



MARKET RELEASE

Xero's FY22 Revenue grows 29% to \$1.1 Billion with 3.3 Million Subscribers*Strong result demonstrates benefits of long-term investment to support strategy*

WELLINGTON, 12 May 2022 - Xero Limited (ASX: XRO) today reports its full year earnings to 31 March 2022 (FY22) reflecting the benefits of its commitment to investing for the long-term, to support its strategy and focus on current and future customer needs.

Performance highlights FY22 (All figures are in NZD and comparisons are made against FY21)

- Operating revenue increased by 29% to \$1.1 billion (30% in constant currency (CC))
- Total subscribers increased by 19% to 3.3 million
- Annualised monthly recurring revenue (AMRR) grew by 28% to \$1.2 billion (30% in CC)
- Total subscriber lifetime value (LTV) grew by \$3.3 billion or 43% to \$10.9 billion (45% in CC)
- Gross margin percentage increased by 1.3 percentage points to 87.3%
- EBITDA of \$212.7 million increased by 11% from \$191.2 million
- Free cash flow was \$2.1 million compared to \$56.9 million

Xero delivered strong progress across multiple performance indicators with revenue growth rebounding to 29% (30% in CC), or 24% excluding acquisitions. The quality of Xero's performance, delivered against a backdrop of varying market conditions, is underscored by robust software as a service metrics.

Total LTV increased 43% to \$10.9 billion driven by good progress on subscriber growth, a marked improvement in average revenue per user (ARPU) of 7% (9% in CC), along with monthly churn (0.90%), which has remained consistently below pre-COVID-19 pandemic levels. LTV/CAC was 6.9 which indicates the strength of returns within the business.

Financial highlights

Year ended 31 March	2022	2021	change
Operating revenue (\$000s)	1,096,819	848,782	29%
Subscribers	3,271,000	2,741,000	19%
Net subscriber additions	530,000	456,000	16%
Average revenue per user (\$)	31.36	29.30	7%
Annualised monthly recurring revenue (\$000s)	1,231,087	963,597	28%
EBITDA (\$000s)	212,661	191,228	11%
Net profit/(loss) after tax (\$000s)	(9,114)	19,774	NM*
Free cash flow (\$000s)	2,073	56,946	-96%
Total lifetime value of subscribers (\$b)	10.9	7.6	43%
Gross margin percentage	87.3%	86.0%	1.3pp**

*NM stands for not meaningful

**pp stands for percentage points



Xero's FY22

Operating revenue grew by 29% year on year to \$1.1 billion. Core accounting revenue increased by 23%, driven by subscriber growth and ARPU increases. Platform revenue increased by 113% to account for 11% of total operating revenue, up from 7% in FY21. This was driven by growth in payments, payroll and revenues from recently acquired businesses including Planday.

EBITDA increased modestly versus the prior year to \$212.7 million, representing a balance between further gross margin expansion, which increased to 87.3%, and increased operating costs. A net loss of \$9.1 million and free cash flow of \$2.1 million are consistent with Xero's preference to reinvest capital generated back into the business.

Total operating expenses, inclusive of acquisition integration costs, increased as a percentage of operating revenue to 84.0%. This is consistent with the guidance range provided for FY22 and the profile of Xero's expenditure in the pre-pandemic period.

Xero's full-time equivalent employees increased to 4,784, up 31%, or 24% excluding acquired businesses. These ambitious talent acquisition targets were achieved within a challenging hiring market.

Overall sales and marketing costs grew by 32% in FY22 to \$405.7 million or 37.0% as a proportion of operating revenue. Xero's increasing clarity and confidence operating within the economic environment over the past 18 months has supported its continued reinvestment in customer growth opportunities. This has had a positive impact on subscriber additions and brand awareness across its global operations. Within this environment, Xero has taken the opportunity to develop a range of new approaches to engagement with customers and partners. An example is Xero's recently announced partnership with FIFA Women's Football.

Product design and development expenses increased by 49% to \$372.0 million, representing 33.9% of operating revenue. Gross product design and development costs (including capitalised costs) increased by 51% to \$472.0 million, or 43.0% as a proportion of operating revenues. Investments in product and technology are aligned with Xero's long-term ambitions. This includes a focus on customer needs, such as product localisation in a number of international markets, and future innovation in areas such as platform, ecosystem and integration of acquisitions.

