

17 May 2022

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Xero Limited (XRO)

Information Technology

UNDERPERFORM

XRO A\$84.16 **TARGET PRICE A\$66.96**

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 anytime, 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.

Company Data

Number of shares	149.5M
Market Capitalisation	\$11,877.0M
Free float (%)	83.3
12-month high/low	\$156.65/\$79.42
Average Daily Turnover (\$m)	57.0
% S&P/ASX200	0.98%
DDM Ranking	354
% All Ordinaries	N/A
GICS Industry Group	Technology Services

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end March	2022A	2023F	2024F	2025F
Revenue (\$M)	1,096.8	1,282.8	1,500.7	1,847.6
EBITDA (\$M)	212.7	298.2	398.6	531.6
Reported NPAT (\$M)	-9.1	41.4	90.1	189.5
Adjusted NPAT (\$M)	-8.3	38.6	90.6	170.5
Reported EPS (c)	-5.5	16.3	54.9	113.2
Adjusted EPS (c - FD)	-5.5	30.4	63.1	115.4
Adjusted EPS growth (%)	97.9	5,307.7	107.3	82.8
Adjusted P/E (x)	-15.5	277.6	133.9	73.3
Dividend (c/sh)	0.0	1.5	9.6	0.0
Gross yield (%)	0.0	0.0	0.1	0.0
Net yield (%)	0.0	0.0	0.1	0.0
ROIC (%)	0.1	5.3	9.1	23.5

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195 and Capital IQ.

Share price performance



Source: FactSet, Barclay Pearce Capital

FY 2022 Annual Report

On 12th May 2022, Xero Limited (XRO) announced its FY2022 Annual Report with the following highlights:

Financial Highlights:

- Operating revenue \$1,096.8 up 29% YoY;
- Subscribers 3.271m up 530,000 YoY;
- Annualised monthly recurring revenue \$1,231.1m up 28% YoY;
- Total subscriber lifetime value \$10.9b up 3.3b YoY;
- Gross margin percentage 87.3% up 1.3pp YoY;
- Free cash flow \$2.1m down \$54.9m YoY;
- EBITDA of \$212.7 million up \$21.4m YoY
- Reported NPAT of \$(9.1)m down \$27.5m YoY;
- Adjusted NPAT of \$(8.3)m down \$26.9m YoY;
- Reported EPS of (5.5)c down 18.3c YoY.

Market highlights

- **Australia**
 - Revenue was up 26% (27% in constant currency (CC)) to \$483.3m;
 - 229,000 net subscriber additions in FY22 to reach 1.34m subscribers.
- **UK**
 - Revenue increased by 30% (30% in CC) to \$291.6m;
 - 130,000 net subscriber additions in FY22 to reach 850,000 subscribers.
- **New Zealand**
 - Revenue increased by 15% to \$149.4m;
 - 66,000 net subscriber additions in FY22 to reach 512,000 subscribers.
- **North America**
 - Revenue increased by 28% (31% in CC) to \$72.6m;
 - 54,000 net subscriber additions in FY22 to reach 339,000 subscribers.
- **Rest of the world**
 - Revenue increased by 85% (90% in CC) to \$100.0m;
 - 51,000 net subscriber additions in FY22 to reach 226,000 subscribers.

Outlook

- Xero strives to continue focusing on growing its global small business platform and maintain preference for reinvesting cash generated, subject to investment criteria and market conditions, to drive long term shareholder value.

Earnings changes

XRO has reported its FY22 NPAT to be \$(9.1)m compared to market expectations of \$1.0m. Hence, we do not expect any significant earnings revision for FY23 and future periods.

Valuation

We are updating our 12-month target price from \$106.74 to \$66.96 and retaining an UNDERPERFORM recommendation. The price target is underpinned by our valuation.

17 May 2022

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Disclaimer

This Research Report has been prepared by Russell Wright ("Mr Wright") in his capacity as a Corporate Authorised Representative (CAR: 422117) and is issued by Barclays Pearce Capital Pty Ltd (BPC), an Authorised Representative (No 001277964) of Admiralty Investment Management Pty Ltd AFSL 503261.

This Research is intended solely for the information of the particular person to whom it was provided by BPC and should not be relied upon by any other person. The information in this Research does not purport to be complete nor does it contain all the information which a prospective investor may require. The information contained in this Research is general in nature and does not constitute advice nor a recommendation to deal. This Research does not constitute specific advice and does not take into account financial objectives or situation of an investor. All and any recipients of this Research acknowledge and agree that they must conduct and have conducted their own due diligence investigation and have not relied upon any representations of BPC, its officers, employees, representatives or associates. BPC has not independently verified the information contained in this Research. BPC assumes no responsibility for updating any information, views or opinions contained in this Research or for correcting any error or omission which may become apparent after the Research has been issued. BPC does not give any warranty as to the accuracy, reliability or completeness of advice or information which is contained in this Research. Except insofar as liability under any statute cannot be excluded, BPC and its officers, employees, representatives or associates do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this Research or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this Research or any other person. This is a private communication and was not intended for public circulation or publication or for the use of any third party.

This Research must not be distributed or released in the United States. It may only be provided to persons who are outside the United States and are not, and are not acting for the account or benefit of, "US Persons" in connection with transactions that would be "offshore transactions" (as such terms are defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")). Any securities mentioned in the Research have not been and will not be registered under the Securities Act or the securities laws of any state or jurisdiction of the United States, and may not be offered, sold or otherwise transferred except in accordance with an available exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable securities laws in the United States or to, or for the account or benefit of, a US Person. This Research does not, and is not intended to, constitute an offer or invitation in the United States, or in any other place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation. If you are not the intended recipient of this Research, please notify Barclay Pearce Capital Pty Ltd immediately and destroy all copies of this Research, whether held in electronic or printed form or otherwise.

Disclosure of Interest

The Company, its officers, employees, representatives and associates within the meaning of Chapter 7 of the Corporations Act may receive commissions and management fees from transactions involving securities referred to in this Research (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this Research. The Company does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Analyst Certification

The research analyst(s) identified above individually certify that in respect of each security or issuer that the research analyst covers that: this report accurately reflects his or her personal views about any and all of the subject issuer(s) or securities; and no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or views expressed by the research analyst(s) in this report.

Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2021 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

Conflicts of Interest

Barclay Pearce Capital does not have any material interests in the financial product discussed in this Research Report nor will it receive any benefits in relation to the publication of this Research Report. Barclay Pearce Capital manages all Conflicts of Interest in accordance with its Conflicts of Interest Policy. Please contact us if you require any further information.

Meanings of Barclay Pearce Capital Stock Ratings

Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

Hold – Describes stocks that are neither a buy nor underperform.

Underperform – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

NR – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

Speculative Buy – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

Free Float (float / current shares outstanding) *100 – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

17 May 2022

Russell Wright | T+02 8288 6900 | E:russell@barclaypearce.com.au

Valuation Methodology

Barclay Pearce Capital's methodology for assigning stock and credit ratings may include the following: market capitalisation, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of peer comparisons, market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

Barclay Pearce Capital Recommendation Proportions

Buy	40.7%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	23.4%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.9%	(0.0% of stocks with recommendations are Barclay Pearce clients)