

MARKET RELEASE

Xero Delivers 32% Operating Revenue Growth & Passes 2 Million Global Subscribers

Annualised monthly recurring revenue increased 30% to \$764 million

SYDNEY, 7 November 2019 - Xero Limited (ASX: XRO) today reports half year earnings to 30 September 2019 (H1 FY20) delivering strong topline growth combined with improving gross margin and free cash flow.

Performance highlights H1 FY20 (All figures in NZD and comparisons are made against H1 FY19)

- Operating revenue was up 32% to \$338.7 million (33% in constant currency (CC))
- 30% growth in annualised monthly recurring revenue (AMRR) to \$764.1 million
- 30% growth in total subscribers to 2.057 million
- Total subscriber lifetime value grew by 37% (38% in CC) to \$5.4 billion, with more than \$1 billion added in the half
- Free cash flow was \$4.8 million, compared to free cash outflow of \$9.8 million in H1 FY19
- Net profit after tax increased by \$29.9 million to \$1.3 million
- EBITDA excluding impairments of \$65.9 million almost doubled from \$34.5 million in H1 FY19

Financial highlights

Six months ended 30 September	2019	2018	change
Operating revenue (\$000s)	338,658	256,527	32%
Subscribers	2,057,000	1,579,000	30%
Net subscriber additions	239,000	193,000	24%
Average revenue per user (\$)	30.96	31.09	0%
Annualised monthly recurring revenue (\$000s)	764,096	589,068	30%
EBITDA excluding impairments (\$000s)	65,921	34,516	91%
Net profit/(loss) after tax (\$000)	1,336	(28,565)	NM*
Free cash flow (\$000s)	4,829	(9,771)	NM
Total lifetime value of subscribers (\$b)	5.4	3.9	37%
Gross margin percentage	85.2%	82.8%	2.4pp**

*NM stands for not meaningful

**pp stands for percentage points

Xero achieved a significant milestone in the half, surpassing two million subscribers globally, to end the period with 2.057 million subscribers. While it took more than a decade to add Xero's first million subscribers, it took just two and a half years to add the next million, demonstrating the pace of Xero's adoption across a number of markets.

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Further reflecting the momentum of the business at the end of the period, AMRR exceeded three quarters of a billion dollars, increasing by 30% (30% in CC) to \$764.1 million.

CEO Steve Vamos commented: “We’ve continued to perform well this half with strong topline results and improving financial performance. Exceeding two million subscribers globally and achieving AMRR of over three quarters of a billion dollars were important milestones.”

“There are a number of significant global trends contributing to Xero’s growth including industry, regulatory and technology shifts. These include the increased use of cloud technology by small businesses, the digitisation of tax and compliance systems, and innovation reshaping the financial services sector.”

Market highlights

Australia subscribers grew by 28% compared to the same period last year and the region was Xero’s first to pass three quarters of a million subscribers, ending the half year with 840,000 subscribers. Revenue was up 26% (29% in CC). The implementation of the Australian Taxation Office’s Single Touch Payroll initiative has contributed to continued strong demand for cloud accounting in this key market.

UK subscribers grew by 51% compared to the same period last year to 536,000 subscribers, becoming the second market to pass half a million subscribers. Revenue was up 51% (52% in CC). Results were driven by continued focus on building Xero’s partner channel, investment in brand and marketing, and the implementation of HM Revenue & Customs’ Making Tax Digital initiative. To meet growing customer demand, Xero announced the opening of a new office in Manchester that complements Xero’s London and Milton Keynes offices.

New Zealand subscribers increased by 13% compared to the same period last year to 367,000, with revenue rising by 22%. Favourable average revenue per user (ARPU) trends were driven by a greater emphasis on additional platform solutions including Xero Payroll which benefited from the introduction of Payday filing by Inland Revenue on 1 April 2019 and the adoption by existing customers of higher value and function subscriptions.

North America subscribers were up by 21% to 215,000 compared to the same period last year as Xero continues to execute on its partner channel strategy. Revenue grew 34% (29% in CC).

Rest of World continued momentum in subscribers, up 52% compared to the same period last year at 99,000 and revenue was up 43% (37% in CC). Growth was led by South Africa and Xero made further progress in Hong Kong and Singapore.

Announcing ‘Net Zero @ Xero’ (xero.com/socialimpact)

As part of our social and environmental impact program, Xero is taking action to reduce our emissions footprint and will offset 100% of Xero’s carbon emissions across all areas of the business for the year to 31 March 2019 (assessed retrospectively and finalised during 2020) and going forward. We will continue to

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provide updates on our investment in social and environmental impact, which will include initiatives to help our communities through enhanced employee volunteering and support for non-profit and for-purpose organisations.

CEO Steve Vamos commented: “We take sustainability seriously and are actively developing Xero’s social and environmental initiatives that we believe will have real impact on our communities and the environment. We see our commitment to Net Zero @ Xero as a positive step in our journey.”

Outlook

Xero will continue to focus on growing its global small business platform and maintain a preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long-term shareholder value. Free cash flow in the financial year to 31 March 2020 is expected to be a similar proportion of total operating revenue to that reported in the financial year to 31 March 2019.

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About Xero

Born in the cloud, [Xero](#) is a beautiful, easy-to-use platform for small businesses and their advisors around the world. Xero provides its 2+ million subscribers with connections to a thriving ecosystem of 800+ third-party apps and 200+ connections to banks and financial service providers. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the \$200 million+ segment. Xero won ‘Accountancy Software Provider of the Year’ at the British Business Awards in 2019, and was rated by Canstar Blue as the best accounting software in Australia from 2015-2018 and in New Zealand in 2019.

About Subscribers

Xero measures subscribers as each unique subscription to a Xero-offered product that is purchased by a user (eg 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.

About Constant Currency

Constant currency comparisons for revenue are based on average exchange rates for the 6 months ended 30 September 2018. Comparisons for ARPU, AMRR and lifetime value are based on exchange rates at 30 September 2018.

Xero Limited (XRO)
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About Free Cash Flow

Free cash flow is defined as cash flows from operating activities less cash flows used for investing activities excluding cash used for acquisitions of, and investments into, businesses and strategic assets.

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