Xero's acquisitions of Planday, Tickstar, TaxCycle and LOCATE Inventory, completed in FY22, made good progress. Overall, top line contribution from these businesses in FY22 was \$41.7 million of operating revenue. As a key element of Xero's strategy, these acquisitions have added significant technology, product and talent capabilities to Xero, as well as seeding new revenue streams and enabling category expansion. Xero will continue to invest in these businesses to support their growth.

Acquired in FY21, Waddle also made progress in FY22. Waddle is an early stage business and Xero continues to have confidence in its long-term opportunity. However, in the year Xero has recognised



two largely offsetting accounting adjustments due to a reassessment and reduction of Waddle’s medium-term revenue profile. These include a fair value adjustment to reduce deferred consideration resulting in a gain of \$30.6 million, in line with structured deal terms, and a non-cash impairment to goodwill of \$20.4 million.

CEO commentary

CEO Steve Vamos said: “The value Xero brings to our small business customers and the trust they place in us is illustrated by this result. Our strong revenue and subscriber growth gives us confidence to continue to invest for growth consistent with our long-term strategy.”

“Our performance reflects the quality of our customer and partner relationships as more people realise the benefits that cloud accounting and digital tools provide.”

“We are committed to delivering the world’s most insightful and trusted small business platform by focusing on driving cloud accounting adoption, growing the small business platform and building for global scale and innovation. We continue to prioritise investment in building products and growing partnerships by investing cash generated to help deliver our strategy, drive long-term growth and meet customer needs.”

Market highlights

Australia revenue increased by 26% (27% in CC) to \$483.3 million with 229,000 net subscriber additions to reach a total of 1.34 million subscribers. Xero launched the ability for customers to receive e-invoices and also expanded its e-invoice sending capabilities for its Australian customers.

New Zealand revenue increased by 15% to \$149.4 million with 66,000 net subscriber additions to reach a total of 512,000 subscribers. Consistent with its Australian offering, Xero expanded e-invoicing capabilities for New Zealand customers.

UK revenue increased by 30% (30% in CC) to \$291.6 million with 130,000 net subscriber additions taking total subscribers to 850,000. Subscriber net additions were subdued in Q3 but improved in Q4. To help partners transition to the next phases of Making Tax Digital (MTD), Xero launched an end-to-end personal tax solution for UK accountants and bookkeepers, making it easier for UK partners to provide services using Xero Tax across corporate tax, accounts production, and personal tax for individuals and companies.

North America revenue increased by 28% (31% in CC) to \$72.6 million, with 54,000 net subscriber additions to reach a total of 339,000 subscribers. Xero launched a range of new report features and enhancements for US customers. In Canada, a new provincial tax report provides customers with greater tax reporting coverage that automatically calculates sales tax for specific filing periods and tracks prior period adjustments. Due to the recognition and timing of annual licence-based income, TaxCycle contributed \$7.6 million to operating revenue.



Rest of World (ROW) revenue increased by 85% (90% CC) to \$100.0 million and subscribers increased to 226,000 with 51,000 net subscriber additions during the year. In South Africa, Xero expanded VAT eFiling beta to all customers, providing direct eFiling to the South African Revenue Service and helping customers file tax returns with greater efficiency and accuracy. Xero also launched Singapore Dollar billing, enabling customers and partners to consistently plan subscription costs without uncertainties of changing foreign exchange rates. The majority of Planday's revenues, acquired at the start of FY22, appear within the Rest of World region.

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.

Total operating expenses (including acquisition integration costs) as a percentage of operating revenue for FY23 are expected to be towards the lower end of a range of 80-85%.

Long-term aspiration

Xero's FY23 outlook, outlined above, includes an anticipated operating expense ratio for FY23. While there isn't a specific timeline, Xero's long-term aspiration is to see significant improvement in its operating expense ratio as Xero and the global cloud accounting industry continues to develop. Having said this, Xero's operating expense ratio, and its component parts, could vary from period to period as we identify growth opportunities that are consistent with our long-term objectives and adapt to market conditions.

Xero's earnings webcast

Xero's FY22 earnings webcast at 10:30am AEST on 12 May 2022 can be accessed at:

<https://webcast.openbriefing.com/8639/>

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 & Chair of the Audit and Risk Management Committee

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About Xero

[Xero](#) is a global small business platform with 3.3 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also provides access to financial services, and an ecosystem of more than 1,000 connected apps and more than 300 connections to banks and other financial institutions. Through Xero's open platform, small businesses can connect to a range of solutions that help them run their business and manage their finances. For three consecutive years (2020-2022) Xero was included in the Bloomberg Gender-Equality Index. In 2021, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero has been named as a [FIFA Women's Football partner](#) under FIFA's new commercial structure.

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.