 40 outcome for the second period running.

Additionally, we're enabling our people to move faster for our customers, and helping them do the best work of their lives so we can *Unleash Xero(s) to Win*. During the half we introduced a new performance management framework to Xeros, intended to drive focus, prioritisation and connection to our purpose, strategy and business objectives, through a robust goal setting process. The new framework includes increased use of performance-based remuneration, which reflects our principled remuneration approach that considers location, criticality and performance in role. These are just some of the strategic actions we've taken during the half (refer to page 6 for more detail on our progress against our strategic priorities).

Lastly, to support our strategic execution and provide Xero with financial flexibility, we raised USD925 million in June through a convertible note which refinanced our existing USD700 million convertible note. Translated to NZD, this resulted in net new proceeds at settlement of $324.1 million (after transaction costs). We're managing our balance sheet to provide a strong foundation to pursue the significant opportunity ahead.

Aspiration[6]

We continue to pursue our aspirations which are:

- To be a world class SaaS business
- We believe we have the opportunity to both double the size of our business[7] and deliver Rule of 40 or greater performance[4,8], over time
- Finally, as we grow, we will also seek to be more balanced between subscriber growth and ARPU expansion

Xero Beautiful Business Fund winners

We were delighted to bring the Xero Beautiful Business Fund back for a second year. This initiative helps drive innovative and positive change for small businesses, by providing more than $750,000 in funding to Xero customers globally across four categories.

Through the fund, we granted 28 small businesses and non-profit organisations a share of the funding, including four global winners. The winners represent a diverse group of organisations committed to driving meaningful change and redefining what's possible in the field they operate in.

- Innovating for sustainability — Global winner: Other Matter Decals (Australia)
- Strengthening community connection — Global winner: The Bowling Club (New Zealand)
- Trailblazing with technology — Global winner: Prosthetic Art Technology (Australia)
- Upskilling for the future — Global winner: The Code Zone (UK)

[3] There were no adjustments to EBITDA in H1 FY25 (ie 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

[4] 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)

[5] Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 14 and SaaS metrics on page 22 for further detail

[6] 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

[7] 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

[8] 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 ~$46 million at 30 September 2024

Xero customer, KARVD

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.

Looking ahead

We're pleased with Xero's H1 FY25 performance and strong execution, which is tightly aligned to our strategy. We continue to do what we said we would do, and we're well positioned to capture the significant opportunity ahead. Xero has a track record of delivering, demonstrated by our strong revenue growth and consecutive positive Rule of 40 outcomes.

In September, we announced Chief Financial Officer (CFO) Kirsty Godfrey-Billy's decision to depart Xero at the end of FY25 after nine years, including more than six as CFO. As CFO, and before that as Chief Accounting Officer, Kirsty has helped lead Xero's significant growth as a global business and our shift to more balanced, profitable growth. We're conducting a global CFO search to find Kirsty's successor. We want to acknowledge Kirsty's enormous contribution over many years to Xero, our people, customers and shareholders. We offer our profound gratitude for her impact on the company, and look forward to welcoming a new CFO to help us deliver Xero's next chapter and realise our aspirations.

In October, we announced the appointment of Angad Soin as Managing Director, Australia & New Zealand. Reporting to Chief Revenue Officer, Ashley Hansen Grech, Angad is responsible for the region's strategy, revenue, partner and customer engagement. Serving in a dual role, Angad retains his position as Global Chief Strategy Officer. We're delighted with Angad's appointment — his background and experience, including working with Ashley to evolve Xero's go-to-market capabilities, makes him the right fit for this role in this important region.

In November, we announced an extension to our partnership with existing payroll partner, Gusto, to deliver an embedded payroll solution for US customers to manage payroll within Xero. The announcement aligns with our *Win the 3x3* strategic priority to provide a seamless customer experience in Xero for the most critical small business jobs in our three largest markets. We plan to build these capabilities in calendar year 2025.

Our purpose remains unchanged — to make life better for people in small business, their advisors and communities around the world.

As we look forward, we remain focused on our strategy, delivering the tools our customers need to keep thriving, allocating our resources with discipline, and living our purpose.

These strong results show the value our customers place in Xero to help them run their businesses more effectively, and we're pleased to continue supporting them in a meaningful way.

On behalf of Xero's Board and leadership team, we'd like to thank our shareholders, people, customers and partners for your ongoing loyalty and support of our vision.

Thank you

David Thodey
Chair

Sukhinder Singh Cassidy
Chief Executive Officer

Social and environmental responsibility

We're committed to providing comparable, consistent and transparent information about the impacts of climate change on our business. In FY24, following the reshaping of our business and an external review of our carbon emissions reduction processes and targets, we expanded our Scope 3 emissions boundary and have rebaselined our emissions footprint at FY24 in line with this boundary. As a result, we have now set new targets aligned with the Science-Based Targets initiative (SBTi) pathway to reduce emissions to well below 2°C above pre-industrial levels. We're committed to the following near-term emissions reduction targets:

- Scope 1 and 2: 60% reduction by 2034 (from FY24 baseline)
- Scope 3: 70% of suppliers (by emissions) to have a Science-Based Target and 35% absolute reduction by 2034 (from FY24 baseline)

In the long term our ambition remains to reach net zero by 2050, however we acknowledge the nature of our business means this relies on many factors outside our direct control.

Performance against these targets will be reflected in our FY25 reporting.

Winning on Purpose: H1 FY25 achievements

Our Winning on Purpose strategy is defined by: creating ***winning solutions*** for customers, ***living our purpose consistently*** and ***purposefully allocating capital***.

Our strategy is simple and focused. We play in large and growing cloud markets, and serve sizeable core customer segments, with a large untapped TAM of ~$100 billion[9,10], that we can further unlock.

In H1 FY25, we've been focused on executing our strategy and we're excited to share some more details on our achievements.

1. Win the 3x3

Product and feature velocity increased as we built winning solutions that help our customers across our three largest markets complete their three most important JTBD. At our Xerocons in London and Nashville, we shared our business strategy and product vision directly with partners, and showcased new features we're delivering. Our UK highlights included improvements to our accounting offering through tax tools, and also Xero Payroll. In the US, we enhanced our payments, tax compliance and bank feeds capability. We've also continued to invest and add value for our customers globally through improvements to our accounting and payments functionality — for example with the launch of our Tap to Pay capabilities in Australia and the UK.

Some of our most important product launches in H1 FY25 aligned to our *Win the 3x3* strategic priority are:

Accounting

- Announced the acquisition of Syft to accelerate our insights, advanced reporting and analytics offerings to Xero customers globally
- Improved our UK tax offering, with a new partnership tax beta to help advisors prepare partnership annual accounts and file partnership tax returns, as well as announced a beta for an integrated practice management experience that helps connect tax compliance with practice management
- Launched global client insights, a new dashboard in Xero HQ and a beta in Xero Practice Manager, that provides advisors with visibility into their clients' key metrics and financial health
- Continued to increase direct bank feeds in the US and Canada (from 20 to more than 700 since February 2023). We also launched betas for customers to see the operational status of their bank feeds in Xero and help advisors easily detect discrepancies in their clients' bank reconciliations
- Made 1099 preparation more seamless for US customers, with a new W-9 tool that helps them better capture and track W-9 information from independent contractors throughout the year
- Expanded our automated sales tax solution, powered by Avalara, with new reporting that helps small businesses generate sales tax reports for each state and filing period in Xero — reducing manual work and helping businesses meet compliance deadlines
- Added new features to the Xero Accounting app. These include the ability to void invoices in the mobile app, the addition of powerful short-term cash flow projections (in beta) and a new sort, search and filter function that enables faster navigation of bank reconciliations

Payroll

- Announced a new strategic partnership in Australia with app partner Deputy, to integrate its workforce management capability into Xero Payroll for Australian customers, making payroll and workforce management even easier
- Included Xero Payroll as part of some plans for customers in the UK and New Zealand, as part of our work to simplify plans and give customers easier access to the tools they need
- Launched a beta of a new payroll manager dashboard, giving UK accountants and bookkeepers an easy way to get a consolidated view of payroll data across their clients
- Enhanced Xero Payroll in the UK with the ability to customise leave years to accurately calculate holiday entitlements
- Further streamlined the process for customers in the UK to migrate to Xero Payroll from other software providers, by enhancing the tool that sets up their account based on their most recent filing data

Payments

- Released more than a dozen enhancements to new invoicing based on customer feedback as we move towards consolidating our invoicing products
- Launched Tap to Pay in the Xero Accounting mobile app — Xero is the first major cloud accounting platform to offer Tap to Pay — which enables Australian and UK small businesses to accept instant payments from their smartphone to get paid faster
- Launched a new embedded bill payments solution in private beta for our US customers, powered by BILL, giving customers an easy way to approve and pay bills without leaving Xero
- Launched an Australian beta allowing customers to send an invoice via SMS that the recipient can pay in a few taps from their phone
- Added more ways to pay in Xero, including online bank transfers in the US powered by Stripe, as well as Klarna — a buy now, pay later option — available in the UK, the US, Canada and New Zealand
- Enhanced our bill payments solution in the UK, powered by Crezco, by introducing the ability for customers to schedule domestic bill payments as well as a beta for international bill payments

[9] *Total Addressable Market estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant product(s)*
[10] *Based on Australia, NZ, UK, US and Canada across accounting (bookkeeping, annual tax, data ingestion, reporting and insights), payments and payroll*

Just Ask Xero (JAX)

2. Build a Winning GTM Playbook

We're focused on onboarding customers to the right products, deepening our relationships with them, and optimising pricing and packaging to drive customer value, usage and growth.

A key part of this strategy is simplifying our subscription plans to make it easier for customers to choose the best solution for their needs. In Australia, the UK and New Zealand, we've introduced new and streamlined plans, replacing some of our existing business plans, enhancing the Ultimate plan, and simplifying our partner plans. We've added more key features such as payroll and expenses, which are critical to running a small business. These are the largest updates we've made to our packaging since launching in 2006. We're early in the migration of customers onto these new plans, however we're pleased with the opportunity this is providing to better meet customer needs and support Xero's strategy.

We also completed the removal of 160,000 long idle subscriptions[11], allowing our sales teams to focus on supporting customers with their JTBD and improving subscriber mix. Although we're still early in our journey to *Build a Winning GTM Playbook*, we're pleased with the foundational work we have achieved.

3. Focused Bets to Win the Future

We're focused on winning in the longer term by investing purposefully in AI and mobile, harnessing our open ecosystem and APIs to power next-generation customer journeys, and executing a profitable Rest of World strategy.

Small businesses are constantly on the move, and by combining GenAI and mobile capabilities, Xero can offer them flexibility to manage their finances from anywhere at any time, using the apps and devices they use every day.

In August, we released a beta of our GenAI-powered smart business companion, JAX. JAX helps small businesses and their advisors run their business more efficiently. Businesses can 'Just Ask Xero' to perform tasks like generating an invoice or modifying quotes directly within Xero, or other apps and devices like mobile SMS, WhatsApp and email. JAX can also deliver personalised insights — such as understanding payment history — and recommend actions, facilitating better cash flow management and informed decision-making in collaboration with advisors.

