Xero update
May 2012
Small Business Internet

Big market, experiencing disruption

Traditionally the small businesses market has been too fragmented to sell into:

- Millions of small businesses = multi-billion dollar market
- Untapped – of the global software companies (including IBM, Oracle, SAP, HP) only Microsoft sells software to the small business market
- Accounting is a foundation software application for small business

Drivers of opportunity:

- Internet infrastructure in place
- Internet and SaaS changes market economics
- Government has seen the benefits
- Channel changes – telecommunications carriers seeking to monetize bandwidth through new services
- Device changes – trend to multiple connected devices and individual mobility

The next generation of small business software has begun:

- 1st generation: PC wave, DOS based
- 2nd generation: Small business accounting with Microsoft Windows, accelerated by GST and Y2K
- 3rd generation: Online – connecting small businesses to the services they need
- 4th generation: Mobile - Consumers and business owners have their information with them wherever they are

*Few technology companies that have spanned a technology generation. We are seeing a vendor shift.*
Small business is a big, monetizable internet opportunity

**Non direct monetization**
- Google
- Twitter
- Yelp
- Facebook
- Zynga
- LinkedIn
- Groupon

**Direct monetization**
- Square
- Xero
- Bill.com

**High price**
- Enterprise

**Expensive sales model**
- SuccessFactors
- NetSuite
- Salesforce.com
- Intacct
<table>
<thead>
<tr>
<th>Xero model</th>
</tr>
</thead>
</table>

**Financial**
- Raise enough money to win and build solid foundations
- Build the best team globally
- Make entry difficult for new players
- Operational excellence

**Network**
- Build presence, channel, ecosystem and advocates
- Create a platform
- Drive network effects

**Innovation**
- Disrupt existing product category by rapid innovation on multiple fronts
- Leverage incumbents inertia
- Deliver a remarkable customer experience
Company snapshot

Listed in 2007 – raised $85m

Global

- 194 staff in NZ, Australia, UK and USA
- Staff in Wellington, Christchurch, Auckland, Melbourne, Sydney, Brisbane, Perth, Milton Keynes, San Francisco, Austin & Atlanta

Hi growth

- 8th in Deloitte Asia Pacific Tech 500
- NZ Fastest growing exporter in Deloitte Fast 50

Serious infrastructure

- 50TB of production data and backups
- 99.99% service availability and no security breaches
- Over $100B transactions processed
It’s working

Customer numbers and revenue are growing strongly

<table>
<thead>
<tr>
<th>Year</th>
<th>Customers</th>
<th>Revenue ($000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>204</td>
<td>24</td>
</tr>
<tr>
<td>2008</td>
<td>950</td>
<td>134</td>
</tr>
<tr>
<td>2009</td>
<td>6,000</td>
<td>959</td>
</tr>
<tr>
<td>2010</td>
<td>17,000</td>
<td>3,158</td>
</tr>
<tr>
<td>2011</td>
<td>36,000</td>
<td>9,341</td>
</tr>
<tr>
<td>2012</td>
<td>78,000</td>
<td>19,370</td>
</tr>
</tbody>
</table>

**Annualized run rate**

| March 2012 | $25,500,000 |
Competitive landscape

“Start-ups”
Start-ups don’t have resources to be successful in this market
Category now requires client +accountant software

“Nimble, funded, global”
Expected competitors have not emerged
No one else has significant funding

“Incumbents”
Incumbents (MYOB, Sage, Intuit) continue to struggle to deliver online accounting and execute globally
Changing of the guard

- MYOB sold to Archer Capital in January 2009 for AU$382m
- Archer sold to Bain in August 2011 for AU$1.2B (Archer suing Sage)
- Deal funded with $575m debt
- Users revolting at community.myob.com
  Revenue targets must be missed
- Character and values of new owners Bain Capital in focus with Mitt Romney bid
- Focussing on returns to a few, not customers or partners
- Traditional VENDOR relationship
Reckon Intuit split

