



GROWTH **RECOMMENDATION**



XRO:ASX
November 2024

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GROWTH RECOMMENDATION

Xero Limited XRO:ASX

Xero Limited (XRO:ASX) is a leading global provider of cloud-based accounting software for small and medium-sized businesses. The company's platform enables businesses to manage core financial tasks including invoicing, bank reconciliation, payroll, and reporting. Xero has over 4.2 million subscribers across more than 180 countries as of FY2024

The company's software integrates with over 1,000 third-party apps and financial institutions, creating a comprehensive ecosystem for small business financial management. Xero's platform is designed to be user-friendly and accessible, allowing business owners to manage their finances from any device with an internet connection.

The company has been expanding its product offerings beyond core accounting, venturing into areas such as payments, expense management, and project tracking.

Xero's business model is based on a software-as-a-service (SaaS) subscription model, providing a recurring revenue stream.

The company has shown strong growth in recent years, particularly in its core markets of Australia, New Zealand, and the United Kingdom, while also expanding its presence in North America and other international markets



INVESTMENT CONSIDERATIONS

Leadership

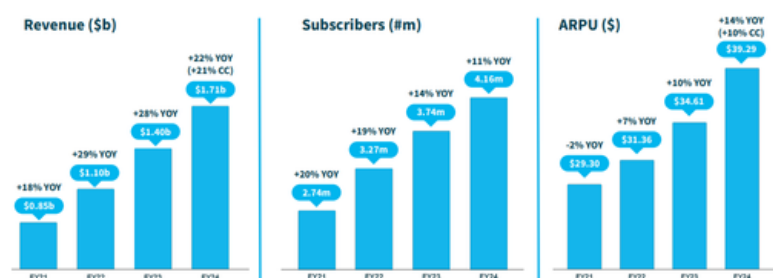
Xero's leadership team is headed by CEO Sukhinder Singh Cassidy, who was appointed in 2023. Singh Cassidy brings extensive experience from the tech industry, having held senior roles at companies like Google, Amazon, and StubHub.

Her appointment signals Xero's ambition to accelerate its global expansion and product innovation. The company's board is chaired by David Thodey, former CEO of Telstra, who brings valuable experience in scaling technology businesses. Xero's management team has demonstrated a strong track record of product innovation and global expansion. The company has consistently invested in research and development, with product design and development costs accounting for 30.7% of revenue in FY2024.

This commitment to innovation has allowed Xero to maintain its competitive edge in the rapidly evolving fintech landscape. The leadership team has also shown a focus on balancing growth with profitability, as evidenced by the company's improved financial performance in FY2024. Xero's management has articulated a clear strategy for FY2025-2027, focusing on winning in core markets, improving go-to-market efficiency, and making focused bets on future growth opportunities.

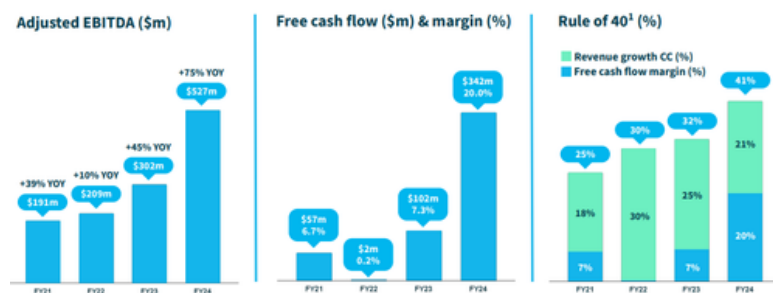
Financial Performance

Continued our track record of strong revenue growth



Delivered revenue growth balanced between subscribers and ARPU

Delivered a Rule of 40 outcome; in line with commitment to balance growth with profitability



“
 Founded in 2006, Xero now has 4.2 million subscribers and is a leader in cloud accounting across New Zealand, Australia and the United Kingdom
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INVESTMENT CONSIDERATIONS