The proprietary technology underpinning JAX — JAX Assure — allows for far greater accuracy and security than other AI models that only rely on large language models (LLMs). It means the data fed to the LLMs is only related to the relevant task and the technology provides data security in line with broader Xero platform measures. Implementing a technology like this is groundbreaking for the accounting industry. It puts the right AI guardrails in place to ensure Xero customers can trust the precision and accuracy of JAX.

We've also embedded GenAI into other areas of Xero. This includes launching a new Facebook Messenger assistant to help customers and prospective customers get the answers they need across Xero.com and Xero Central, through the channel they prefer.

[11] *Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 14 and SaaS metrics on page 22 for further detail*

Since embedding GenAI to automate the most frequently asked questions into our customer learning and support portal, Xero Central (which customers visit an average of 1.6 million times per month), we now answer approximately 97% of queries based on personalised content. We are also experimenting with other GenAI use cases within our customer experience team. This includes answering customer cases using GenAI, and we're looking to expand beyond Facebook Messenger to other social channels.

4. Unleash Xero(s) to Win

We're focused on enabling Xero to move faster for our customers, and helping Xeros do the best work of their lives. To achieve this, we're fostering a purpose and performance-driven culture, while transforming our core enterprise systems to improve our people's experience.

During the half, we introduced a new performance management framework for our people. This aims to drive focus, prioritisation and connection to our purpose, strategy and business objectives through a robust goal setting process. It allows us to provide role clarity to our people through capability frameworks, so they can see what success looks like and how to get there. It enables our people to clearly track and measure progress, impact and performance. And it recognises and rewards high performance through an evolved remuneration framework.

Xero customer, Oranjezicht City Farm Market

OUR PERFORMANCE

You should read the following commentary in conjunction with the interim financial statements and the related notes in this report.

Non-GAAP measures have been included as Xero considers they provide useful information for readers to assist in understanding Xero's financial performance and are used when management measures performance. Non-GAAP financial measures should not be viewed in isolation or considered as substitutes for measures reported in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Non-GAAP financial measures do not have a standardised meaning prescribed by NZ IFRS or Generally Accepted Accounting Practice (GAAP) and therefore may not be comparable to similar financial information presented by other entities. Xero's non-GAAP financial information has not been subject to audit or review.

Business results

Six months ended 30 September	**2024 ($000s)**	**2023 ($000s)**	**change**
Subscription revenue	941,102	762,908	23%
Other operating revenue	54,763	36,639	49%
Total operating revenue	**995,865**	**799,547**	**25%**
Cost of revenue	(110,533)	(99,757)	11%
Gross profit	**885,332**	**699,790**	**27%**
Gross margin percentage	*88.9%*	*87.5%*	*1.4pp**
Sales and marketing	(318,239)	(277,220)	15%
Product design and development	(285,650)	(256,392)	11%
General and administration	(105,059)	(96,634)	9%
Restructuring costs	-	(2,131)	NM**
Total operating expenses	**(708,948)**	**(632,377)**	**12%**
Percentage of operating revenue	*71.2%*	*79.1%*	*-7.9pp*
Operating income	**176,384**	**67,413**	**162%**
Other income and expenses	856	10,403	-92%
Operating profit before asset impairments and disposals	**177,240**	**77,816**	**128%**
Asset impairments and disposals	(2,228)	1,636	NM
Earnings before interest and tax	**175,012**	**79,452**	**120%**
Percentage of operating revenue	*17.6%*	*9.9%*	*7.7pp*
Net finance income/(expense)	(20,313)	7,412	NM
Income tax expense	(59,606)	(32,780)	82%
Net Profit	**95,093**	**54,084**	**76%**
Percentage of operating revenue	*9.5%*	*6.8%*	*2.7pp*

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

Building on the momentum from FY24, in H1 FY25 Xero delivered operating revenue growth of 25% (23% in constant currency) balanced with improved profitability, reflected in our free cash flow[1] margin of 21.0%. Operating expenses as a percentage of operating revenue were 71.2%, reducing 7.9 percentage points from the prior year.

Xero's strong revenue growth was driven by both subscriber additions and average revenue per user (ARPU) growth. Over the 12 months to 30 September 2024, Xero added 401,000 net new subscribers (241,000 after the removal of long idle subscriptions[2]), bringing total subscribers to 4.2 million. This was supported by ARPU growth of 15% (14% in constant currency) reflecting the impacts of pricing, growth in financial services, and a slight improvement in product mix reflecting plan changes. ARPU growth also benefited from the removal of long idle subscriptions, which contributed 4 percentage points to the growth rate for the 12 months to 30 September 2024.

Gross margin percentage increased 1.4 percentage points to 88.9% in H1 FY25 compared to H1 FY24. Strong operating revenue and cost of revenue efficiencies delivered gross profit of $885.3 million, an increase of $185.5 million or 27% from H1 FY24.

The strong top line outcomes combined with improved operating efficiency resulted in operating income increasing from $67.4 million to $176.4 million in H1 FY25. These positive outcomes were similarly reflected in EBITDA[3], which increased from $206.1 million to $311.7 million for H1 FY25, a 51% improvement compared to the prior year.

Net finance income of $7.4 million in H1 FY24 changed to a net finance expense of $20.3 million in H1 FY25. This largely reflected the impact of refinancing our convertible notes. The refinancing resulted in a one-off non-cash gain of $36.1 million, which was offset by $10.3 million in transaction costs, and a $50.0 million derivative revaluation loss. This loss is non-cash and resulted from the requirement to revalue the derivatives to fair value at the end of each reporting period.

Cash receipts from customers grew 23% from the comparative period, largely consistent with revenue growth. Free cash flow grew 96%, increasing from $106.7 million in H1 FY24 to $208.7 million in H1 FY25, largely reflecting improved profitability. As a percentage of operating revenue, free cash flow increased 7.7 percentage points from 13.3% in H1 FY24 to 21.0% in H1 FY25.

As a result of improvements to underlying profit, income tax rose by $26.8 million to $59.6 million in H1 FY25. After tax, Xero recognised a net profit of $95.1 million compared to a net profit of $54.1 million in H1 FY24. The favourable outcome is reflective of strong revenue growth and improved operating efficiencies.

[1] Details on free cash flow can be found on page 12

[2] Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. See subscriber numbers on page 14 and SaaS metrics on page 22 for further detail

[3] Details on EBITDA can be found on page 11

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA and Adjusted EBITDA disclosures (which are non-GAAP financial measures) have been included as Xero believes they provide useful information for readers in understanding Xero's financial performance. EBITDA is calculated by adding back net finance expense, depreciation and amortisation, and income tax expense to net profit.

Adjusted EBITDA is calculated by adding back certain non-cash, revaluation and other accounting adjustments and charges to EBITDA. Adjusted EBITDA (excluding share-based payments) is calculated by adding back share-based payments to Adjusted EBITDA.

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change
Net Profit	**95,093**	**54,084**	**76%**
Add back: net finance (income)/expense	20,313	(7,412)	NM
Add back: depreciation and amortisation	136,686	126,638	8%
Add back: income tax expense	59,606	32,780	82%
EBITDA	**311,698**	**206,090**	**51%**
EBITDA margin	*31.3%*	*25.8%*	*5.5pp*
Add back: restructuring costs	-	2,131	NM
Add back: non-cash impairment; and costs relating to the exit of Waddle	-	(6,777)	NM
Add back: non-cash revaluations	-	3,078	NM
Adjusted EBITDA	**311,698**	**204,522**	**52%**
Adjusted EBITDA margin	*31.3%*	*25.6%*	*5.7pp*
Add back: share-based payments	65,923	44,140	49%
Adjusted EBITDA (excluding share-based payments)	**377,621**	**248,662**	**52%**
Adjusted EBITDA margin (excluding share-based payments)	*37.9%*	*31.1%*	*6.8pp*

EBITDA increased by $105.6 million compared to H1 FY24, leading to an EBITDA margin improvement of 5.5 percentage points, from 25.8% in H1 FY24 to 31.3% in H1 FY25, driven by operating revenue growth exceeding expenses.

H1 FY25 Adjusted EBITDA (for which adjustments were nil in the half) of $311.7 million, grew 52%, or $107.2 million compared to H1 FY24. Adjusted EBITDA margin increased 5.7 percentage points from 25.6% in H1 FY24 to 31.3% in H1 FY25. Adjusted EBITDA (excluding share-based payments) improved 6.8 percentage points from H1 FY24, reflecting a slight increase in share-based payments as a proportion of operating revenue from 5.5% in H1 FY24 to 6.6% in H1 FY25.

Cash flows and liquidity

Free cash flow is a non-GAAP financial measure that is included to demonstrate net cash generated by, and invested into, the business. Xero defines free cash flow as cash flows generated from operating activities less cash flows used for investing activities, excluding cash used for acquisitions of, and investments into, businesses and strategic assets. Free cash flow also excludes any cash flows obtained from divestment of businesses and strategic assets.

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change
Receipts from customers	993,188	804,238	23%
Net interest received	42,703	24,578	74%
Income tax paid	(27,318)	(5,962)	NM
Other operating cash flows	(649,580)	(592,892)	10%
Total cash flows from operating activities	**358,993**	**229,962**	**56%**
Investing activities	(196,639)	(127,364)	54%
Add back: acquisitions	4,262	8,663	-51%
Add back: investment into/(proceeds from) businesses and strategic assets	42,070	(4,595)	NM
Free cash flow	**208,686**	**106,666**	**96%**
Percentage of operating revenue	*21.0%*	*13.3%*	*7.7pp*

Free cash flow increased by $102.0 million from $106.7 million in H1 FY24 to $208.7 million in H1 FY25. As a percentage of operating revenue, this was a 7.7 percentage point increase from 13.3% in H1 FY24 to 21.0% in H1 FY25.

Total cash flows from operating activities increased by 56%, or $129.0 million, to $359.0 million. The increase was driven by receipts from customers, which increased by 23%, or $189.0 million, consistent with operating revenue growth of 25% (23% in constant currency). This was further supported by an increase of net interest received of 74%, or $18.1 million reflecting higher interest rates and cash balances. These inflows were partially offset by a 9%, or $55.5 million, increase in payments to suppliers and employees, reflecting a higher level of external marketing, an increase in full-time equivalent (FTE) employees, and a $21.4 million increase in income tax paid.

Cash outflows from investing activities grew by 54%, or $69.3 million, mainly driven by our $42.1 million investment as part of a strategic partnership with Deputy (excluded from our calculation of free cash flow) and a $26.9 million increase in capitalised development costs. After adjusting for items excluded from free cash flow, investing activities had a $150.3 million impact on free cash flow.

Total available liquidity (defined as cash and cash equivalents, and short-term deposits) grew from $1.3 billion at 30 September 2023 to $2.0 billion at 30 September 2024. This was due to $324.1 million net proceeds following refinancing of our convertible notes and free cash flow generation of $444.2 million over the 12 months to 30 September 2024.

Operating revenue

Subscription revenue comprises recurring fees from subscribers to Xero's cloud-based platform, products and services. Within a subscription, customers also receive support services and product updates.

