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MARKET RELEASE

Xero announces FY25-27 strategy and outlines aspirations for future growth

Strategy to position Xero for the next chapter of growth

WELLINGTON, 29 February 2024 - In accordance with the ASX Listing Rules, Xero Limited (ASX: XRO) encloses Market Release, *Xero announces FY25-27 strategy and outlines aspirations for future growth*, for immediate release to the market.

Authorised for release to the ASX by the Xero Limited Board of Directors

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About Xero

[Xero](#) is a global small business platform with 3.95 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. Xero is a [FIFA Women's Football partner](#).



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Xero announces FY25-27 strategy and outlines aspirations for future growth

Strategy to position Xero for the next chapter of growth

WELLINGTON, 29 February 2024 - Xero Limited (ASX: XRO) today releases its FY25-27 strategy as part of its Investor Day for investors and analysts.

CEO Sukhinder Singh Cassidy said: “Our strategy is simple, focused, and purpose driven. We have solid foundations, a strong financial profile, turbocharged capabilities, and continued large global TAM to pursue, as we seek to become an even more trusted platform for small businesses and their advisors.”

“As we continue to build Xero for the long term, we aspire to be a world class SaaS business, and believe we have the opportunity to double the size of our business¹ and deliver Rule of 40 or greater performance over time². As we grow, we will also seek to be more balanced between subscriber growth and ARPU expansion.” Further detail on Xero’s **Aspiration** is outlined below under ‘Important notes to Aspiration’.

Xero’s FY25-27 strategy - Winning on purpose

Xero’s FY25-27 strategy is comprised of four strategic priorities that underpin its ambitions:

(1) Win the 3 x 3 - core accounting, payments and payroll

- Focus on building winning customer solutions for the three most critical jobs for small businesses – accounting, payments and payroll – in its three largest markets, Australia, the UK and the US. This reflects a Serviceable Addressable Market (SAM) of NZD \$43 billion³
- Reimagine the small business, accountant and bookkeeper journeys, including embedding and extending to adjacent ‘jobs to be done’

(2) A winning go to market playbook

- Acquire and onboard subscribers to the right products efficiently
- Deepen customer relationships
- Optimise pricing and packaging to drive customer value, usage and growth

(3) Focused bets to win the future

- Enhance customer experience through AI and mobile
- Realise potential of Xero’s ecosystem and APIs
- Keep growing other markets efficiently

(4) Unleash Xero(s) to win

- Deliver a purpose and performance-driven employee value proposition

¹ Xero FY23 revenue was \$1,399 million, and H1 FY24 revenue (annualised on a straight line basis) is \$1,599 million

² Rule of 40 is defined as the sum of annual Revenue growth percentage and annual Free Cash Flow (refer to Xero’s H1 FY24 Interim Report for definition) margin percentage (Free Cash Flow as a percentage of Revenue) calculated on a constant currency basis

³ SAM estimated using available government statistics, public market data, internal Xero data and commercial assumptions in relation to the relevant products



- Enhance Product and Technology capabilities and operating model
- Transform core enterprise systems to improve the experience and efficacy for Xero's people

Strategic BILL integration partnership announced

In line with Xero's strategy to support the three most important jobs for small businesses, Xero is extending bill payments into the US through a new strategic partnership with BILL. BILL is a leading financial operations platform for small and midsize businesses with more than 470,000 businesses using its financial automation solution.

The partnership will strengthen Xero's US payments offering, adding more value for US customers, and reflects how Xero will look to use strategic partnerships to deeply embed key 'jobs to be done'.

The embedded solution being developed will allow customers to securely manage, approve and pay bills through Xero, powered by BILL, using a variety of payment options, without leaving the Xero platform. The solution will avoid the need for manual bank processes and make it easier to reconcile transactions, while providing greater visibility and control over cash flow.

Singh Cassidy said: "Our partnership with BILL further strengthens Xero's US offering and illustrates our commitment to delivering a winning solution for our customers and driving deeper customer engagement."

René Lacerte, CEO and founder of BILL said: "Xero is a leader in defining accounting for SMBs and we are excited to embed BILL's innovative and powerful payment capabilities into their customer experience, allowing us to serve and transform the lives of more SMBs."

Xero Introduces 'Just Ask Xero' (JAX), generative AI accounting tool to save customers' time

Xero will also preview 'Just Ask Xero' (JAX), its new generative AI solution, designed to be a smart business companion that helps customers complete key tasks. Once available, JAX will help small businesses and their advisors automate accounting tasks, deliver personal insights and reclaim time they can spend on running their businesses. Customers will be able to 'Just Ask Xero' to complete tasks like generating an invoice either in Xero or other apps such as email or WhatsApp. JAX will complete the task and anticipate and propose other tasks that may follow, such as following up overdue payments or crafting emails.

In developing JAX, Xero is initially focused on invoice, quote and contacts functionality — given the importance of these jobs for customers. Over time, Xero will broaden JAX to support other areas like bills, cash flow forecasting and reporting. JAX will be available in beta later in the calendar year.

Outlook

Xero reiterates its existing FY24 outlook that along with reinvestment in strategic priorities, management is targeting an operating expense to operating revenue ratio in FY24 of around 75%. This will improve operating income margin compared to FY23.

Important notes to Aspiration

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 and is currently focused on as part of its medium-term strategic ambitions. There are risks and uncertainties in connection with these ambitions, including from events beyond Xero's control.



Rule of 40 outcomes, and the component parts may vary from period to period as Xero identifies opportunities for disciplined customer focused growth and experiences changes in its cash tax payment profile.⁴

Investor Day webcast

Xero's Investor Day is an opportunity for investors to hear from and meet with Xero's global executive leadership team.

The webcast commences at 10:00am AEDT on 29 February 2024 and can be accessed at: <https://webcast.openbriefing.com/xro-id-2024/>

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

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⁴ Xero is likely to exhaust its accumulated tax losses and other tax credits in New Zealand (NZ DTAs) during the FY25-27 strategic period and commence paying cash taxes. Xero's outstanding balance of usable NZ DTAs as at 30 September 2023 was ~\$345 million

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