Xero Investor Briefing
August 2012

Ross Jenkins - CFO
Chris Ridd - MD Australia
Briefing

- Annual Meeting/Governance
- Industry disruption
- Business update
- Growth strategy
- Questions
Annual Meeting/Governance
Focus for Board

- Performance
- Capital
- Capability
- Culture
Board structure

Rod Drury
CEO & Co-Founder
One of NZ’s leading technology entrepreneurs

Craig Winkler
Non Executive Director
Co-founder of MYOB

Sam Morgan
Non-Executive Director
Founder of Trade Me & member of Fairfax board

Graham Shaw
Non-Executive Director
Chartered Accountant with 30 years experience

Sam Knowles
Non-Executive Chairman
25-year career in Management & Financial Services

Appointment of US Director
Candidate identified

Appointment of AU Director
Candidate to be identified
Craig Elliot

Proposed new Board member

- Co-founder and CEO of Pertino Networks, a cloud networking software company based in Silicon Valley
- Strategic Advisor at NZTE
- Spent 10 years at Apple in senior product, marketing and GM roles
- Previous CEO of Packeteer, took the company from 3 people to IPO
- Linkedin profile: www.linkedin.com/pub/craig-elliott/0/27/780
## Performance highlights

**Year ended March 2012**

<table>
<thead>
<tr>
<th></th>
<th>At 31 March 2012</th>
<th>At 31 March 2011</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenue</strong></td>
<td>$19.3m</td>
<td>$9.3m</td>
<td>107%</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>$28.4m</td>
<td>$18.0m</td>
<td>58%</td>
</tr>
<tr>
<td><strong>Net loss after tax</strong></td>
<td>$7.9m</td>
<td>$7.5m</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Annualized CMR</strong></td>
<td>$25.5m</td>
<td>$14.0m</td>
<td>82%</td>
</tr>
<tr>
<td><strong>Paying business customers</strong></td>
<td>78,000</td>
<td>36,000</td>
<td>117%</td>
</tr>
<tr>
<td><strong>Cash in bank</strong></td>
<td>$39.0m</td>
<td>$16.9m</td>
<td>131%</td>
</tr>
</tbody>
</table>
## Global growth

Strong growth across all regions

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue</th>
<th>Customer numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year ended</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31 March 2012</td>
<td>31 March 2011</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$10.3m</td>
<td>$5.9m</td>
</tr>
<tr>
<td>Australia</td>
<td>$5.0m</td>
<td>$1.5m</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$2.7m</td>
<td>$1.3m</td>
</tr>
<tr>
<td>United States/Global</td>
<td>$1.3m</td>
<td>$0.6m</td>
</tr>
<tr>
<td>Total</td>
<td>$19.3m</td>
<td>$9.3m</td>
</tr>
<tr>
<td>Placement ($000’s)</td>
<td>Date</td>
<td></td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>Pre IPO</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>IPO</td>
<td>15,000</td>
<td>Jul 2007</td>
</tr>
<tr>
<td>Craig Winkler (MYOB founder)</td>
<td>18,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>Private placement</td>
<td>5,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>SPP</td>
<td>6,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>Valar Ventures (Peter Thiel)</td>
<td>4,000</td>
<td>Oct 2010</td>
</tr>
<tr>
<td>Valar Ventures, Sam Morgan, Sam Knowles &amp; Craig Winkler, Institutions</td>
<td>20,000</td>
<td>Feb 2012</td>
</tr>
<tr>
<td>SPP</td>
<td>15,600</td>
<td>Mar 2012</td>
</tr>
<tr>
<td>Total</td>
<td>85,600</td>
<td></td>
</tr>
</tbody>
</table>
Public company

- Successful shareholder purchase plan in March 2012
  - $15.6m raised
  - 50% of shareholders participated
  - Average investment > $10,500
- Approx 2,800 shareholders, 78% of investors hold less than 10,000 shares each
- 60% of shares held by Directors & staff
- 106m shares on issue, average daily trading volume of around 75,000 shares
- NZX50, Market cap $500m+
- Considering ASX as a secondary listing
Capability for new growth phase

- Acquisitions complete for Paycycle, WorkflowMax & Spotlight Workpapers
- Investing in platform to support 1 million+ customers
- Strong teams in all regions
- New offices in Melbourne, Sydney, Brisbane, Milton Keynes (UK) & San Francisco, larger offices in Wellington & Auckland
- Employment brand strong
Industry disruption
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: NBN & DBCDE (Teleworking)
- 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.
Positioning

Consumer  | Small business  | Enterprise

Non direct monetization  | Direct monetization  | High price

- Low price
- Smart sales model
- Complex applications
- focussed on usability

High price
- Expensive sales model

Small business is a big, monetizable, internet opportunity
Incumbents (MYOB, Sage, Intuit) continue to struggle to deliver online accounting and execute globally.