Total operating revenue includes subscription revenue as well as revenue from other related services including revenue share agreements with financial services providers, software licences, and conference and event revenue.

Constant currency operating revenue growth (a non-GAAP financial measure) is provided to assist readers in understanding and assessing Xero's financial performance, excluding the impact of foreign currency fluctuations. Constant currency operating revenue growth is calculated by translating operating revenue for H1 FY25 at the foreign exchange rates for H1 FY24.

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change	change in constant currency
Subscription revenue	941,102	762,908	23%	22%
Other operating revenue	54,763	36,639	49%	49%
Total operating revenue	**995,865**	**799,547**	**25%**	**23%**

Total operating revenue grew 25%, or $196.3 million, to $995.9 million in H1 FY25. The comparatively weaker New Zealand Dollar (NZD) against the Australian Dollar (AUD) and the Great British Pound (GBP) had a favourable impact on reported revenue. In constant currency, operating revenue grew 23%.

Subscription revenue increased by $178.2 million, or 23%, in H1 FY25. This was driven by subscriber growth of 6% (10% excluding the removal of long idle subscribers), and price changes across both Business Edition and Partner Edition plans. Xero's divestment of WorkflowMax in June 2024 had a $6.0 million impact on revenue compared to H1 FY24. Excluding the impact of the WorkflowMax divestment, subscription revenue increased by 24%, or $184.1 million, in H1 FY25.

Other operating revenue increased 49%, or $18.1 million, compared to H1 FY24. This was primarily due to financial services revenue growth, plus two Xerocons being held in H1 FY25 compared to one in the prior period, partially offset by Xero's divestment of Waddle in October 2023. Excluding the impacts of Xerocon and Waddle, other operating revenue increased 63%, or $18.8 million, reflecting growth in financial services and ecosystem revenue.

Operating revenue by geography

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change	change in constant currency
Australia	457,664	359,885	27%	26%
New Zealand	109,385	96,463	13%	13%
Australia and New Zealand (ANZ) total	**567,049**	**456,348**	**24%**	**23%**
United Kingdom	270,991	215,572	26%	22%
North America	59,302	47,320	25%	25%
Rest of World	98,523	80,307	23%	22%
International total	**428,816**	**343,199**	**25%**	**23%**
Total operating revenue	**995,865**	**799,547**	**25%**	**23%**

ANZ – Operating revenue increased by $110.7 million, or 24% (23% in constant currency), compared to H1 FY24 due to price changes and subscriber growth.

Australia operating revenue grew $97.8 million, or 27%, in H1 FY25 driven by subscriber growth, the timing of price changes, the impact of changes to Business and Partner Edition plans, and favourable platform product growth. Revenue growth was impacted by one Xerocon being held in H1 FY24 and none in H1 FY25. Excluding Xerocon, revenue grew 28%. The comparatively weaker NZD against the AUD had a favourable impact on reported revenue, with constant currency revenue growth of 26% in H1 FY25.

New Zealand operating revenue growth was 13%, or $12.9 million, compared to H1 FY24. This was driven by subscriber growth and price changes.

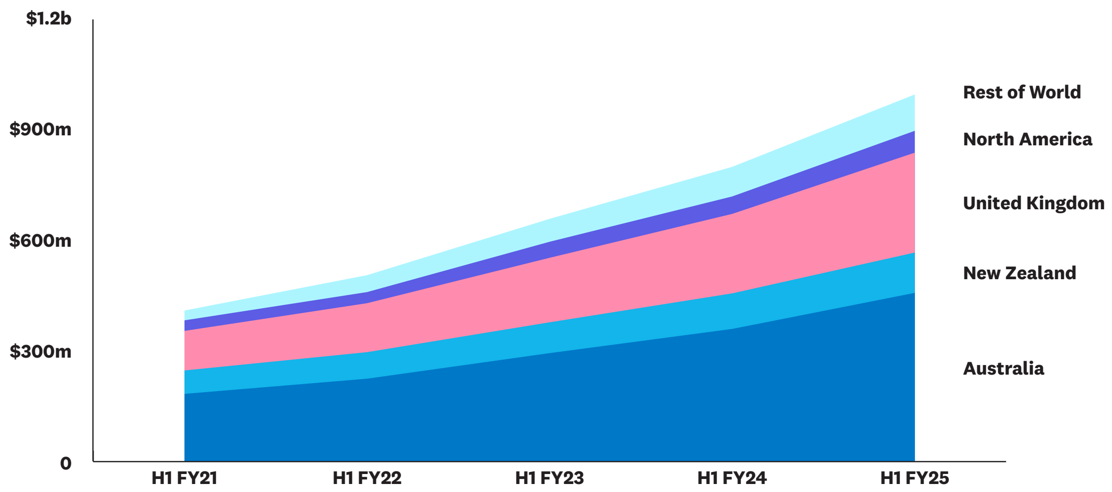
International – Operating revenue grew 25% (23% in constant currency), driven by subscriber growth and the full period impact of price changes that were effective in H2 FY24. The International segment contributed 43% of total operating revenue, in line with the comparative period.

UK operating revenue grew 26% (22% in constant currency) driven by subscriber growth and price changes. UK operating revenue growth also benefited from Xerocon London in H1 FY25 (there was no UK Xerocon in H1 FY24). Excluding the impacts of Xerocon, UK operating revenue growth was 24%.

North America operating revenue increased 25% (25% in constant currency), compared to H1 FY24. This was due to price changes and growth in financial services. Additionally, there was one Xerocon event in the US compared to none in the prior period. Excluding the impacts of Xerocon, North America operating revenue growth was 20%.

Operating revenue in our Rest of World markets increased by 23% from H1 FY24 (22% in constant currency). Operating revenue growth outpaced subscriber growth due to plan price changes. South Africa was the largest contributor of Rest of World operating revenue growth, followed by Singapore.

Total group operating revenue by geography



Subscriber numbers

Subscriber means each unique subscription to a Xero-offered product that is purchased by a user (e.g. 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.

At 30 September	2024	2023	change
Australia	1,855,000	1,688,000	10%
New Zealand	614,000	584,000	5%
Australia and New Zealand (ANZ) total	**2,469,000**	**2,272,000**	**9%**
United Kingdom	1,074,000	1,010,000	6%
North America	365,000	396,000	-8%
Rest of World	278,000	267,000	4%
International total	**1,717,000**	**1,673,000**	**3%**
Total paying subscribers	**4,186,000**	**3,945,000**	**6%**

In H1 FY24, we announced our intention to complete a program to remove long idle subscriptions. Long idle subscriptions are those that had been undeployed for more than 24 months and were not expected to be deployed within a reasonable timeframe. This program was completed in H1 FY25 and impacted subscriber growth accordingly. Subscriptions removed under this program by region, along with underlying subscriber growth for the 12 months ended 30 September, excluding long idle program impact, are provided below. The removal of long idle subscriptions also impacted our SaaS metrics[3].

	Long idle subscriptions removed	Subscriber growth excluding the removal of long idle subscriptions
Australia	19,000	11%
New Zealand	-	5%
Australia and New Zealand (ANZ) total	**19,000**	**10%**
United Kingdom	52,000	11%
North America	69,000	10%
Rest of World	20,000	12%
International total	**141,000**	**11%**
Total	**160,000**	**10%**

Xero Group – Total subscribers were 4.2 million as at 30 September 2024, with 401,000 net new subscribers added in the 12-month period (241,000 after the removal of long idle subscriptions), compared to 449,000 added in the 12 months ended 30 September 2023. 186,000 net new subscribers were added in H1 FY25 (26,000 after the removal of long idle subscriptions).

ANZ – Total subscribers were 2.5 million as at 30 September 2024, with 216,000 net new subscribers added in the 12-month period (197,000 after the removal of long idle subscriptions), compared to 266,000 added in the 12 months ended 30 September 2023. 112,000 net new subscribers were added in H1 FY25 (93,000 after the removal of long idle subscriptions).

Australia continued to deliver strong subscriber growth, adding 186,000 net subscribers in the 12 months ended 30 September 2024 (167,000 after the removal of long idle subscriptions). 103,000 of these subscribers were added in H1 FY25 (84,000 after the removal of long idle subscriptions).

New Zealand added 30,000 subscribers from 30 September 2023, a 5% increase in a region with high cloud penetration. 9,000 of these subscribers were added in H1 FY25.

International – Total subscribers were 1.7 million as at 30 September 2024, with 185,000 net new subscribers added in the 12-month period (44,000 after the removal of long idle subscriptions), compared to 183,000 added in the 12 months ended 30 September 2023. In H1 FY25, the International segment delivered net growth of 74,000 subscribers (net reduction of 67,000 after the removal of long idle subscriptions).

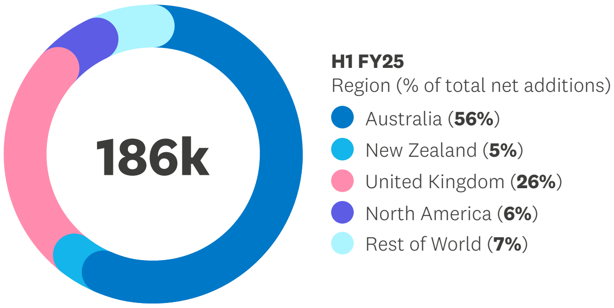
UK subscribers grew by 11%, or 116,000, (64,000 after the removal of long idle subscriptions) from 30 September 2023 following continued expansion across both partner and direct channels. 49,000 of these additions were added in H1 FY25 (net reduction of 3,000 after the removal of long idle subscriptions).

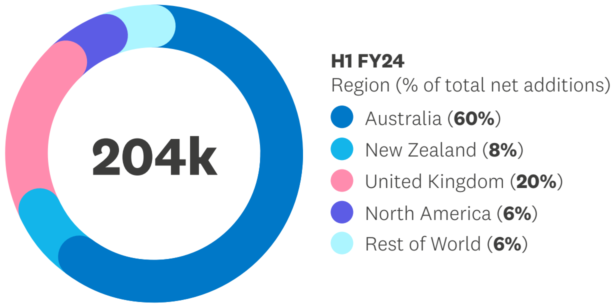
North America subscriber numbers increased by 10%, or 38,000, from 30 September 2023 (decrease of 8%, or 31,000 after the removal of long idle subscriptions). 12,000 net new subscribers were added in H1 FY25 (net reduction of 57,000 after the removal of long idle subscriptions). This was similar to H1 FY24 but lower than H2 FY24 reflecting seasonality associated with the tax year end in the US, which limits our sales teams interaction with accountants and bookkeepers. Subscriber growth in Canada remained subdued as we aligned our investment approach to reflect the weaker backdrop for cloud accounting in that market.

Rest of World markets grew by 12%, or 31,000 subscribers, (4% or 11,000 after the removal of long idle subscriptions) from 30 September 2023. South Africa was the largest contributor, reflecting our ability to deliver growth in the market.

