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## **XERO LIMITED (“XERO”) ANNOUNCES STRATEGIC PLACEMENT OF NZ\$23.2 MILLION TO FURTHER SCALE THE BUSINESS INTERNATIONALLY**

*07 April 2009*

### **Introduction**

The Board of Xero (“Board”) announces a capital raising of NZ\$23.2 million at NZ\$0.90 per share from key strategic investors (the “Fundraising”). The Fundraising will enable Xero to accelerate its growth plans in the UK, Australian and US markets.

The Fundraising price of NZ\$0.90 represents a premium of approximately 4.7% to the volume weighted average (“VWAP”) share price of Xero of NZ\$0.86 per share over the 5 trading days prior to Xero’s announcement, on 2 April 2009, of a potential capital raising.

Xero also intends to offer a share purchase plan (“SPP”) to the existing shareholders of Xero at NZ\$0.90 per share.

Xero is a growth company that has significant market opportunities and is rapidly scaling its business. The Xero capital raising is to fund this growth. This is different from other recent fundraisings by companies which are seeking to restore their balance sheets and repay bank debt. Xero has no bank debt on its balance sheet.

Given the challenges which some New Zealand companies are currently facing in raising capital, the Board believes this is an excellent outcome for Xero and its shareholders, demonstrating strong support for Xero’s business model and growth prospects.

### **Strategic Investors**

Xero has raised capital from strategic investors who can add value to the Company’s growth strategies. This has also broadened Xero’s investor base. The funding at NZ\$0.90 per share has been secured from several strategic groups of investors, including:

- Craig Winkler, a founder and former major shareholder of Australian based accounting software company, MYOB, has subscribed for NZ\$18.0 million of new Xero shares (subject to Xero shareholder approval). This includes NZ\$0.45 million from parties associated with Craig Winkler, as discussed further below;
- the Bank of New Zealand (“BNZ”), an existing Xero shareholder has subscribed for NZ\$1.6 million of new Xero shares;
- two Independent Directors of Xero, being Sam Morgan and Graham Shaw, have subscribed (in aggregate) for NZ\$1.45 million of new Xero shares; and
- other investors, including an institutional investor, have subscribed for the remaining NZ\$2.15 million of new Xero shares.

Xero is delighted to welcome Craig Winkler, as a strategic investor. Craig was a founder and major shareholder of MYOB, which was recently acquired by private equity investors. He is no longer involved in MYOB as a director, executive, shareholder or in any other capacity. The funding from Craig Winkler and his associated parties is subject to Xero shareholder approval, which is expected to take place during May 2009. The balance of the Fundraising is not subject to any approvals.

Craig Winkler’s financial advisor will subscribe (in cash) for NZ\$450,000 of new shares in Xero at NZ\$0.90 per share. Those shares will be held by Binalong Rural Pty Ltd and Mordes Howard Pty Ltd. Craig Winkler, his financial advisor and the entities that hold their respective investments, being NZ\$18.0 million in aggregate, are all deemed to be associated parties.

Craig Winkler and his associated parties have agreed to embargo arrangements with Xero under which they are not able to sell any of their shares for a period of 12 months from the date the shares are issued. Rod Drury (CEO) and Hamish Edwards, the founders of Xero, have also separately entered into embargo arrangements with Xero under which each of them is restricted from selling any shares for 12 months. Following completion of the Fundraising, Rod Drury will remain as the largest single shareholder in Xero.

### **Background to the Fundraising**

Xero listed on the New Zealand Stock Exchange (“NZSX”) on 5 June 2007, raising NZ\$15 million at NZ\$1.00 per share (the “IPO”). The volume weighted average share price of Xero since listing on the NZSX is approximately NZ\$0.88 per share (*Source: Bloomberg*).