Valuation

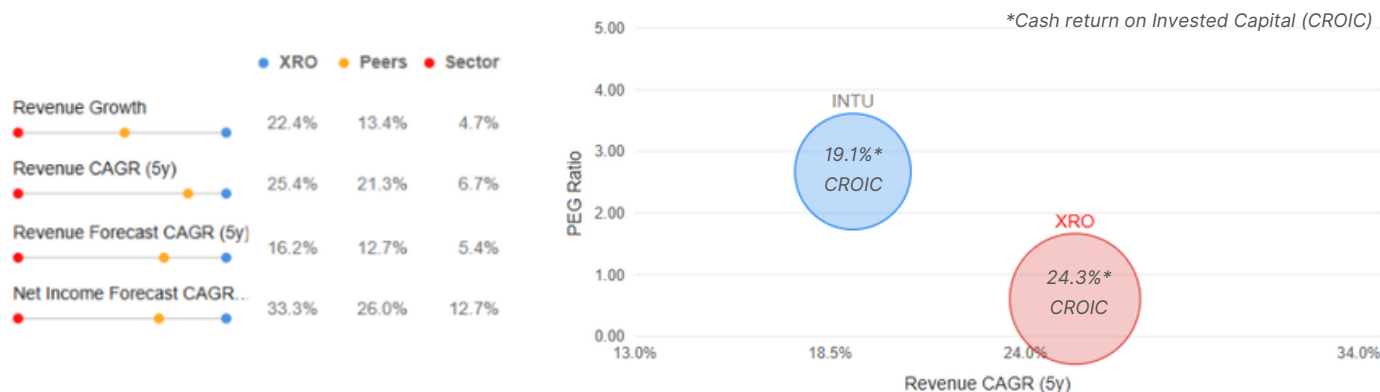
Xero's valuation reflects its position as a high-growth SaaS company in the expanding cloud accounting market. As of FY2024, the company reported operating revenue of NZ\$1,714 million, representing a 22% year-over-year growth (21% in constant currency)

The company's adjusted EBITDA reached NZ\$527 million, a 75% increase from the previous year, demonstrating improving profitability

Xero's Rule of 40 metric, which combines revenue growth and free cash flow margin, stood at 41.0% in FY2024, up 9.1 percentage points year-over-year

This indicates a healthy balance between growth and profitability. The company's lifetime value (LTV) of subscribers increased to NZ\$15.5 billion, with a LTV/CAC ratio of 6.2, suggesting efficient customer acquisition

While Xero trades at a premium multiple compared to traditional software companies, this is justified by its strong growth profile and improving profitability. The company's valuation should be considered in the context of its large addressable market, high customer retention rates, and potential for continued expansion in international markets. Investors should note that Xero's valuation can be sensitive to changes in growth rates and profitability metrics.



Sociological Factors

Xero's cloud-based accounting platform democratizes sophisticated financial management for small and medium-sized businesses (SMBs), empowering them with tools previously available only to larger enterprises. This leads to improved business outcomes, efficiency, and work-life balance for SMB owners. Xero's ecosystem promotes financial inclusion and simplifies compliance, facilitating cross-border trade and contributing to more robust economic systems. However, the shift to cloud accounting raises concerns about data privacy and the digital divide, which require attention from both Xero and policymakers.

RISKS

Risks

While Xero presents a compelling investment opportunity, there are several risks to consider:

Competition - the company faces intense competition in the cloud accounting market from both established players like Intuit and emerging fintech startups. This competitive landscape could pressure Xero's pricing power and market share.

Multi-national - as a global company, Xero is exposed to currency fluctuations and geopolitical risks in its various markets.

Economic Cycle - the company's growth is partly dependent on the overall health of the small business sector, which can be vulnerable to economic downturns.

Cybersecurity - Fourth, as a technology company handling sensitive financial data, Xero faces cybersecurity and data privacy risks. Any significant breach could damage the company's reputation and customer trust.

Financial balance & Valuation - , while Xero has shown improving profitability, it still faces the challenge of balancing growth investments with margin expansion. The company's valuation premium leaves it vulnerable to significant stock price volatility if growth or profitability metrics disappoint investors.

Execution Risk - Xero's ongoing international expansion, particularly in the competitive North American market, carries execution risks and may require significant investment before yielding returns

WHY HOLD THE COMPANY?

Investors should consider owning shares in Xero for several compelling reasons:

Sector leading - the company is a leader in the rapidly growing cloud accounting market, with a large addressable opportunity as more small businesses shift to digital financial management. Xero's strong brand and user-friendly platform position it well to capture this growth.

Track record - the company has demonstrated consistent revenue growth, with a 22% year-over-year increase in FY2024, while also improving profitability as evidenced by the 75% increase in adjusted EBITDA. This balance of growth and profitability is attractive to investors.

SAAS Model - Xero's subscription-based model provides recurring revenue and high customer retention rates, offering predictability and stability to its financial performance.

Global - the company's global footprint, with strong positions in Australia, New Zealand, and the UK, provides diversification and multiple growth avenues.

Innovative - Xero's focus on product innovation and its ecosystem of integrated apps create a strong competitive moat.

Improving metrics - the company's improving unit economics, as shown by its LTV/CAC ratio of 6.2, indicate efficient growth

Strategic focus - Xero's strategic focus on winning in core markets while making targeted bets on future opportunities suggests a disciplined approach to long-term value creation.

While investors should be mindful of the risks, Xero's market position, growth profile, and improving financials make it an attractive option for those seeking exposure to the fintech and SaaS sectors.

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Our Commitment

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