[3] *Further detail can be found on page 22*

Net subscriber additions[4]



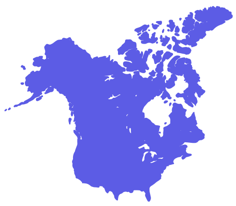


Regional subscribers at 30 September 2024[5]

Australia
1,855,000
2023 | 1,688,000

New Zealand
614,000
2023 | 584,000

United Kingdom
1,074,000
2023 | 1,010,000



North America
365,000
2023 | 396,000

[4] *Excluding removal of long idle subscriptions*
[5] *Including the removal of long idle subscriptions. Rest of World subscribers at 30 September 2024: 278,000 (30 September 2023: 267,000)*

Annualised monthly recurring revenue

Annualised monthly recurring revenue (AMRR) is a non-GAAP financial measure, which 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.

Constant currency AMRR (also a non-GAAP financial measure) is calculated by translating AMRR at 30 September 2024 at the foreign exchange rates at 30 September 2023. It is provided to assist in understanding and assessing year-on-year growth rates, excluding the impact of foreign currency fluctuations.

At 30 September	**2024 ($000s)**	**2023 ($000s)**	**change**	**change in constant currency**
ANZ	1,224,855	1,008,529	21%	20%
International	939,276	760,995	23%	22%
Total	**2,164,131**	**1,769,524**	**22%**	**21%**

Total Group – AMRR surpassed two billion dollars during H1 FY25, growing by 22% (21% in constant currency), or $394.6 million, to $2.2 billion at 30 September 2024. This was driven by subscriber growth and ARPU growth of 15% (14% in constant currency). Price changes across core accounting products during H1 FY25 were the main driver of the ARPU increase. ARPU also benefited from growth in revenue from our payment and payroll products. Excluding the impacts of removal of long idle subscriptions, AMRR growth was $402.5 million, or 23%.

ANZ – AMRR increased by 21% (20% in constant currency), or $216.3 million, compared to H1 FY24, to $1.2 billion. This was mainly driven by plan and price changes, continued subscriber growth, along with platform revenue growth such as Xero Payments.

International – AMRR grew 23% (22% in constant currency), or $178.3 million, to $939.3 million at 30 September 2024. The UK was a major contributor to the growth, largely driven by price changes alongside strong platform revenue growth across the segment. Excluding the impacts of removal of long idle subscriptions, AMRR growth was $185.3 million, or 24%.

Gross profit

Gross profit represents operating revenue less cost of revenue. Cost of revenue consists of expenses directly associated with securely hosting Xero's services, sourcing relevant data from financial institutions, and providing support to subscribers.

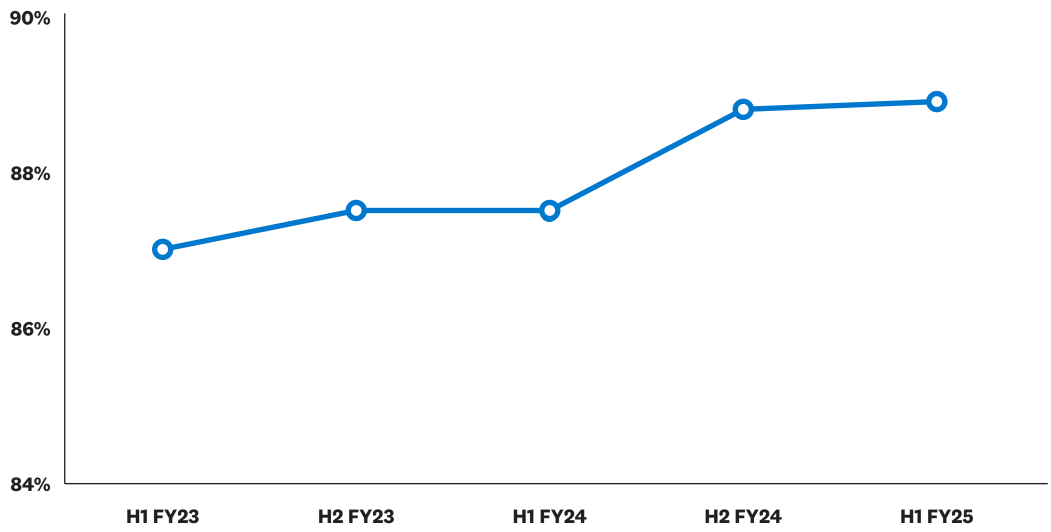
The costs include hosting costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with cloud infrastructure and subscriber support, contracted third-party vendor costs, related depreciation and amortisation, and allocated overheads.

Six months ended 30 September	**2024 ($000s)**	**2023 ($000s)**	**change**
Operating revenue	995,865	799,547	25%
Cost of revenue	(110,533)	(99,757)	11%
Gross profit	**885,332**	**699,790**	**27%**
Gross margin percentage	*88.9%*	*87.5%*	*1.4pp*

Gross margin percentage increased 1.4 percentage points to 88.9% in H1 FY25 compared to H1 FY24. Strong operating revenue growth of 25%, alongside cost of revenue efficiencies, delivered gross profit of $885.3 million. This was an increase of $185.5 million, or 27%, compared to H1 FY24.

Cost of revenue increased 11% from H1 FY24, to $110.5 million, in line with subscriber growth rates excluding the removal of long idle subscriptions. This increase was a combination of expenditure to support more subscribers and products, and investments into customer experience technology. As a proportion of operating revenue, the cost of revenue fell to 11% from 12% during the comparative period.

Gross margin percentage



Sales and marketing

Sales and marketing expenses consist of personnel and related expenses (including salaries, benefits, bonuses, the amortisation of capitalised commission costs, and share-based payments) directly associated with the sales and marketing teams, and the cost of educating and onboarding both partners and small business customers. Costs also include relationship management costs incurred to support the existing subscriber base. Other costs included are external advertising costs, marketing costs, and promotional event costs, as well as allocated overheads.

Six months ended 30 September	**2024 ($000s)**	**2023 ($000s)**	**change**
Sales and marketing expenses	318,239	277,220	15%
Percentage of operating revenue	*32.0%*	*34.7%*	*-2.7pp*

Sales and marketing costs include:

- Costs incurred to acquire new subscribers and invest in Xero's brand for future subscribers
- Costs associated with upselling and cross-selling to existing customers
- Initiatives to educate existing customers to encourage retention

These costs are expensed in the period. This is in contrast to the associated revenue from those subscribers, which is recognised over the lifetime of the subscriber.

Sales and marketing costs increased by 15% to $318.2 million for H1 FY25, compared to operating revenue growth of 25% during the period. The increase was driven by both external marketing and employee costs. The increase in external marketing was driven by higher digital marketing spend primarily in our International markets, and increased Xerocon costs in the period. This was partially offset by lower FIFA Women's World Cup 2023™ partnership costs. As a portion of operating revenue, sales and marketing costs decreased by 2.7 percentage points, from 34.7% to 32.0% in H1 FY25. Excluding Xerocon, sales and marketing costs as a proportion of operating revenue decreased from 33.9% to 30.1% in H1 FY25.

The average cost of acquiring a subscriber was $641 per gross subscriber added in the 12 months ended 30 September 2024, compared to $581 in the 12 months ended 30 September 2023. This increase reflected continued inflationary pressure in digital marketing spend and investment in expanding our brand presence in our International markets, which are comparatively less efficient than ANZ.

Product design and development

Product design and development costs consist primarily of personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) directly associated with product design and development teams, teams building and enhancing the platform and related infrastructure, as well as allocated overheads.

The proportion of product design and development expenses that creates a benefit in future years, and meets certain requirements under NZ IFRS, is capitalised as an intangible asset and is then amortised to the Income Statement over the estimated life of the asset created. The amount amortised relating to the Xero product and platform is included as a product design and development expense.

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change
Total product design and development costs (including amounts capitalised)	**332,304**	**279,004**	**19%**
Percentage of operating revenue	*33.4%*	*34.9%*	*-1.5pp*
Less capitalised development costs	(146,342)	(113,360)	29%
Product design and development expenses (excluding amortisation of amounts capitalised)	**185,962**	**165,644**	**12%**
Less government grants	(888)	(748)	19%
Add amortisation of capitalised development costs	100,576	91,496	10%
Product design and development expenses	**285,650**	**256,392**	**11%**
Percentage of operating revenue	*28.7%*	*32.1%*	*-3.4pp*

Total product design and development costs (including amounts capitalised) were $332.3 million for H1 FY25, an increase of 19% or $53.3 million from H1 FY24. As a percentage of operating revenue, this investment reduced 1.5 percentage points from H1 FY24, to 33.4%. This reduction reflected the continued flow through of operational efficiencies following our organisational restructure in FY24, partly offset by targeted hiring of product domain experts and strengthening the link between pay and performance as part of our evolving performance management framework.

H1 FY25 amounts capitalised of $146.3 million represents a capitalisation rate of 44.0% of total product and development costs, compared to 40.6% in H1 FY24. Capitalisation rates can fluctuate depending on the phase of the development and nature of investment. The increase in the capitalisation rate reflected the increase in product velocity in the period as we focused on our *Win the 3x3* product priorities in the lead-up to our Xerocon events in London and Nashville. This resulted in an increase in developer time spent on releasing new product features for customers.

Amortisation of previously capitalised product design and development expenditure of $100.6 million was included as a non-cash expense. After amortisation and government grants, net product design and development expenses were $285.7 million for the period, an increase of 11% or $29.3 million. The lower growth rate compared to total product design and development investment largely reflected the higher capitalisation rate.

General and administration

General and administration expenses consist of personnel and related expenses (including salaries, benefits, bonuses, and share-based payments) for executive, finance, billing, legal, human resources, corporate communications, strategy, and corporate development employees, and the Xero Board. It also includes legal, accounting, and other professional services fees, insurance premiums, other corporate expenses, and allocated overheads.

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change
General and administration expenses	105,059	96,634	9%
Percentage of operating revenue	*10.5%*	*12.1%*	*-1.6pp*

General and administration expenses were $105.1 million, an increase of $8.4 million, or 9%, compared to H1 FY24. This increase was due to headcount added to support Xero as we scale. General and administration expenses as a proportion of operating revenue decreased by 1.6 percentage points to 10.5% in FY25, as our focus on operational efficiencies saw top-line growth outpace growth in expenses.

Employees

At 30 September	2024	2023	change
Total Group	4,356	4,242	3%

Full time equivalent (FTE) employees increased by 114, or 3%, in the 12 months from 30 September 2023. Headcount growth of 3% reflects continued flow through of our restructuring program that occurred in early FY24 along with the purposeful allocation of resources in line with our strategic priorities.

Net finance income/expense

Six months ended 30 September	2024 ($000s)	2023 ($000s)	change
Interest income on cash and deposits	47,141	29,860	58%
Gain on repurchase of convertible notes	36,105	-	NM
Finance lease interest income	29	37	-22%
Total finance income	**83,275**	**29,897**	**179%**
Amortisation of discount and debt issuance costs	(22,496)	(18,113)	24%
Lease liability interest	(3,722)	(4,013)	-7%
Interest on term debt	(7,522)	-	NM
Loss on derivative revaluation	(50,025)	-	NM
Loan commitment revaluation loss	(9,494)	-	NM
Other finance expense	(10,329)	(359)	NM
Total finance expense	**(103,588)**	**(22,485)**	**NM**
Net finance income/(expense)	**(20,313)**	**7,412**	**NM**

Finance income increased by $53.4 million to $83.3 million in H1 FY25. The 58% increase in interest income on cash and deposits in H1 FY25 reflected both higher achieved interest rates on investments, and higher average cash and short-term deposit balances compared to H1 FY24. This was due to the net proceeds from the 2031 convertible notes issuance, along with strong free cash flow generation. The gain on repurchase of the convertible notes, a non-cash item, was due to the partial repurchase of the 2025 convertible notes being completed at less than their carrying value.