Since listing on the NZSX, Xero has managed its costs in accordance with its plan and has proven its business model. Today’s announcement of the capital raising also follows the recent announcements of the achievement of a significant growth in customer numbers and a major strategic partnership with Telstra in Australia. On 31 March 2009, Xero announced that it had passed the 6,000 customer number milestone, double the

customer figure at December 2008. On 1 April 2009, Xero announced that it had entered into a strategic partnership with Telstra in Australia.

Xero is poised for further growth. The raising of new capital will enable it to push further ahead in the UK and Australian markets and enter the US market. As part of these plans, Xero announced in March 2009 that it had appointed Andy Lark as its US advisor. He will establish Xero's US Advisory Board. Andy Lark is a New Zealander and a Senior VP of Global Marketing for Dell Computer.

The Board and its advisors considered various fundraising alternatives for Xero to raise growth capital, against a backdrop of volatile and uncertain global capital markets.

The fundraising options included raising capital from strategic investors and the possibility of a rights issue to all existing Xero shareholders. The Board concluded that a rights issue was unlikely to raise the amount of capital required to fund its growth opportunities and would not provide the strategic benefits to Xero which a placement to the BNZ and Craig Winkler was able to offer. In addition, a rights issue would most likely have been priced at a significant discount when compared to the Fundraising price of NZ\$0.90 per share, given the volatile global capital market environment. Furthermore, a rights issue would also have taken significantly longer to conclude with an uncertain outcome for Xero's shareholders and the business generally.

### **Summary Reasons for the Fundraising**

In summary, the Board has concluded that the Fundraising from strategic investors is in the best interests of all Xero shareholders, given:

- it provides sufficient capital to enable Xero to accelerate its international growth opportunities;
- it provides Xero with access to strategic capabilities, including the considerable experience of Craig Winkler in the small business accounting software and services market. This will assist in the further development and execution of Xero's strategy;
- it has strengthened the shareholder base by adding an institutional shareholder;
- it has raised capital from a group of knowledgeable and informed shareholders at a price of NZ\$0.90 per share, which is above the Xero VWAP share price of NZ\$0.88 since the time Xero listed on the NZSX. The Fundraising price is also above the Xero VWAP share price of NZ\$0.86 over the 5 trading days prior to Xero's announcement, on 2 April 2009, of a potential capital raising; and
- Xero will be well funded with a strong balance sheet, which will help to instil customer confidence and accelerate the development of additional strategic partnerships in Xero's international markets.

Xero was advised on the Fundraising by Cameron Partners Limited, New Zealand's leading independent investment bank.

### **Share Purchase Plan**

In addition to the Fundraising, the Board of Xero intends to offer a share purchase plan ("SPP") to the existing shareholders of Xero. This will enable shareholders who have been supportive of Xero, including those existing shareholders who acquired shares at the time of the IPO, the opportunity to subscribe for new shares and further participate in the growth of Xero's business.

The SPP will be priced at NZ\$0.90 per share. Further details of the SPP will be sent to shareholders shortly.

### **Comments**

#### ***Phil Norman, Chairman of Xero said:***

"We are very pleased to have raised NZ\$23.2 million to provide the foundation for the next phase of Xero's development. Xero has been winning new customers at an impressive rate and is now well funded to accelerate its plans. We have an excellent team of committed people who are delivering strong results."

#### ***Rod Drury, CEO of Xero, said:***

"We are delighted to have secured a large amount of funding from strategic investors such as the BNZ and Craig Winkler. Craig Winkler is very experienced in the market for the provision of accounting software and services to small businesses, having founded and built a large and successful international business in that segment. His investment is a strong endorsement of the Xero business model, its market and growth opportunities. We look forward to accelerating our growth plans and driving shareholder value for all Xero shareholders."

#### ***Blair Venon, GM Strategy & Marketing, at BNZ, said:***

"BNZ is committed to its support of Xero as an innovative New Zealand company that is making it easier for our small business customers to manage their money at a time when they need immediate visibility of their cashflow and financial performance."

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