

Tech Insights #380

Xero's acquisition of Melio

Mergers & acquisitions
Corporate finance advisory
Capital raising
21 July 2025



Overview

On 25 June, Xero announced plans to acquire US-based Melio for an upfront consideration of USD \$2.5bn (NZD \$4.2bn). Founded in 2018, Melio is a B2B platform that helps small to medium businesses (SMBs) manage accounts payable and receivable workflows. Serving 80,000 customers, it offers multiple payment methods and integrates with accounting software. The acquisition will allow Xero customers to pay bills without leaving the Xero platform. It will be Xero's largest transaction to date and represents around 16% of Xero's enterprise value. This acquisition is a strategic play for Xero with CEO Singh Cassidy noting that it "enables a step change in North America scale".

Deal structure, funding, and implied valuation

USD values from investor presentation are converted at NZD / USD \$0.6

Deal structure	NZD \$m
Upfront	4,177
Contingent consideration payable to Melio employees	833
Total consideration	5,010

Upfront consideration funding sources	NZD \$m
1) Institutional placement (fully underwritten)	2,005
2) Scrip issued to Melio shareholders	593
3) Revolving credit facility	667
4) Existing cash from Xero's balance sheet	1,007
Total funding	4,272*

*Includes NZD \$95m of transaction fees

Implied Melio valuation

Consideration type	Melio EV (NZD \$m)	Melio FY25 revenue (NZD \$m)	EV / revenue (x)
Upfront	4,177	257	16.3x
Total	5,010	257	19.5x

Xero and Melio FY25 P&L summary

Item	Units	xero	melio	
EV	NZD \$m	29,312	4,177	• Melio is valued at 16% of Xero
Customers	000s	4,414	80	
ARPU	NZD	45	437	
Total revenue	NZD \$m	2,103	257	• Melio currently generates 12% of Xero's revenue
YoY growth	%	23%	43%	
Gross profit	NZD \$m	1,872	49	• But Melio has only 3% of Xero's gross profit (given a much lower gross margin)
Gross margin	%	89%	19%	
EBITDA	NZD \$m	638	(127)	
Free cash flow	%	507	(154)	• Melio has significant cash burn which will impact Xero's free cash flow and rule of 40
Rule of 40**	%	44%	(20%)	

31 March year end

**sum of revenue growth and free cash flow margin

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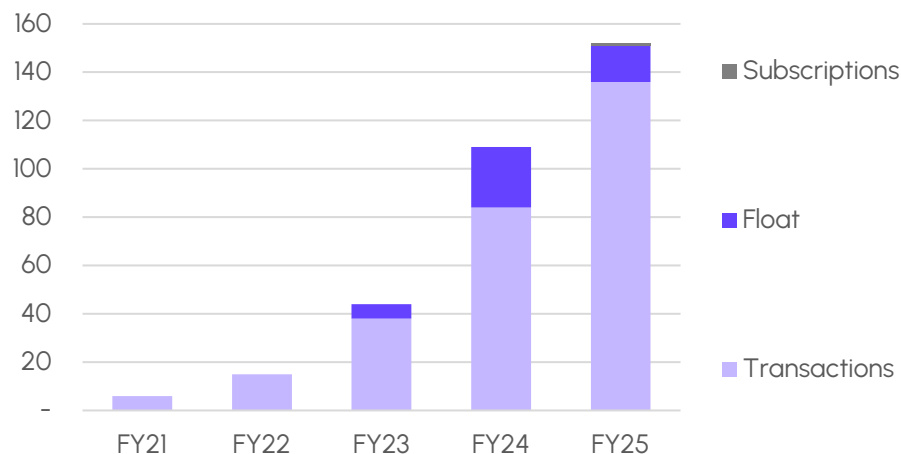
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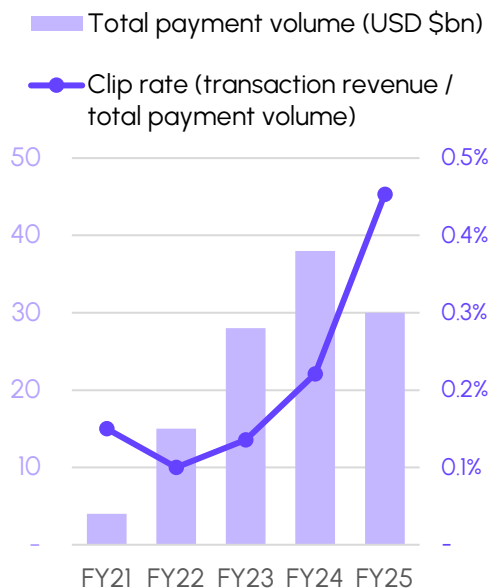


Melio revenue types (USD \$m)

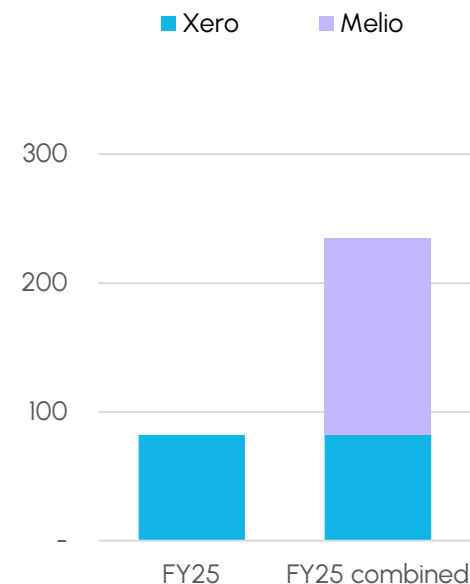
- 1) **Subscriptions** – monthly revenue to use platform (introduced Sep 2024)
- 2) **Float** – income earned on funds held
- 3) **Transactions** – variable charges based on transaction volume



Melio clip rate on transactions

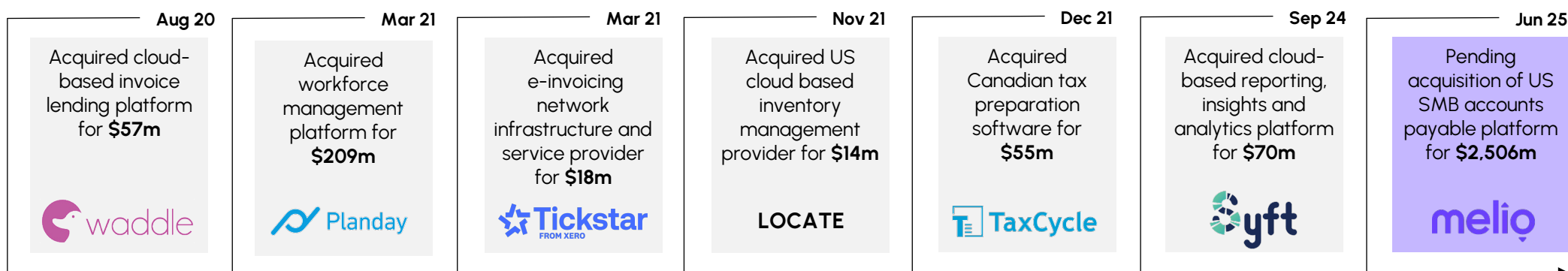


Xero's US revenue (USD \$m)



Note FY presented ending 31 March

Xero notable M&A transactions (USD \$m)



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