- February: Reckon will only do Quickbooks Hosted over Citrix
- March: Relationship to end in 2014
  - Intuit unlikely to deliver Quickbooks Online in AU
  - Old distributorship model doesn’t work in SaaS
- Intuit partnered with Intaact as companies ‘graduate’
- Reckon NZ revenues down 33%
Single Ledger is disruptive

For the accounting practice
- General ledger
- Management accounts
- Annual accounts
- Fixed assets
- Tax

Shared data

For small businesses
- Invoicing
- Debtors
- Creditors
- Expense claims
- Contacts
Channel strategy

Recruit

Accountants are introduced to Xero through online partner events, online videos and group seminars

3,600 firms using Xero

Educate

Ongoing education and certification events are provided to the accountants in-practice community

9,400 advisors have attended FY12 training events

Grow

We provide a compelling set of tools to win the entire practice

80+ accounting firms are Xero Gold partners
Product matrix

**Partner Edition**
- Cashbook
- Ledger

**Reporting**

**Practice Management/Tax**
## Pricing plans

Monthly subscription plans across regions

<table>
<thead>
<tr>
<th></th>
<th>NZ ($NZD excl GST)</th>
<th>AU ($AUD incl GST)</th>
<th>UK (£GBP excl VAT)</th>
<th>US ($USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Edition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>$29</td>
<td>$29</td>
<td>£12</td>
<td>$19</td>
</tr>
<tr>
<td>Medium</td>
<td>$49</td>
<td>$49</td>
<td>£19</td>
<td>$29</td>
</tr>
<tr>
<td>Large</td>
<td>$64</td>
<td>$64</td>
<td>£24</td>
<td>$49</td>
</tr>
<tr>
<td><strong>Partner Edition</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cashbook</td>
<td>$19</td>
<td>$19</td>
<td>£9</td>
<td>$12</td>
</tr>
<tr>
<td>Ledger</td>
<td>$5</td>
<td>$5</td>
<td>£2</td>
<td>$3</td>
</tr>
</tbody>
</table>
Australia payroll acquisition

- Acquired Australian online payroll company
- Enhances Xero’s offering and accelerates growth in AU
- Includes payroll, employee leave, tax and superannuation
- Provides Xero with a specialist payroll development team
- Total cost of acquisition NZ$1.9 million
- Fully integrated into Xero in May
WorkflowMax acquisition

• Time and Cost for professionals
• New Zealand Tax
• Key application for accounting practices
• Total cost of acquisition $6 million ($2m cash, $4m shares)
• 200+ practices already committed to convert
The table above illustrates how, based on conservative targeted capture rates in the UK and USA, Xero could sign on in excess of its internal projection of one million customers.

### Large global market opportunity

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Xero customers (Mar 12)</th>
<th>Potential market (SMB)</th>
<th>Current market size</th>
<th>Target Xero Customers</th>
<th>Implied market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>47,000</td>
<td>322,000</td>
<td>14.6%</td>
<td>120,000</td>
<td>37.3%</td>
</tr>
<tr>
<td>Australia</td>
<td>16,000</td>
<td>1,200,000</td>
<td>1.3%</td>
<td>195,000</td>
<td>16.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11,000</td>
<td>4,300,000</td>
<td>0.3%</td>
<td>150,000</td>
<td>3.5%</td>
</tr>
<tr>
<td>United States/Global</td>
<td>4,000</td>
<td>29,000,000</td>
<td>0.0%</td>
<td>535,000</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Total customers</strong></td>
<td><strong>78,000</strong></td>
<td></td>
<td></td>
<td><strong>1,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Main market</th>
<th>Claimed customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>MYOB</td>
<td>NZ, AUS</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Sage</td>
<td>UK</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Intuit</td>
<td>US</td>
<td>7,000,000</td>
</tr>
</tbody>
</table>
Revenue and expenses

