Disclaimer

This investor presentation dated 15 November 2012 provides additional comment on the market release of 14 November 2012 and the Interim Half-Year Report. As such, it should be read in conjunction with, and subject to, the explanations and views in those documents.

This presentation includes forward looking statements about Xero and the environment in which the company operates. Because these statements are forward looking, Xero’s actual results could differ materially. Media releases, management commentary and analysts presentations, including those relating to the 2012 Half-Year Results announcement, are all available on the company’s website.

All currency amounts are in NZ dollars unless stated otherwise.
Beautiful accounting software

Meet Arthur Wei, Treehouse Architect

Watch the video

Loved by over 200,000 people worldwide
Contents

1. Business overview
2. Market observations
3. Growth strategy
4. Half year results and outlook
5. Questions
1. Business overview
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.*
Positioning

Small business is a big, monetizable, internet opportunity

Consumer: Non direct monetization
- Google
- Twitter
- Facebook
- Yelp
- Zynga
- LinkedIn
- Groupon

Small business: Direct monetization
- Low price
- Smart sales model
- Complex applications focused on usability
- Xero
- Bill.com

Enterprise: High price
- Expensive sales model
- Workday
- Salesforce.com
- SuccessFactors
- NetSuite
- Intacct

Small business is a big, monetizable, internet opportunity
Cloud Investment landscape (USD)

Salesforce $19b
Intuit $17b
Workday Inc $7.5b
Netsuite $4.2b
Success Factors $3.4b (SAP)
Square $3.2b
Yammer $1.2b (MSFT)
Box $1B
Yelp $1.1b
Private
Public
$0.5
Public company

• Successful shareholder purchase plan in March 2012
  - $15.6m raised
  - 50% of shareholders participated
  - Average investment > $10,500
• Approx 3000 shareholders, 78% of investors hold less than 10,000 shares each
• 60% of shares held by Directors & staff
• 107m shares on issue, average daily trading volume of around 75,000 shares
• NZX50, Market cap as at 14 Nov 12 $600m+
• Secondary listing on ASX completed November 2012
## Capital

<table>
<thead>
<tr>
<th>Placement ($000'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>Valar Ventures (Peter Thiel)</td>
<td>4,000</td>
</tr>
<tr>
<td>Valar Ventures, Sam Morgan, Sam Knowles &amp; Craig Winkler, Institutions</td>
<td>20,000</td>
</tr>
<tr>
<td>SPP</td>
<td>15,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85,600</strong></td>
</tr>
</tbody>
</table>
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

Craig Elliott
Non-Executive Director
Co-founder and CEO of Pertino Networks
## Xero model

| 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 |
Online accounting journey

- Online
- Multi-user
- Anytime
- Anywhere
- Bank feeds
- Electronic Data Interchange (EDI)
- Invoicing portal
- Payments
- Mobile
- Notifications
- Benchmarking
- Leads and opportunities
- Smart
- Connected
- Group buying
- Business network
- Payment graph
Single ledger disruptive and compelling

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

Shared data

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

Automated bank feeds
Pricing Plans

All Xero Pricing Plans Include:

- Fixed Assets
- Budgeting
- Annual accounts production
- Unlimited users
- No set-up fees, upgrade fees or contracts
- Unlimited customer support
- Access anywhere online
- Automatic back-ups
- Pay by direct debit or credit card
- Cancel online at any time

Standard Plans

$29 PER MONTH

Small

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

$49 PER MONTH

Medium

Great for most small businesses

- 100’s of invoices per month
- 100’s of bank transactions per week

$64 PER MONTH

Large

Essential for businesses that bank or transact in foreign currencies

- Multi-currency
- 100’s of invoices per month
- 100’s of bank transactions per week

Xero offers 15% off the total subscription fee if more than one organisation is under the same subscriber. All prices in New Zealand Dollars, excluding GST.

Accountant Plans

$19 PER MONTH

GST Cashbook

For managed clients who do not require invoicing

- All features excluding multi-currency for accountant
- All features excluding multi-currency and invoicing for client
- 100’s of bank transactions per week

$10 PER MONTH

Cashbook

For managed clients who do not require invoicing or GST

- All features excluding multi-currency and invoicing for accountants
- All features excluding multi-currency, invoicing and GST for client
- 100’s of bank transactions per week

$5 PER MONTH

Ledger

For clients who only require year end accounts

- 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
- 100’s of bank transactions per week

All prices in New Zealand Dollars, excluding GST.
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
2. Market observations
## Market observations