Finance expenses of $103.6 million increased by $81.1 million driven by costs relating to the 2031 convertible notes issue and loss on derivative revaluation.

Amortisation of discount and debt issuance costs rose $4.4 million due to settlement of the 2031 convertible notes in June 2024. Amortisation expense relating to the 2031 convertible notes is higher than the 2025 convertible notes due to a higher conversion feature derivative. The 2031 convertible notes also contain coupon interest, resulting in incremental expense of $7.5 million in H1 FY25. Coupon interest did not result in any cash payments during the period due to the timing of coupon payments.

The derivative revaluation loss of $50.0 million is reflective of the net impact of the 30 September 2024 mark to market revaluations of the 2031 convertible note derivative and related low call option derivative. Revaluations result from movements in the Xero Limited share price, USD/AUD exchange rate and US interest rate over the period since settlement. The $9.5 million loan commitment revaluation loss is a one-off, non-cash, revaluation of the 2031 term debt between trade and settlement date.

Other finance expenses in H1 FY25 increased by $10.0 million due to financing transaction costs relating to the buyback of the 2025 convertible notes and issuance of the 2031 convertible notes.

Segment information

Operating revenue is allocated to a segment depending on where the subscriber resides. Expenses include cost of revenue, sales and marketing costs incurred directly in the region, and an allocation of centrally managed costs and overheads.

Six months ended 30 September 2024	**ANZ ($000s)**	**International ($000s)**	**Total ($000s)**
Operating revenue	567,049	428,816	995,865
Cost of revenue	(63,462)	(47,071)	(110,533)
Sales and marketing	(84,655)	(233,584)	(318,239)
Segment contribution	**418,932**	**148,161**	**567,093**
Contribution margin percentage	*73.9%*	*34.6%*	*56.9%*
Six months ended 30 September 2023			
Operating revenue	456,348	343,199	799,547
Cost of revenues	(54,827)	(44,930)	(99,757)
Sales and marketing	(81,402)	(195,818)	(277,220)
Segment contribution	**320,119**	**102,451**	**422,570**
Contribution margin percentage	*70.1%*	*29.9%*	*52.9%*

ANZ – Segment contribution increased $98.8 million, or 31%, to $418.9 million in H1 FY25. This resulted in the contribution margin increasing 3.8 percentage points from 70.1% in H1 FY24 to 73.9% in H1 FY25.

Operating revenue for H1 FY25 grew by $110.7 million, or 24% (23% in constant currency), compared to H1 FY24, driven by subscriber growth and price changes. The growth in operating revenue exceeded the increase in segment expenses of 9% or $11.9 million. This was attributable to efficiencies in our cost of revenue, coupled with a moderate increase in sales and marketing expenditure. Sales and marketing expense growth benefited from there being a Xerocon in H1 FY24 and none in H1 FY25. Excluding Xerocon segment expenses increased 15%. The ANZ segment's contribution margin compared to the International segment reflects the cost benefits derived from higher cloud accounting penetration.

International – Segment contribution in H1 FY25 reached $148.2 million, an increase of $45.7 million, or 45%, compared to $102.5 million in H1 FY24. This growth led to a contribution margin of 34.6% for H1 FY25, up by 4.7 percentage points from H1 FY24.

Operating revenue for H1 FY25 grew by $85.6 million, or 25% (23% in constant currency), compared to H1 FY24 driven by subscriber growth and price changes, outpacing segment expenses for the period which increased by 17% or $39.9 million. Most of this increase was driven by an increase in sales and marketing expenditure, with northern hemisphere Xerocons in London and Nashville occurring in H1 FY25, and increased expenditure on external marketing costs. Excluding Xerocon, sales and marketing segment expenses increased $18.3 million, or 9%.

The contribution margin for the International segment compared to ANZ remained comparatively lower, reflecting our emphasis on investment to improve subscriber additions and brand recognition in our International growth markets.

Key SaaS metrics

SaaS companies like Xero operate on many of the same performance metrics as traditional companies, such as revenue, cash flow, and customer numbers. However, evaluating the performance of SaaS companies and being able to benchmark them is assisted by an understanding of SaaS-specific metrics. Included below are some of the headline metrics Xero uses to manage and drive its performance.

Average revenue per user (ARPU) is calculated as AMRR[4] at 30 September, divided by subscribers at that time and divided by 12 to get a monthly view.

Customer acquisition costs (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 conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU.

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.

Lifetime value (LTV) is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (one divided by churn), multiplied by ARPU, multiplied by the gross margin percentage. Xero Group LTV is calculated as the sum of the individual segment LTV, multiplied by their respective segment subscribers, divided by total Xero Group subscribers.

LTV/CAC is the ratio between the LTV per subscriber and the cost to acquire that subscriber. For example, the LTV derived from a subscriber is currently on average 6.3 times the cost of acquiring that subscriber.

We strive to maximise total LTV while optimising the level of CAC investment it takes to achieve a desirable LTV/CAC ratio. We can improve total LTV in multiple ways, such as increasing subscriber numbers, enhancing products and services for existing subscribers thereby increasing ARPU and/or reducing churn, and improving gross margin through cost efficiencies.

The table below outlines key metrics across our segments:

At 30 September 2024	**ANZ**	**International**	**Total**
ARPU ($)	41.34	45.59	43.08
CAC months	8.1	21.1	14.9
Churn	0.80%	1.36%	1.04%
Churn (excluding removal of long idle subscriptions[5])	0.79%	1.27%	1.00%
LTV per subscriber ($)[6]	4,669	3,191	4,063
LTV/CAC[6]	14.0	3.3	6.3

At 30 September 2023	**ANZ**	**International**	**Total**
ARPU ($)	36.99	37.91	37.38
CAC months	8.4	23.5	15.6
Churn	0.72%	1.24%	0.94%
LTV per subscriber ($)	4,543	2,654	3,742
LTV/CAC	14.6	3.0	6.4

[4] *See definition of AMRR on page 17*
[5] *See page 14 for more information on long idle subscriptions*
[6] *LTV, LTV per subscriber and LTV/CAC have been calculated using churn excluding the impact of the removal of long idle subscriptions, this reflects churn dynamics present in Xero's go-forward subscriber base*

The table below outlines the impact of removing long idle subscriptions on Xero's ARPU; the increase in reported ARPU is the result of a positive mix benefit given the low value nature of the subscribers removed.

	ARPU ($)	ARPU excluding subscriptions removed under long idle program ($)	Contribution from removal of long idle subscriptions ($)
ANZ	41.34	41.06	0.28
International	45.59	42.44	3.15
Total	**43.08**	**41.65**	**1.43**

Xero Group – Xero Group ARPU increased by 15% (14% in constant currency) to $43.08, compared to H1 FY24. The increase in ARPU was driven by pricing and packaging changes, growth of other product offerings (such as payments and payroll) and the removal of long idle subscriptions. Excluding the impact of long idle subscription removals, ARPU increased by 11%.

CAC months of 14.9 months were lower than CAC months in the comparative period of 15.6 months, driven by the growth in ARPU.

Churn increased for the Xero Group to 1.04% for H1 FY25 compared to 0.94% in the comparative period driven by both segments. Excluding the impact of long idle subscription removals, H1 FY25 churn was 1.00%. While churn increased slightly in both segments, it still remains below pre-pandemic levels.

Total Subscriber LTV increased $2.2 billion, or 15% (14% in constant currency) in H1 FY25, from $14.8 billion to $17.0 billion. This was driven by growth in ARPU and subscribers. Xero Group LTV/CAC ratio fell slightly to 6.3 from 6.4 in the comparative period, primarily driven by the increase in churn and increased sales and marketing spend in the International segment to further increase Xero's brand awareness and product offerings globally.

ANZ – ARPU increased to $41.34 or 12% (10% in constant currency) year-on-year. This was primarily driven by price changes in Australia and increases in financial services revenue. Excluding the impact of long idle subscription removals, ARPU increased by 11%.

CAC months decreased to 8.1 months year-on-year, from 8.4 months. This decrease was driven by increased ARPU growth year-on-year, which outpaced sales and marketing spend.

Churn increased from 0.72% in H1 FY24 to 0.80% in H1 FY25. Excluding the impact of long idle subscription removals, churn for H1 FY25 was lower by 1 basis point at 0.79%. Churn for the ANZ segment remains below pre-pandemic levels.

Total ANZ LTV increased by $1.2 billion, or 12% (10% in constant currency), to $11.5 billion in H1 FY25. This was driven by ARPU and subscriber growth of 12% and 9% respectively. LTV/CAC decreased 0.6 year-on-year to 14.0.

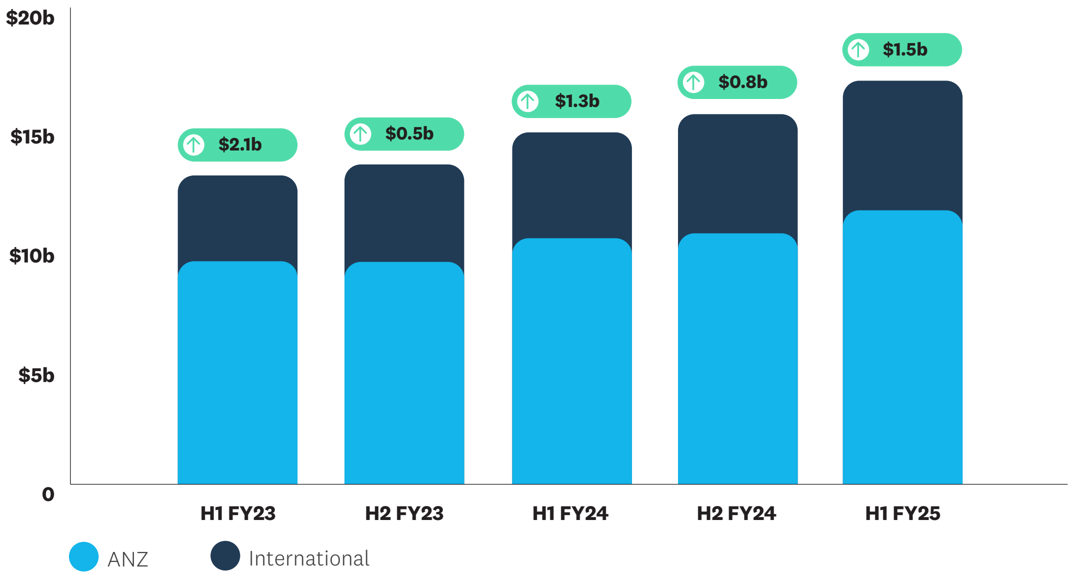
International – ARPU increased to $45.59 or 20% (19% in constant currency). The majority of long idle subscriptions removed were in the International segment, resulting in a larger impact on ARPU. Excluding this, ARPU increased 12% (11% in constant currency), primarily driven by price changes for our Business Edition and Partner Edition plans. Favourable GBP to NZD foreign exchange rates also contributed to the additional 1.0 percentage point.

