

MARKET RELEASE

Xero Delivers 21% Revenue Growth with 2.45 Million Subscribers

Small business sector shows resilience in challenging conditions; operational discipline during COVID-19 drives free cash flow of \$54 million

WELLINGTON, 12 November 2020 - Xero Limited (ASX: XRO) today reports half year earnings to 30 September 2020 (H1 FY21) that demonstrate the resilience of its global subscriber base, and its proactive response supporting customers and partners, in a challenging COVID-19 environment. While COVID-19 had some impact on Xero's ability to acquire new customers during the period, subscribers grew by 19% to reach 2.45 million with all markets making positive progress and Australia becoming Xero's first market to pass one million subscribers.

Performance highlights H1 FY21 (All figures are in NZD and comparisons are made against H1 FY20)

- Operating revenue was up 21% to \$409.8 million (19% in constant currency (CC))
- Annualised monthly recurring revenue (AMRR) grew 15% to \$877.6 million
- Total subscribers increased by 19% to 2.45 million
- Total subscriber lifetime value (LTV) grew by 15% (in both actual and CC) to \$6.2 billion
- Free cash flow was \$54.3 million, compared to \$4.8 million
- EBITDA of \$120.8 million increased 86% from \$64.9 million
- Net profit after tax increased by \$33.2 million to \$34.5 million

Financial highlights

Six months ended 30 September	2020	2019	change
Operating revenue (\$000s)	409,837	338,658	21%
Subscribers	2,453,000	2,057,000	19%
Net subscriber additions	168,000	239,000	-30%
Average revenue per user (\$)	29.81	30.96	-4%
Annualised monthly recurring revenue (\$000s)	877,551	764,096	15%
EBITDA (\$000s)	120,765	64,850	86%
Net profit after tax (\$000s)	34,486	1,336	NM*
Free cash flow (\$000s)	54,268	4,829	NM
Total lifetime value of subscribers (\$b)	6.17	5.39	15%
Gross margin percentage	85.7%	85.2%	0.5pp**

*NM stands for not meaningful

**pp stands for percentage points

Xero's H1 FY21

Xero prioritised investing for the long term and addressing customer needs with a record level of product development spend of almost \$140 million in H1 FY21. This was up 29% compared to the same period last year, and significantly higher than operating revenue growth of 21%. Xero also continued to focus on execution of its strategy and M&A opportunities, demonstrated by the acquisition of invoice lending platform Waddle.

The strong EBITDA, free cash flow and net profit performance in H1 FY21 reflects Xero's disciplined financial management during a highly uncertain period. This approach contributed to a 10% reduction in sales and marketing costs when compared to H1 FY20. Uncertainty from COVID-19 is likely to remain. However, Xero's focus on long-term growth, combined with a return to more normal market conditions, would be expected to drive a return to positive sales and marketing cost growth.

While there was some volatility in churn during the period, overall reported Monthly Recurring Revenue (MRR) churn in H1 FY21 was consistent with H1 FY20 at 1.11%.

CEO Steve Vamos said: "This result demonstrates the value our customers attribute to their Xero subscription and the underlying strength of Xero's business model. We continue to prioritise investment in customer growth and product development in line with the long term opportunity we see."

"Subscriber growth was positive in all geographies, with stronger net subscriber additions in Australia and New Zealand with relatively less disruption in those markets from COVID-19. During a difficult period, it's pleasing to report we grew to exceed one million subscribers in both Australia and in our International segment."

"We've responded to COVID-19 by delivering new products and services that meet our customers' and partners' changing needs. These include assisting with small business access to government stimulus and delivering Xero On Air, our first global digital customer and partner engagement event."

Market highlights

Australia subscribers grew by 21% compared to H1 FY20, to 1.01 million subscribers. Revenue was up 18% (17% in CC). The Australian Taxation Office Single Touch Payroll initiative, and the roll-out of JobKeeper stimulus payments by the Australian Government, contributed to continued strong demand for cloud accounting in this market.

UK subscribers grew by 19% compared to H1 FY20, to 638,000 subscribers. Revenue was up 33% (29% in CC), a robust outcome in one of Xero's more COVID-19 affected markets.

New Zealand subscribers increased by 13% compared to H1 FY20, to 414,000, with revenue rising by 13%. An acceleration in net subscriber additions from 16,000 in H1 FY20 to 22,000 net subscriber additions in H1 FY21, demonstrated ongoing demand for Xero in its first and most developed market.

North America subscribers increased by 17% to 251,000 compared to H1 FY20 as Xero continued to focus on the partner channel. Revenue grew 4% (2% in CC). This reflected the bundling of Hubdoc into Xero Business Edition subscriptions towards the end of FY20, with Hubdoc subscriptions most concentrated in North America. The absence of Xerocon-related revenue also contributed to this outcome.

Rest of World continued momentum in subscribers, increasing 37% compared to H1 FY20 at 136,000. Revenue was up 38% (35% in CC). Growth was led by South Africa, and further progress was made in Singapore.

Outlook

Xero is a long-term oriented business with ambitions for high-growth. We continue to operate with disciplined cost management and targeted allocation of capital. This allows us to remain agile so we can continue to innovate, invest in new products and customer growth, and respond to opportunities and changes in our operating environment.

The continued uncertainty created by COVID-19 means it remains speculative to provide further commentary on our expected FY21 performance at this time.

Xero's earnings webcast

Xero's H1 FY21 earnings webcast at 10.30am AEDT on 12 November can be accessed at:
<https://webcast.openbriefing.com/6654/>

Pre-registration for the event is encouraged at the above link. A replay of the webcast will be available on Xero's Investor Centre: www.xero.com/about/investors

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

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About Xero

Xero is a cloud-based accounting software platform for small businesses with 2.45 million subscribers globally. Through Xero, small business owners and their advisors have access to real-time financial data any time, anywhere and on any device. Xero offers an ecosystem of over 800 third-party apps and 200 plus connections to banks and other financial partners. In 2020, Xero was included in the

Bloomberg Gender-Equality Index and recognised by [IDC MarketScape](#) as a leader in its worldwide SaaS and cloud-enabled small business finance and accounting applications vendor assessment.

About Subscribers

Xero measures subscribers as each unique subscription to a Xero-offered product that is purchased by a user (eg a small business or accounting partner) and which is, or is available to be, deployed. Subscribers that have multiple subscriptions to integrated products on the Xero platform are counted as a single subscriber.

About Constant Currency

Constant currency comparisons for revenue are based on average exchange rates for the 6 months ended 30 September 2019. Comparisons for ARPU, AMRR and lifetime value are based on exchange rates at 30 September 2019.

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.