Our prediction is playing out

<table>
<thead>
<tr>
<th>“Start-ups”</th>
<th>“Nimble, funded, global”</th>
<th>“Incumbents”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-ups don’t have resources to be successful in this market</td>
<td>Expected competitors have not emerged</td>
<td>Incumbents (MYOB, Sage, Intuit) have finally entered market with less competitive products and architectural legacy</td>
</tr>
<tr>
<td>Category now requires client+accountant software</td>
<td>No one else has significant funding</td>
<td>Xero acknowledged as leading challenger</td>
</tr>
<tr>
<td>Massive platform investment required</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
MYOB Australasia

- 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 AU$575m debt
- Focussing on returns to a few, not customers or partners
- Traditional VENDOR relationship
- AccountRight Live launched October 2012 with challenges:
  - ‘Cloud wash’ - not a SaaS cloud solution
  - Customer reception fair to middling
- November 2012 - set to launch a $155m note issue - subordinate to $575m debt (FBR)

On MYOB. “Well I think it comes down to what the next generation of customers want. I don't think a syncing product will give it to them.”
Brad Smith (Intuit CEO)

“Calling this '2nd generation cloud' is like calling regular postage '2nd generation e-mail'. Sure, today's mail systems are far more 'electronic' and take advantage of the internet and other connectivity advances to improve processes and add services. But e-mail it ain't!” Dewings Adelaide
“Sage has over 3.7m customer off support and is late to cloud with a fragmented offering” - Numis analyst

“We suspect Sage’s new SaaS customers numbers will compare poorly with Xero” - Numis Securities Ltd 5 Nov 2012

“Key risk, we expect new business to continue to shift away from Sage leaving it struggling with a diminishing customer base”

“Around half the new business in the accountancy software market is going to SaaS platforms” said Sage Nov 12

Main players in SaaS Cloud Accountancy in UK - Numis November 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Customers UK</th>
<th>Customers Worldwide</th>
<th>12m net adds</th>
<th>Tier</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xero</td>
<td>15,000</td>
<td>112,000</td>
<td>61,000</td>
<td>Small-mid</td>
<td>Closed</td>
</tr>
<tr>
<td>Quickbooks</td>
<td>396,000</td>
<td>100,000</td>
<td>1,2m users at 360k businesses</td>
<td>Oct-12 figure, 1,2m users at 360k businesses</td>
<td></td>
</tr>
<tr>
<td>Kashflow</td>
<td>30,000</td>
<td>25,000</td>
<td>7,000</td>
<td>Small</td>
<td>Numis estimates based on 2010 data</td>
</tr>
<tr>
<td>e-conomic</td>
<td>40,000</td>
<td>50,000</td>
<td>10,000</td>
<td>Small</td>
<td>Numis ests, based on 2011 data</td>
</tr>
<tr>
<td>Twinfield</td>
<td>40,000</td>
<td>7,000</td>
<td>Small-mid</td>
<td>Numis ests based on 2011 data</td>
<td></td>
</tr>
<tr>
<td>Freeagent</td>
<td>20,000</td>
<td>15,000</td>
<td>Small</td>
<td>Numis ests, based on PR statements</td>
<td></td>
</tr>
<tr>
<td>NetSuite</td>
<td>8,000</td>
<td>1,000</td>
<td>Mid</td>
<td>Numis ests based on 2010 data</td>
<td></td>
</tr>
</tbody>
</table>
Brad Smith, Intuit CEO: "I admire them. I think Rod Drury and the team have built a really good company, they have built a very easy and compelling product. We’ve learned some things from Xero that are helping us think differently, which is the highest compliment you can pay to someone who competes in your space."

Customer satisfaction levels had begun to stagnate. And over time the anchor products, especially Quicken, had come to seem clunky and antiquated. “To sell a new version of Quicken every year, you’ve got to have a bunch of new features to put on the side of the box, Over decades, you end up with bloatware.”

Intuit Exec Oct 12

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**SMB Market is big and growing**
- 29m SMBs in the US
- 500m SMBs globally

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**Intuit FY 2012 Financial Results**

<table>
<thead>
<tr>
<th></th>
<th>Actual (USD)</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>4,151m</td>
<td>10%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>1,404m</td>
<td>10%</td>
</tr>
<tr>
<td>EPS</td>
<td>$2.97</td>
<td>16%</td>
</tr>
</tbody>
</table>
Xero proven execution

- Agile committed culture led by an experienced management team
- Sales channel scaling globally
- 10 major product releases in past twelve months
- Winning recognition internationally
- 80,000 web requests every 5 minutes, 1m+ bank statement lines daily
- 99.986% uptime (Tops the 99.5% commitment by Azure or Amazon)
- Continued great customer satisfaction