CAC months decreased year-on-year by 2.4 months to 21.1 months. The decrease was attributed to year-on-year ARPU growth outpacing the increases in sales and marketing spend.

Churn increased from 1.24% in H1 FY24 to 1.36% in H1 FY25. Excluding the impact of long idle subscription removals, churn increased only slightly to 1.27%. Similarly to ANZ, churn for the International segment remains below pre-pandemic levels.

Total International subscriber LTV increased by $1.1 billion, or 23% (22% in constant currency) in H1 FY25, from $4.4 billion to $5.5 billion. This was primarily driven by ARPU growth of 20%. LTV per subscriber increased by $537, or 20% (19% in constant currency), to $3,191 in H1 FY25. This was as a result of higher ARPU partially offset by higher churn. LTV/CAC slightly increased year-on-year to 3.3.

Total lifetime value[7]



[7] *LTV has been calculated using churn excluding the impact of the removal of long idle subscriptions, this reflects churn dynamics present in Xero's go-forward subscriber base*

Independent Auditor's Review Report to The Shareholders of Xero Limited

Conclusion

We have reviewed the interim financial statements of Xero Limited ("the Company") and its subsidiaries (together "the Group") on pages 27 to 40 which comprise the statement of financial position as at 30 September 2024, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended on that date, and explanatory notes. Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements on pages 27 to 40 of the Group do not present fairly, in all material respects, the financial position of the Group as at 30 September 2024, and its financial performance and its cash flows for the six-month period ended on that date, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34).

This report is made solely to the Company's shareholders, as a body. Our review has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our review procedures, for this report, or for the conclusion we have formed.

Basis for conclusion

We conducted our review in accordance with NZ SRE 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial statements* section of our report. We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements.

Ernst & Young provided other assurance services related to the Group's compliance with ISO 27001, market remuneration data and comfort letters in respect of the issuance of the 2031 convertible notes. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. Ernst & Young uses the Group's platform in delivering services to some clients. We have no other relationship with, or interest in, the Group.

Directors' responsibility for the interim financial statements

The directors are responsible, on behalf of the Company, for the preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 and IAS 34 and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34.

A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on those interim financial statements.

The engagement partner on the review resulting in this independent auditor’s review report is Simon O’Connor.

Ernst + Young

Ernst & Young
Chartered Accountants
Wellington
14 November 2024

INTERIM FINANCIAL STATEMENTS

Income Statement

Six months ended 30 September	Notes	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Subscription revenue		941,102	762,908
Other operating revenue		54,763	36,639
Total operating revenue	**4**	**995,865**	**799,547**
Cost of revenue	5	(110,533)	(99,757)
Gross profit		**885,332**	**699,790**
Operating expenses			
Sales and marketing		(318,239)	(277,220)
Product design and development		(285,650)	(256,392)
General and administration		(105,059)	(96,634)
Restructuring costs		–	(2,131)
Total operating expenses	**5**	**(708,948)**	**(632,377)**
Operating income		**176,384**	**67,413**
Other income		2,949	13,775
Other expenses		(2,093)	(3,372)
Loss on asset disposals	8	(2,228)	(298)
Reversal of asset impairments		–	1,934
Earnings before interest and tax		**175,012**	**79,452**
Finance income	6	83,275	29,897
Finance expense	6	(103,588)	(22,485)
Net profit before tax		**154,699**	**86,864**
Income tax expense		(59,606)	(32,780)
Net profit after tax		**95,093**	**54,084**
Basic earnings per share	7	$0.62	$0.36
Diluted earnings per share	7	$0.62	$0.35

Statement of Comprehensive Income

Six months ended 30 September	Note	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Net profit		95,093	54,084
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	9	4,281	2,958
Translation of foreign operations (net of tax)		(12,365)	(154)
Total other comprehensive (loss)/income		**(8,084)**	**2,804**
Total comprehensive income		**87,009**	**56,888**

** Items of other comprehensive income may be reclassified to the Income Statement when specific conditions are met*

The accompanying notes form an integral part of these interim financial statements

Statement of Financial Position

	Notes	At 30 September 2024 Unaudited ($000s)	At 31 March 2024 Audited, Restated ($000s)
Assets			
Current assets			
Cash and cash equivalents		758,577	498,791
Short-term deposits		1,195,174	1,031,079
Trade and other receivables		169,315	176,486
Derivative assets		6,200	4,065
Income tax receivable		47,159	32,533
Other current assets		5,986	4,499
Total current assets		**2,182,411**	**1,747,453**
Non-current assets			
Property, plant and equipment		123,261	125,228
Intangible assets	8	1,019,774	984,156
Derivative assets		527,899	61,329
Deferred tax assets		12,360	31,714
Investments in financial assets	10	39,426	–
Other non-current assets		1,401	1,544
Total non-current assets		**1,724,121**	**1,203,971**
Total assets		**3,906,532**	**2,951,424**
Liabilities			
Current liabilities			
Trade and other payables		58,551	85,679
Employee entitlements		72,413	103,239
Provisions		1,846	1,867
Lease liabilities		16,101	19,369
Derivative liabilities		567,737	70,535
Income tax payable		5,818	2,760
Term debt	11	1,081,257	1,107,784
Other current liabilities		56,880	43,993
Total current liabilities		**1,860,603**	**1,435,226**
Non-current liabilities			
Lease liabilities		97,408	96,967
Derivative liabilities		1,050	1,103
Deferred tax liabilities		48,823	13,112
Other non-current liabilities		12,971	12,069
Total non-current liabilities		**160,252**	**123,251**
Total liabilities		**2,020,855**	**1,558,477**
Equity			
Share capital		1,902,919	1,854,983
Reserves		156,433	(193,268)
Accumulated losses		(173,675)	(268,768)
Total equity		**1,885,677**	**1,392,947**
Total liabilities and shareholders' equity		**3,906,532**	**2,951,424**

The accompanying notes form an integral part of these interim financial statements

Statement of Changes in Equity

Unaudited	Note	Share capital ($000s)	Treasury shares ($000s)	Share-based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Cash flow hedge reserve ($000s)	Call spread options reserve ($000s)	Total equity ($000s)
Balance at 1 April 2024		**1,847,758**	**7,225**	**116,045**	**(268,768)**	**(5,171)**	**(2,886)**	**(301,256)**	**1,392,947**
Net profit		–	–	–	95,093	–	–	–	95,093
Other comprehensive income/(loss)		–	–	–	–	(12,365)	4,281	–	(8,084)
Total comprehensive income		**–**	**–**	**–**	**95,093**	**(12,365)**	**4,281**	**–**	**87,009**
Transactions with owners:									
Share-based payments, net of tax	13	32,144	–	59,322	–	–	–	–	91,466
Share options exercised	13	15,792	–	(3,263)	–	–	–	–	12,529
Premium on call spread options, net of issuance costs	11	–	–	–	–	–	–	324,605	324,605
Unwind of call spread options	11	–	–	–	–	–	–	(22,879)	(22,879)
Balance at 30 September 2024		**1,895,694**	**7,225**	**172,104**	**(173,675)**	**(17,536)**	**1,395**	**470**	**1,885,677**
Balance at 1 April 2023		**1,703,167**	**7,225**	**96,368**	**(443,408)**	**(8,772)**	**582**	**(301,256)**	**1,053,906**
Net profit		–	–	–	54,084	–	–	–	54,084
Other comprehensive income/(loss)		–	–	–	–	(154)	2,958	–	2,804
Total comprehensive income		**–**	**–**	**–**	**54,084**	**(154)**	**2,958**	**–**	**56,888**
Transactions with owners:									
Share-based payments, net of tax	13	9,821	–	45,560	–	–	–	–	55,381
Share options exercised	13	23,775	–	(6,025)	–	–	–	–	17,750
Issue of shares – acquisition related		800	–	–	–	–	–	–	800
Balance at 30 September 2023		**1,737,563**	**7,225**	**135,903**	**(389,324)**	**(8,926)**	**3,540**	**(301,256)**	**1,184,725**

The accompanying notes form an integral part of these interim financial statements

Statement of Cash Flows

Six months ended 30 September	Note	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Operating activities			
Receipts from customers		993,188	804,238
Other income		1,465	2,657
Interest received		46,515	28,877
Payments to suppliers and employees		(651,045)	(595,549)
Interest paid		(3,812)	(4,299)
Income tax paid		(27,318)	(5,962)
Net cash flows from operating activities	**12**	**358,993**	**229,962**
Investing activities			
Capitalised development costs		(137,283)	(110,342)
Capitalised contract acquisition costs		(8,190)	(7,548)
Purchase of property, plant and equipment		(3,731)	(5,029)
Business acquisitions		(4,262)	(8,663)
Investments in financial assets		(42,070)	–
Other investing activities		(1,103)	4,218
Net cash flows from investing activities		**(196,639)**	**(127,364)**
Financing activities			
Proceeds from short-term deposits		1,378,376	1,037,192
Payments for short-term deposits		(1,567,273)	(1,020,991)
Share options exercised		12,529	17,750
Payment of lease liabilities		(10,227)	(9,097)
Convertible note transaction costs		(10,154)	–
Proceeds from issuance of convertible notes, net of issuance costs		1,483,730	–
Payments for buyback of convertible notes		(1,067,971)	–
Call spread options, net of issuance costs		(110,696)	–
Proceeds from unwind of call spread options		19,085	–
Net cash flows from financing activities		**127,399**	**24,854**
Net increase in cash and cash equivalents		**289,753**	**127,452**
Foreign currency translation adjustment		(29,967)	7,202
Cash and cash equivalents at the beginning of the period		**498,791**	**230,624**
Cash and cash equivalents at the end of the period		**758,577**	**365,278**

The accompanying notes form an integral part of these interim financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. Reporting entity and statutory base

Xero Limited ('the Company') is registered under the New Zealand Companies Act 1993 and is listed on the Australian Securities Exchange (ASX). The Company is required to be treated as an FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The unaudited interim financial statements of the Company and its subsidiaries (together 'the Group' or 'Xero') for the six months ended 30 September 2024 were authorised in accordance with a resolution of the directors for issue on 14 November 2024.

2. Basis of accounting

The unaudited interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and comply with the requirements of New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and International Accounting Standard 34: *Interim Financial Reporting*. The Group is a for-profit entity for the purposes of complying with NZ GAAP.

Other than noted below, the unaudited interim financial statements have been prepared using the same accounting policies and methods of computation as, and should be read with, the financial statements and related notes included in the Group's annual report for the year ended 31 March 2024. Certain comparative information has been reclassified to conform with the current period's classification.

The preparation of financial statements requires judgements and estimates that impact the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Amendments to NZ IAS 12

The Group has adopted the amendments introduced to NZ IAS 12: *Income Taxes*, as a result of the Organisation for Economic Co-operation and Development's (OECD) international tax reform (known as Pillar Two), effective 10 August 2023 for periods beginning on or after 1 January 2023.