Start-ups don’t have resources to be successful in this market.

Category now requires client+accountant software.

Expected competitors have not emerged.

No one else has significant funding.

Competitive landscape
Mobility
PRICING PLANS

ALL XERO PRICING PLANS INCLUDE:
- Fixed Assets
- Budgeting
- Annual accounts production
- Payroll
- No set-up fees, upgrade fees or contracts
- Unlimited customer support
- Access anywhere online
- Unlimited users
- Automatic back-ups
- Cancel online at any time

STANDARD PLANS

<table>
<thead>
<tr>
<th>SMALL</th>
<th>MEDIUM</th>
<th>LARGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>$29</td>
<td>$49</td>
<td>$64</td>
</tr>
<tr>
<td>Per Month</td>
<td>Per Month</td>
<td>Per Month</td>
</tr>
</tbody>
</table>

- Ideal for freelancers and small property investors
- Up to 5 Accounts Receivable and 5 Accounts Payable
- Invoices per month
- Up to 20 reconciled bank statement lines per month
- Unlimited invoicing
- Unlimited bank reconciliation
- Multi-currency
- Unlimited invoicing
- Unlimited bank reconciliation

Xero offers 35% off the total subscription fee if more than one organization is under the same subscriber. All prices in Australian Dollars, including GST.

PARTNER EDITION PLANS

<table>
<thead>
<tr>
<th>GST CASHBOOK</th>
<th>CASHBOOK</th>
<th>LEDGER</th>
</tr>
</thead>
<tbody>
<tr>
<td>$19 Per Month</td>
<td>$10 Per Month</td>
<td>$5 Per Month</td>
</tr>
</tbody>
</table>

- For managed clients who do not require invoicing
- All features excluding multi-currency for accountants
- All features excluding multi-currency and invoicing for client
- Unlimited transactions
- All features excluding multi-currency, invoicing, bank feeds, GST Return, GST Reconciliation Report for accountant
- View dashboard and published reports, add comments in bank reconciliation for client
- Unlimited transactions
- Unlimited Transactions

All prices in Australian Dollars, including GST.
Single ledger disruptive and compelling

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

For small businesses:
- Invoicing
- Debtors
- Creditors
- GST
- Expense claims
- Contacts

Shared data

Automated bank feeds
The Single Ledger

Become a modern practice

A modern practice is built on real-time client relationships. The single ledger makes this possible. It’s the most important change in accounting since the personal computer.
Growth Strategy
<table>
<thead>
<tr>
<th>Financial</th>
<th>Raise enough money to win and build solid foundations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Build the best team globally</td>
</tr>
<tr>
<td></td>
<td>Make entry difficult for new players</td>
</tr>
<tr>
<td></td>
<td>Operational excellence</td>
</tr>
<tr>
<td>Network</td>
<td>Build presence, channel, ecosystem and advocates</td>
</tr>
<tr>
<td></td>
<td>Create a platform</td>
</tr>
<tr>
<td></td>
<td>Drive network effects</td>
</tr>
<tr>
<td>Innovation</td>
<td>Disrupt existing product category by rapid innovation on multiple fronts</td>
</tr>
<tr>
<td></td>
<td>Leverage incumbents inertia</td>
</tr>
<tr>
<td></td>
<td>Deliver a remarkable customer experience</td>
</tr>
</tbody>
</table>
**Business focus**

**Goal**

Grow to a million+ customers

**Investment**

- Product
- Service scalability
- Offshore teams

**Execution**

- Accountant channel strategy
- Establish direct business model
- Tune low cost SaaS model
- Continue to build world class team
Australian payroll update

• Announced Paycyle acquisition at last Annual meeting
• Further investment
  - New Canberra Office
  - Team grown from 6 to 12
• Full integration successfully launched in May 2012
• Contributing to acceleration of AU
WorkflowMax acquisition

Time and Cost for professionals

Financials

- Total cost of acquisition $6m
- $2m annual run rate for stand alone product

Successful acquisition

- Created Practice Management for accountants
- Delivery of NZ tax has disrupted market
- Team grew from 6 to 13