Awards:
Sydney, May 2012
Overall winner of ICT Excellence award, the highest accolade at CeBIT
3. Half year results
## Performance highlights

<table>
<thead>
<tr>
<th></th>
<th>6 months to 30 Sept 2012</th>
<th>6 Months to 30 Sept 2011</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue &amp; other income</td>
<td>$17.3m</td>
<td>$7.9m</td>
<td>+119%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$22.8m</td>
<td>$11.1m</td>
<td>+105%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$(5.5)m</td>
<td>$(3.2)m</td>
<td>+72%</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>$(7.0)m</td>
<td>$(3.7)m</td>
<td>+89%</td>
</tr>
</tbody>
</table>

### At 30 Sept 2012 vs At 30 Sept 2011

<table>
<thead>
<tr>
<th></th>
<th>At 30 Sept 2012</th>
<th>At 30 Sept 2011</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>$30.6m</td>
<td>$11.4m</td>
<td></td>
</tr>
<tr>
<td>Paying business customers</td>
<td>111,800</td>
<td>51,300</td>
<td>+118%</td>
</tr>
<tr>
<td>Annualised Monthly Committed Revenue</td>
<td>$38.7m</td>
<td>$18.0m</td>
<td>+115%</td>
</tr>
</tbody>
</table>
Growth continues

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>March 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>March 2012</td>
<td>78,000</td>
<td>19,370</td>
</tr>
<tr>
<td>Sept 2012</td>
<td>111,800</td>
<td>(half-year) 17,300</td>
</tr>
</tbody>
</table>

Annualised Monthly Committed Revenue $38,700,000 - 30 sept 2012
## Regional Growth

**Regional Revenue Growth – for the six months ended 30 September 2012**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>$7.7m</td>
<td>$4.6m</td>
<td>57,300</td>
<td>30,600</td>
</tr>
<tr>
<td>Australia</td>
<td>$5.6m</td>
<td>$1.8m</td>
<td>32,500</td>
<td>10,400</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$2.4m</td>
<td>$1.1m</td>
<td>15,100</td>
<td>7,300</td>
</tr>
<tr>
<td>United States/Global</td>
<td>$1.2m</td>
<td>$0.4m</td>
<td>6,900</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$16.9m</strong></td>
<td><strong>$7.9m</strong></td>
<td><strong>111,800</strong></td>
<td><strong>51,300</strong></td>
</tr>
</tbody>
</table>
4. Growth strategy and outlook
Growth strategy

Vision
The global leader of small business accounting

Mission
Grow prosperity by connecting people, money and resources with beautifully designed software

Goal
Achieving scale by winning one million+ customers

Product
Disrupt category with innovation on multiple fronts

Channel & Network
Building presence, channel, ecosystem & advocates in chosen markets

Customer
Delight customers to drive network effects

Business Model
High margin, scalable SaaS model
The table above illustrates how, based on conservative targeted capture rates in Australia, UK and USA, Xero could sign on in excess of its internal projection of one million customers.
“Stars are aligned - now is the time to go”
## Accelerated investment for growth

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Investment focus</th>
</tr>
</thead>
</table>
| **Product** | • Deliver full horizontal product  
                • Deliver channel practice management tools  
                • AU Tax features and US Payroll  
                • Driving network effects |
| **Channel & Network** | • Drive our global brand  
                           • Continue with existing approach and channels in NZ  
                           • Increase GTM resources in AU and UK  
                           • Increase investment in US |
| **Customer** | • Cloud platform to support future growth  
                 • Extend support options to drive delight  
                 • Continue to expand banking partnerships  
                 • Grow our customer add-ons partner network |
| **Business Model** | • Continue to build on solid SaaS fundamentals  
                          • Investment to scale and support our growth  
                          • Continue to build for scale and high margin business |
Outlook FY2013

Accelerated investment in the business in this early stage of the market will create the best long-term value for shareholders.

Xero has added 130 new jobs in the last 12 months reaching 278 staff as of 30 September 2012.

The company has significant cash reserves and will expand the team and services further to take advantage of the efficiency and proven execution ability of the organisation at a time incumbent competitors are struggling to bring their desktop business online.

In line with the company’s historic growth the company expects to continue doubling operating revenue with over $39m forecast for the full year to 31 March 2013.

After reporting a 6 month after tax loss to 30 September 2012 of $7.0m the company expects to incur and increased loss for the second 6 month period to 31 March 2013.
Questions