Those amendments include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation

The Group is within the scope of the OECD Pillar Two Model Rules. Pillar Two legislation has been enacted in New Zealand, and will come into effect for the Group from 1 April 2025. For some entities within the Group, such as subsidiaries in the United Kingdom, the Pillar Two rules came into effect from 1 April 2024.

Under Pillar Two legislation, the Group may be liable to pay a top-up tax where the effective tax rate per jurisdiction is below the 15% minimum rate. The Group has performed an assessment of the potential exposure to Pillar Two income taxes, which showed that no top-up tax exposure should arise for the Group. There have been no significant changes to the Group's operations during the period ended 30 September 2024, and as such, the Group does not expect any top-up tax exposure to arise in relation to the period ended 30 September 2024.

The Group has applied the mandatory exception to recognising and disclosing information about any deferred tax impact related to Pillar Two income taxes.

Amendments to NZ IAS 1

The New Zealand Accounting Standards Board issued amendments to NZ IAS 1: *Presentation of Financial Statements* effective for reporting periods commencing on or after 1 January 2024. The amendment requires liabilities to be classified as current if the entity does not have a substantive right to defer settlement for at least 12 months at the end of the reporting period. The Group's 2025 and 2031 Convertible Notes (refer to note 11), are callable by the holders at any time, therefore Xero does not have a substantive right to defer settlement. As a result the associated term debt and embedded derivative liability are classified as current. Adoption of the NZ IAS 1 amendments in the current period resulted in restatement of the comparative term debt and embedded derivative liability from non-current to current.

3. Segment information

The Group operates in one business segment, providing online business solutions for small businesses and their advisors. Xero has two operating segments: Australia and New Zealand (ANZ) and International. These segments have been determined based on how the chief operating decision-maker reviews financial performance.

Segment operating expenses represent sales and marketing costs and service delivery costs, including both in-country costs and an allocation of centrally managed costs.

Unaudited	ANZ ($000s)	International ($000s)	Total ($000s)
Six months ended 30 September 2024			
Operating revenue	567,049	428,816	995,865
Cost of revenue	(63,462)	(47,071)	(110,533)
Sales and marketing expenses	(84,655)	(233,584)	(318,239)
Segment contribution	**418,932**	**148,161**	**567,093**
Six months ended 30 September 2023			
Operating revenue	456,348	343,199	799,547
Cost of revenue	(54,827)	(44,930)	(99,757)
Sales and marketing expenses	(81,402)	(195,818)	(277,220)
Segment contribution	**320,119**	**102,451**	**422,570**

Reconciliation from segment contribution to net profit before tax

Six months ended 30 September	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Segment contribution	567,093	422,570
Product design and development	(285,650)	(256,392)
General and administration	(105,059)	(96,634)
Restructuring costs	–	(2,131)
Other income	2,949	13,775
Other expenses	(2,093)	(3,372)
Loss on asset disposals	(2,228)	(298)
Reversal of asset impairments	–	1,934
Finance income	83,275	29,897
Finance expense	(103,588)	(22,485)
Net profit before tax	**154,699**	**86,864**

4. Revenue

Operating revenue by geographic location

Six months ended 30 September	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Australia	457,664	359,885
United Kingdom	270,991	215,572
New Zealand	109,385	96,463
North America	59,302	47,320
Rest of World	98,523	80,307
Total operating revenue	**995,865**	**799,547**

5. Expenses

Cost of revenue and operating expenses

Six months ended 30 September	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Employee entitlements	400,787	374,169
Employee entitlements capitalised	(118,650)	(102,442)
Share-based payments	88,527	55,290
Share-based payments capitalised	(22,604)	(11,150)
Advertising and marketing	144,206	126,278
Platform costs	52,033	49,058
Platform costs capitalised	(3,972)	(5,357)
Consultants and contractors	49,287	29,593
Consultants and contractors capitalised	(24,526)	(11,706)
Computer equipment and software	30,898	27,018
Superannuation costs	19,681	18,575
Travel-related costs	13,639	9,846
Recruitment and other personnel costs	6,277	6,829
Communication, insurance and office administration	6,309	6,195
Rental costs	4,712	4,768
Restructuring costs	–	2,131
Other cost of revenue and operating expenses	36,191	26,401
Total cost of revenue and operating expenses excl. depreciation and amortisation*	**682,795**	**605,496**

** Net of $169.8 million of costs capitalised as intangible assets (2023: $130.7 million) and grant income of $0.9 million (2023: $0.7 million)*

Depreciation and amortisation

Six months ended 30 September	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Relating to:		
Amortisation of development costs	113,773	101,717
Amortisation of other intangible assets	8,832	9,003
Depreciation of property, plant and equipment	14,081	15,918
Total depreciation and amortisation	**136,686**	**126,638**
Total cost of revenue and operating expenses	**819,481**	**732,134**
Depreciation and amortisation included in function expenses as follows:		
Product design and development	111,237	101,903
Sales and marketing	16,125	16,336
Cost of revenue	4,360	5,252
General and administration	4,964	3,147
Total depreciation and amortisation	**136,686**	**126,638**

6. Finance income and expense

Finance income

Six months ended 30 September	Notes	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Interest income on cash and deposits		47,141	29,860
Gain on repurchase of convertible notes	11	36,105	–
Finance lease interest income		29	37
Total finance income		**83,275**	**29,897**

Finance expense

Six months ended 30 September	Notes	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Amortisation of discount and debt issuance costs		22,496	18,113
Lease liability interest		3,722	4,013
Derivative revaluation loss	10	50,025	–
Interest on term debt		7,522	–
Loan commitment revaluation loss	11	9,494	–
Other finance expense*		10,329	359
Total finance expense		**103,588**	**22,485**

**Other finance expense for the six months ended 30 September 2024 includes $10.2m of expensed transaction costs relating to the buyback of the 2025 convertible notes and issuance of the 2031 convertible notes, refer to note 11*

7. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares.

Basic EPS is calculated by dividing the net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the period, excluding shares held as treasury shares.

Diluted EPS is determined by adjusting the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of all potential dilution to ordinary shares, which comprise restricted shares, options, and restricted stock units (RSUs). Instruments are only treated as dilutive when their conversion to ordinary shares would decrease EPS or increase the loss per share.

Six months ended 30 September	2024 Unaudited (000s)*	2023 Unaudited (000s)*
Net profit attributable to equity holders of the Group	**$95,093**	**$54,084**
Basic weighted average number of ordinary shares	152,529	151,263
Shares issuable in relation to equity-based compensation schemes	1,482	1,254
Diluted weighted average number of ordinary shares	**154,011**	**152,517**
Basic earnings per share	**$0.62**	**$0.36**
Diluted earnings per share	**$0.62**	**$0.35**

**Except for per share amounts*

8. Intangible assets

Unaudited	Software development ($000s)	Contract acquisition asset ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Six months ended 30 September 2024					
Opening net book value	598,456	40,744	8,610	336,346	984,156
Additions*	161,050	7,912	790	–	169,752
Amortisation expense	(113,773)	(7,583)	(1,249)	–	(122,605)
Disposals	(2,113)	–	–	–	(2,113)
Foreign exchange adjustment	(2,147)	(576)	(111)	(6,582)	(9,416)
Closing net book value	**641,473**	**40,497**	**8,040**	**329,764**	**1,019,774**
At 30 September 2024					
Cost	1,123,718	75,264	15,197	329,764	1,543,943
Accumulated amortisation	(482,245)	(34,767)	(7,157)	–	(524,169)
Closing net book value	**641,473**	**40,497**	**8,040**	**329,764**	**1,019,774**
At 31 March 2024					
Cost	1,033,404	76,247	14,775	336,346	1,460,772
Accumulated amortisation	(434,948)	(35,503)	(6,165)	–	(476,616)
Closing net book value	**598,456**	**40,744**	**8,610**	**336,346**	**984,156**

** Included in software development additions is $28.5 million of external costs capitalised (2023: $17.1 million)*

9. Hedge accounting

The Group uses derivatives in the form of forward exchange contracts and vanilla foreign exchange options (outright purchased options and vanilla collars) to reduce the risk that movements in foreign exchange rates will affect the Group's NZD cash flows. Whenever possible, these derivatives have been designated as a hedging instrument in a cash flow hedge of a highly probable forecast transaction under NZ IFRS 9: *Financial Instruments*. The Group's policy is to hedge a portion of the next 18 months' forecasted cash flows.

During the period, a net hedging gain of $3.9 million (before taxation) was recognised in other comprehensive income (2023: gain of $0.8 million). During the period, a loss of $2.0 million (before taxation) was reclassified out of other comprehensive income to the Income Statement (2023: loss of $3.3 million). The remaining balance will be reclassified to the Income Statement in future reporting periods as the relevant hedging instruments mature.

10. Financial instruments

Financial instruments recognised in the Statement of Financial Position include cash and cash equivalents, short-term deposits, receivables and payables, contingent consideration, term debt, investment in financial assets and derivative financial instruments.

The Group's foreign exchange derivatives, embedded derivative component of the convertible note (embedded derivative component), and call option derivative assets are recognised at fair value. Fair value of foreign exchange derivatives are determined using forward exchange rates that are quoted in an active market (level two on the fair value hierarchy).

The fair values of the embedded derivative component and call option derivative assets relating to the convertible notes are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates (level two on the fair value hierarchy). Inputs into the valuation include share price volatility and time to expiration.

At initial recognition, the fair value of the debt component of the 2025 and 2031 convertible notes was determined using a market interest rate for an equivalent non-convertible bond. The notes are subsequently recognised at amortised cost.

As at 30 September 2024, the values of the debt components, embedded derivative component liabilities and call option derivative assets were as follows:

At 30 September 2024	Fair value Unaudited ($000s)	Carrying value Unaudited ($000s)
2025 term debt	24,699	25,301
2031 term debt	1,104,992	1,055,956
2025 embedded derivative component liability	1,068	1,068
2031 embedded derivative component liability	556,521	556,521
2031 call option derivative asset	521,314	521,314

Xero recognised a revaluation gain of $82.1 million on the call option derivative assets, and a revaluation loss of $132.2 million on the embedded derivative component liability for the six months to 30 September 2024. This is included in derivative revaluation loss within finance expense in the Income Statement.

The carrying values of the Group's other financial instruments do not materially differ from their fair value. There were no transfers between classes of financial instruments during the period.

Investment in financial assets

In April 2024, Xero acquired USD25 million preference shares in Deputy, the global people platform for hourly work. Xero's investment represented a 2.5% shareholding in the company. After initial recognition, the investment is remeasured at fair value at each reporting date. The fair value of the investment is determined using a combination of level 2 and level 3 inputs. Fair value of the shares as at 30 September 2024 was considered in the context of market multiples, the performance of Deputy and the specific rights associated with the preference shares owned. The 30 September 2024 valuation resulted in no revaluation for the six month period. The carrying value of the investment as at 30 September 2024 is $39.4 million. The investment is included within Investments in financial assets in the Statement of Financial Position.