- **Revenue**
- **Expenses**

Revenue and expenses are shown in thousands ($000's) from March 2008 to March 2012.
Revenue generated per employee

Responsibly growing the team

Responsibly growing the team

$150,000

$100,000

$50,000

Mar 08  Mar 09  Mar 10  Mar 11  Mar 12

$131,000 pa per employee
## Financial summary

### Summary Audited Financials (NZ$000’s)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of customers</td>
<td>78,000</td>
<td>36,000</td>
<td>17,000</td>
<td>6,000</td>
<td>950</td>
</tr>
<tr>
<td>Operating revenue</td>
<td>19,370</td>
<td>9,341</td>
<td>3,158</td>
<td>959</td>
<td>134</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>(28,385)</td>
<td>(18,017)</td>
<td>(12,874)</td>
<td>(8,364)</td>
<td>(5,488)</td>
</tr>
<tr>
<td>Net loss</td>
<td>(7,904)</td>
<td>(7,487)</td>
<td>(8,450)</td>
<td>(6,751)</td>
<td>(4,310)</td>
</tr>
<tr>
<td>Number of employees</td>
<td>194</td>
<td>113</td>
<td>90</td>
<td>56</td>
<td>50</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>38,976</td>
<td>16,922</td>
<td>21,397</td>
<td>3,807</td>
<td>9,517</td>
</tr>
<tr>
<td>Total assets</td>
<td>57,773</td>
<td>24,347</td>
<td>26,081</td>
<td>7,117</td>
<td>11,879</td>
</tr>
<tr>
<td>Net assets</td>
<td>52,248</td>
<td>21,688</td>
<td>24,374</td>
<td>5,020</td>
<td>11,321</td>
</tr>
</tbody>
</table>
Trading performance and liquidity

- 60% of shares held by directors & staff
- Approximately 2,700 shareholders - 75% of investors hold less than 10,000 shares each (representing just over than 7% of total share capital)
- 106 million shares on issue and Xero has an average daily trading volume of around 43,000 shares, equivalent to an average value of around NZ$170,000 per day
## Funding

$85 million dollars raised on market

<table>
<thead>
<tr>
<th>Placement (5000's)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre IPO</td>
<td>2,000</td>
</tr>
<tr>
<td>IPO</td>
<td>15,000</td>
</tr>
<tr>
<td>Craig Winkler (MYOB founder)</td>
<td>18,000</td>
</tr>
<tr>
<td>Private placement</td>
<td>5,000</td>
</tr>
<tr>
<td>SPP</td>
<td>6,000</td>
</tr>
<tr>
<td>Peter Thiel</td>
<td>4,000</td>
</tr>
<tr>
<td>Brad Shofer (MYOB), Valar Ventures, Sam Morgan, Sam Knowles &amp; Craig Winkler, Institutions</td>
<td>20,000</td>
</tr>
<tr>
<td>SPP</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85,000</strong></td>
</tr>
</tbody>
</table>
Board of Directors

Sam Knowles
Chairman

Rod Drury
Chief Executive/Executive Director

Graham Shaw

Craig Winkler

Sam Morgan
Senior management team

Rod Drury
Chief Executive/Executive Director

Ross Jenkins
Chief Financial Officer

Alastair Grigg
Chief Operating Officer

Jamie Sutherland
President, USA

Chris Ridd
Managing Director, Australia

Gary Turner
Managing Director, UK

Paula Jackson
General Manager Marketing

Paul Williams
General Manager Finance

Leanne Graham
Country Manager, NZ
Just getting started

- $39m in the bank
- New offices in Canberra, San Francisco and Milton Keynes, larger premises in Auckland, Wellington and Melbourne
- Game changing product features being delivered this year
- Proven we can execute and scale with an efficient sales model
- Brand is building internationally
- Incumbents struggling to transition
- Chasing a million customers
www.xero.com/investors