Strategy for this year

- Working on tax for AU
Spotlight Workpapers acquisition

- Another key piece in winning the accountants
- Workpapers becoming a key feature
- Deal done in 2 tranches
- $400,000 (cash and shares)
- $400,000 (conditional on achievement of milestones)
- Will remain in beta until next year
Winning the accountant

Providing the complete solution for partners

Partner Edition
- Cashbook
- Ledger

Reporting

Practice Management

Workpapers

Tax

Website e-Marketing

Document Management

Office/Email
The Add-on club...
A burgeoning ecosystem of cloud “add-ons”
Xero achieves ICT industry’s highest award

- Winner of Top Business Solution category, but also...
- Overall winner of ICT Excellence award, the highest accolade at CeBIT
- Validation of Xero’s potential as a platform for small business

“Xero’s contribution to the development of the cloud industry in the SME market has been significant. Over and above the great software that they have built themselves, I am also very impressed with the growing community of cloud ISVs that they are actively promoting within this sector. They are taking a leadership position by supporting many other innovative cloud start-ups and helping them to share in their success.”

Gilad Greenbaum, Chief Technologist and CeBIT 2012 Curator

Sydney, May 2012
Direct channel

- Generate leads
  - SEO, social, online marketing campaigns, partner events
  - More lifetime Xero customers

- Convert traffic to trials
  - Hard working homepage
  - Compelling content
  - Easy sign up
  - Contact trigger points
  - Automate, measure and refine

- Convert trials to customers

- Earn referrals
Business update
AU highlights

- 26,000+ customers in Australia
- Over 1,000 partners
- From 10 to 40 staff in 18 months
- Integrated Payroll launched in May 2012
- Over 100 “Add Ons” solutions partners (1/3 from AU)
- AU team playing active leadership role in the company
New Xero Australia offices

Melbourne
Hawthorn
Opening in Dec 2012

Sydney
Surry Hills
Opened in July 2012

Canberra
Canberra City
Opened in Nov 2011

Brisbane
Milton
Opened in June 2012
## Customer growth

<table>
<thead>
<tr>
<th>Annual meeting</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>10,000</td>
</tr>
<tr>
<td>2010</td>
<td>22,000</td>
</tr>
<tr>
<td>2011</td>
<td>45,000</td>
</tr>
<tr>
<td>Today</td>
<td>100,000</td>
</tr>
</tbody>
</table>
Customer acquisition

First 50,000 took 5 years
Second 50,000 10 months

Today 100,000
Revenue growth

Strong monetization of model

<table>
<thead>
<tr>
<th>Year Ended 31 March</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>
<tr>
<td>Today</td>
<td>100,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Current annualized run rate over $34,500,000
Revenue share by country

57% of committed revenue is now from offshore markets
Momentum

Growth indicators all positive

- Xerocon NZ attendees doubled to 400
- Xerocon AU attendees tripled to 400
- 7 roadshows, 2,000+ training and sales events worldwide in the past year, 26,500 attendees
- Xero partners grew to 4,200
- 100+ accounting firms are 100% Xero
- Add-ons partners grew to 100+
- $120+B of transactions processed
Delivering quality software - fast

10 major releases in the past year

Releases included:

- Fully integrated payroll (AU)
- Budgets - Import/Export
- Additional bank feeds
- Discounts
- Community site launched
- Report packs
- Pre/Overpayments
- VAT late claims (UK)
- Enhancements to Partner Edition
- Xero US version and Partner Edition
- Mobile Touch
- Xero Personal enhancements

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@AlexanderKohl
My take away from #xerocon is the realisation that #xero is not just beautiful but totally changing the industry goo.gl/d0tQN
Serious infrastructure

- 100+ app servers
- 2 data centres for redundancy
- Access to 120,000 Akamai caching servers
- 60TB of data
- 80,000 web requests every 5 minutes
- Peak 2,500 concurrent users
- 1m+ bank statement lines daily
- 12,000 customer care tickets per month
- 99.986% uptime
Other activities

Advocacy

• Initiated NZ industry Cloud Computing Code of Practice
• Active participant in AIIA, NBN Forum & DBDCE Teleworking

Integration

• Successful integration of Paycycle into Xero application
• Successful integration of WorkflowMax into Auckland team

Team

• Hired 147 staff in 12 months, total staff count today 260FTE
• New offices in Sydney, Brisbane, Milton Keynes & San Francisco
• Migrated to new offices in Wellington, Auckland, Melbourne
Investment landscape

SAP $3.4b
Success Factors

Square Jul 12
$3.2b

Microsoft buy
Yammer $1.2b

Box value $1b

Private Equity Backed
Publicly Listed

IPO on the NZX
from day one

xero
Questions