

12 November 2020

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## Xero Limited (XRO)

### Package Software

### UNDERPERFORM

XRO A\$127.68

TARGET PRICE A\$106.74

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	142.8M
Market Capitalisation	\$17,528.7M
Free float (%)	83.3
12-month high/low	\$130.50/\$54.69
Average Daily Turnover (\$m)	57.0036
% S&P/ASX200	0.98%
DDM Ranking	354
% All Ordinaries	N/A
GICS Industry Group	Technology Services

Source: FactSet, Barclay Pearce Capital

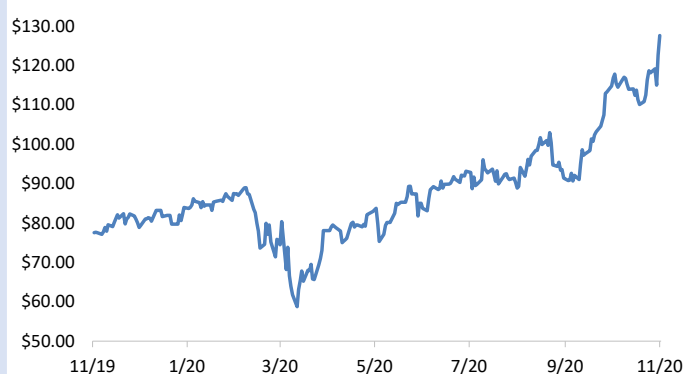
### Earnings Summary (AUD)

Year end March	2020A	2021F	2022F	2023F
Revenue (\$M)	668.2	791.1	930.4	1,114.5
EBITDA (\$M)	129.5	344.8	446.5	618.0
Reported NPAT (\$M)	3.1	50.2	114.4	230.0
Adjusted NPAT (\$M)	4.4	61.8	128.0	261.6
Reported EPS (c)	2.2	35.4	74.5	151.1
Adjusted EPS (c - FD)	1.9	48.1	95.0	176.3
Adjusted EPS growth (%)	-110.3	2,484.5	97.6	85.6
Adjusted P/E (x)	6,595.0	255.2	129.1	69.6
Dividend (c/sh)	0.0	0.0	2.6	6.9
Gross yield (%)	0.0	0.0	0.0	0.0
Net yield (%)	0.0	0.0	0.0	0.0
ROIC (%)	0.9	8.5	15.4	25.8

Source: Barclay Pearce Capital

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

### Share price performance



Source: FactSet, Barclay Pearce Capital

## FY21 Half Yearly Report and Accounts

On 12 November 2020, Xero Ltd (XRO) reported H1FY21 results with the following highlights (comparisons are made against H1 FY20):

### Performance highlights H1 FY21

- Operating revenue was up 21% to NZ\$409.8m
- Annualised monthly recurring revenue grew 15% to NZ\$877.6m
- Total subscribers increased by 19% to NZ\$2.45m
- Total subscriber lifetime value grew by 15% NZ\$6.2b
- Free cash flow was NZ\$54.3m, compared to NZ\$4.8m
- EBITDA of NZ\$120.8m increased 86% from NZ\$64.9m
- Net profit after tax increased by NZ\$33.2m to NZ\$34.5m

### Market highlights

- Australia**
  - Subscribers grew by 21% compared to H1FY20, to 1.01m subscribers.
  - Revenue was up 18%
- UK**
  - Subscribers grew by 19% compared to H1FY20, to 638,000 subscribers
  - Revenue was up 33%
- New Zealand**
  - Subscribers increased by 13% compared to H1FY20, to 414,000 subscribers
  - revenue rising by 13%
- North America**
  - Subscribers increased by 17% compared to H1 FY20, to 251,000 subscribers
  - Revenue grew 4%
- Rest of the world**
  - Continued momentum in subscribers, increasing 37% compared to H1 FY20 at 136,000.
  - Revenue was up 38%
  - Growth was led by South Africa

### Outlook

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

## Earnings changes

XRO H1FY21 reported revenue of A\$384.3m which was slightly above market expectations of A\$382.3m, while H1FY21 reported NPAT of A\$32.3m was significantly above market expectations of A\$8.8m. As such, we expect positive earnings revisions of 100% for future periods.

We are initiating on XRO with a 12-month price target of A\$106.74 and an UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its clients. 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 2020 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.

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**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.

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Buy	41.7%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.2%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	16.6%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	41.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)