11. Term debt

On 2 December 2020, Xero Investments Limited, a wholly owned subsidiary of the Company, issued USD700 million of convertible notes (the '2025 notes'). The 2025 notes were scheduled to mature on 2 December 2025.

In June 2024, Xero Investments Limited made a new convertible notes offering of USD925 million (the '2031 notes'). In conjunction with the settlement of the 2031 notes, Xero Investments Limited substantially repurchased the 2025 notes and unwound the existing call spread options.

Repurchase of the 2025 convertible notes

On 12 June 2024, Xero Investments Limited repurchased USD645.6 million ($1,050.5 million) of the 2025 notes for a total cash consideration of USD618.4 million ($1,006.2 million).

The term debt and embedded derivative component, which were historically accounted for at amortised cost and fair value respectively, were settled at fair value. The repurchase resulted in a $33.7 million gain on the term debt and embedded derivative being recognised within finance income in the Income Statement.

A further USD37.7 million ($61.9 million) of the 2025 notes was repurchased in June and July 2024, for a total cash consideration of USD36.0 million ($59.2 million). The repurchase resulted in a gain of $2.4 million being recognised within finance income in the Income Statement.

The remaining USD16.7 million ($26.3 million) of the 2025 notes is expected to be cash settled. The principal amount, unamortised debt discount and net carrying amount of the liability component of the remaining 2025 notes at 30 September 2024 were as follows:

At 30 September 2024	Unaudited ($000s)
Principal amount	26,337
Unamortised debt discount	(1,036)
Term debt	**25,301**

Unwind of 2025 call spread options

In conjunction with the repurchase of the 2025 notes, the 2025 call spread options were unwound for a total price of USD11.7 million ($19.1 million). The lower strike call options were accounted for as derivative assets in the Statement of Financial Position at their estimated fair value. The derivative assets were adjusted to fair value at each reporting period. At unwind, the value of the lower strike call options was $41.9 million.

The upper strike call options were accounted for as equity and initially recognised at their fair value less transaction costs. On unwind of the upper strike call options, a $22.9 million loss on settlement was recognised.

2031 convertible notes and embedded derivative component

In June 2024, Xero Investments Limited made a convertible notes offering of USD925 million. The 2031 notes were settled on 12 June 2024 and listed on the SGX-ST on 13 June 2024.

The 2031 notes are unsubordinated, unsecured obligations of Xero, and have a final maturity date of 12 June 2031. The 2031 notes also include a one time put option at the end of year five, allowing holders to sell the bond back to the issuer at par. The settlement of the 2031 notes will be in cash unless Xero elects to settle in shares, in which case Xero will be obliged to deliver ordinary shares to relevant noteholders. The cash settlement amount will be calculated based on the volume-weighted average price of the ordinary shares over a 90-day trading period. The initial conversion of the 2031 notes is USD109.6453 per ordinary share based on a fixed exchange rate of AUD1.00 = USD0.6649. At initial recognition, the value of the notes is allocated between the term debt component and the embedded derivative component. The fair value of the embedded derivative component at the time of settlement was $448.6 million.

The difference between the fair value of the term debt on settlement and the cash received is recognised as debt discount and is amortised as interest expense using the effective interest method over the term of the notes. The principal amount, unamortised debt discount, unamortised issue costs, and net carrying amount of the term debt component of the 2031 notes at 30 September 2024 were as follows:

At 30 September 2024	Unaudited ($000s)
Principal amount	1,458,760
Unamortised debt discount	(387,891)
Unamortised issue costs	(14,913)
Term debt	**1,055,956**

The Group recognised a one-off loan commitment revaluation loss of $9.5 million, reflecting movement in fair value of the term debt component between trade date and settlement date. At initial recognition, the fair value of the 2031 notes was determined using a market interest rate for an equivalent non-convertible bond. The notes are subsequently recognised at amortised cost.

The 2031 notes have a coupon rate of 1.625% per annum, payable semi-annually in arrears in equal instalments. This is amortised as interest expense using the effective interest method over the term of the notes. At 30 September 2024, the accrued interest balance was $7.3 million.

In accordance with amendments to NZ IAS 1: *Presentation of Financial Statements*, effective for reporting periods beginning on or after 1 January 2024, liabilities can only be classified as non-current if the entity has a substantive right to defer settlement for at least 12 months after the reporting period. Since both the 2025 and 2031 notes are callable by the holders at any time, Xero does not have the right to defer settlement. As a result, both the 2025 notes (before repurchase), and the 2031 notes, along with the associated embedded derivative liabilities, are classified as current liabilities.

2031 call spread options

In connection with the issuance of the 2031 notes, Xero purchased call spread options which are expected to reduce potential dilution to shareholders upon conversion of the notes, offsetting any cash payments Xero may be required to make in excess of the principal amounts on conversion. The call spread options will be effective at offsetting dilution on conversion of the notes up to a share price of USD134.95, converted to AUD at the prevailing exchange rate. The call spread options consist of 0.9 million lower strike call options purchased with an average strike price equal to the conversion price of the notes, and 0.9 million upper strike call options sold with an average strike price of USD134.95. Both the lower call and upper call options are exercisable into a total of approximately 8.4 million ordinary shares. The call spread options have expiry dates between 24 January 2031 and 4 June 2031. The aggregate cost of the call spread was $109.9 million, which was paid from the proceeds of the 2031 notes.

The lower strike call options are accounted for as derivative financial assets and are accounted for at their fair value. At 30 September 2024, the fair value of the lower strike call options was $521.3 million. The upper strike call options are accounted for as equity, and are recognised at their initial fair value, less transaction costs. The carrying value of the upper strike call options is $324.6 million.

Transaction costs

Transaction costs relating to the convertible notes refinancing and call spread transactions totalled $26.9 million. Costs are allocated across the different components of the transactions based on the nature of costs incurred. Where costs incurred related to multiple components they are allocated based on the relative fair values of those components. The costs were accounted for as follows:

Six months ended 30 September	2024 Unaudited ($000s)	*Accounting treatment*
2031 debt component	15,966	Capitalised and amortised over term of the note
2031 embedded derivative component	6,278	Recognised immediately in the Income Statement
2031 low call options	820	Recognised immediately in the Income Statement
2031 high call options	820	Capitalised to equity
2025 convertible notes repurchase and call spread unwind	3,055	Recognised immediately in the Income Statement
Total	**26,939**	

12. Reconciliation of operating cash flows

Six months ended 30 September	2024 Unaudited ($000s)	2023 Unaudited ($000s)
Net profit	95,093	54,084
Adjustments:		
Depreciation	14,081	15,918
Amortisation	122,605	110,720
Share-based payments	65,923	44,140
Amortisation of discount and debt issuance costs	22,496	18,113
Deferred tax and current taxes recognised in equity	(11,507)	5,342
Bad debts	3,412	2,927
Asset impairments and disposals	2,228	298
Reversal of asset impairments	–	(1,934)
Gain on repurchase of convertible note	(36,105)	–
Loan commitment revaluation loss	9,494	–
Financing transaction costs	10,153	–
Derivative revaluation	50,025	–
Other non-cash items	(1,224)	(2,670)
Changes in working capital:		
Increase in trade receivables and prepayments	(2,318)	(20,425)
Decrease in deferred tax assets	55,298	19,633
Increase/(decrease) in trade payables and other related items	(16,398)	28,911
Decrease in provisions	(869)	(43,073)
Decrease in employee entitlements	(28,620)	(17,655)
Increase in interest payable	7,561	–
Increase in income in advance	9,171	13,807
Increase/(decrease) in net tax receivable	(11,506)	1,826
Net cash flows from operating activities	**358,993**	**229,962**

13. Share-based payments

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options or RSUs. The value of the employee services rendered for the grant of non-transferable options or RSUs is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options and RSUs granted.

Restricted stock units

Movements in the number of RSUs outstanding and their related weighted average grant prices were as follows:

Unaudited	2024 Weighted average grant date fair value (AUD)	2024 RSUs (000s)	2023 Weighted average grant date fair value (AUD)	2023 RSUs (000s)
Six months ended 30 September				
Opening balance	106.76	942	102.68	670
Granted	135.33	1,416	116.02	950
Forfeited	118.54	(36)	111.54	(104)
Converted to shares	104.63	(284)	87.00	(103)
Closing balance	**126.71**	**2,038**	**112.14**	**1,413**

Share options

Movements in the number of options outstanding and their related weighted average exercise prices were as follows:

Unaudited	2024 Weighted average exercise price (AUD)	2024 Options (000s)	2023 Weighted average exercise price (AUD)	2023 Options (000s)
Six months ended 30 September				
Opening balance	91.73	822	85.80	1,428
Granted	–	–	118.10	18
Forfeited/expired	137.52	(22)	129.95	(62)
Exercised	91.46	(126)	60.47	(274)
Closing balance	**90.28**	**674**	**91.40**	**1,110**
Exercisable at 30 September	100.67	349	92.52	431

14. Events after the balance sheet date

On 17 September 2024, Xero announced the acquisition of 100% of the ordinary shares in Syft Analytics ('Syft'), a global cloud-based reporting, insights and analytics platform for accountants, bookkeepers and small businesses, pursuant to an agreement dated 16 September 2024. Xero plans to embed Syft's functionality within Xero over time, providing customers with more powerful analytics and reporting, and benchmarking capabilities.

Consideration for the acquisition will be up to USD52.8 million, comprising an upfront payment of USD40 million (including an adjustment for working capital and approximately USD10 million in Xero shares), with further contingent consideration of up to USD12.8 million payable subject to meeting certain product and revenue milestones.

Up to USD17.3million in additional employee incentives have been agreed, comprising USD15 million RSUs and USD2.3 million in cash bonuses, linked to service and meeting certain product and revenue milestones.

At the date these interim financial statements were authorised for issue, the acquisition had not been completed, as all conditions precedent have not been met and control has not yet passed to Xero. As a result, the initial accounting has not yet been completed. This information will be included in the Group's annual report for the year ended 31 March 2025.

There were no other significant events between balance date and the date these financial statements were authorised for issue.

DIRECTORS' DECLARATION

The unaudited interim financial statements of Xero Limited and its subsidiaries ('the Group') for the six months ended 30 September 2024 were authorised for issue on 14 November 2024 in accordance with a resolution of the directors. In accordance with ASX Listing Rule 4.2A.2A, the directors declare that, as at that date, and in the directors' opinion:

1. there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

2. the relevant interim financial statements and notes comply with accepted accounting standards in New Zealand.

For and on behalf of the Board

David Thodey Chair Xero Limited 14 November 2024	Mark Cross Director Xero Limited 14 November 2024

CORPORATE DIRECTORY

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Susan Peterson

Company secretary

Damien Coleman

Leadership team

Sukhinder Singh Cassidy
Chief Executive Officer

Damien Coleman
Chief Legal Officer

Kirsty Godfrey-Billy
Chief Financial Officer

Ashley Hansen Grech
Chief Revenue Officer

Diya Jolly
Chief Product and Technology Officer

Nicole Reid
Chief People Officer

Angad Soin
Managing Director Australia & New Zealand and Global Chief Strategy Officer

Michael Strickman
Chief Marketing Officer

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