Analyst Briefing
Xero Limited

Rod Drury - CEO
Ross Jenkins - CFO
Chris Ridd - MD Australia

(Melbourne 6 Dec 2012 and Sydney 7 December 2012)
Disclaimer

This presentation dated 3 December 2012 provides additional comment on the market release of 14 November 2012 and the 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.
1. Business overview
Accounting is killer app for small business

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
- Governments have 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

Consumer
- Google
- twitter
- facebook
- zynga
- LinkedIn
- Groupon
- Non direct monetization

Small business
- Square
- Yelp
- Xero
- Direct monetization
- Low price
- Smart sales model
- Complex applications focused on usability

Enterprise
- Workday
- SuccessFactors
- NetSuite
- Intacct
- High price
- Expensive sales model

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

Private

Success Factors $3.4b (SAP)
Square $3.2b
Yammer $1.2b (MSFT)
Box $1B

Public

Salesforce $19b
Intuit $17b
Workday Inc $7.5b
Netsuite $4.2b
Yelp $1.1b

$0.6b
Public company

- Successful investment round in November 2012
  - NZ$60 million of new capital
  - Transactions priced at the 20-day volume-weighted average price – NZ$6.00 per share.
  - Matrix Capital Management is investing NZ$58 million and Valar Ventures NZ$24 million.
  - Their total investment of NZ$82 million includes a purchase of NZ$22 million of shares from Xero’s three largest shareholders.
- Approx 3000 shareholders, 80% of investors hold less than 10,000 shares each
- 48% of shares held by Directors & staff
- 117m shares on issue, average daily trading volume of around 75,000 shares
- NZX50, Market cap as at 4 Dec 12 $700m+
- 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 2,000</td>
<td></td>
</tr>
<tr>
<td>IPO 15,000</td>
<td>Jul 2007</td>
</tr>
<tr>
<td>Craig Winkler (MYOB founder) 18,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>Private placement 5,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>SPP 6,000</td>
<td>May 2009</td>
</tr>
<tr>
<td>Valar Ventures (Peter Thiel) 4,000</td>
<td>Oct 2010</td>
</tr>
<tr>
<td>Valar Ventures, Sam Morgan, Sam Knowles &amp; Craig Winkler, Institutions 20,000</td>
<td>Feb 2012</td>
</tr>
<tr>
<td>SPP 15,600</td>
<td>Mar 2012</td>
</tr>
<tr>
<td>Matrix Capital and Valar Ventures 60,000</td>
<td>Nov 2012</td>
</tr>
<tr>
<td><strong>Total</strong>*</td>
<td>145,600</td>
</tr>
</tbody>
</table>

* Over $85m cash on hand 30 November 2012
Board structure

Rod Drury  
CEO & Co-founder  
One of NZ's leading technology entrepreneurs

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

Craig Winkler  
Non-Executive Director  
Co-founder of MYOB

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

smart

connected

online

payment graph

bank feeds

Electronic Data Interchange (EDI)

invoicing portal

group buying

multi-user

payment

notifications

business network

anywhere

anytime

mobile

leads and opportunities

benchmarking
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

<table>
<thead>
<tr>
<th>PLAN</th>
<th>PRICE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMALL</td>
<td>$29 PER MONTH</td>
<td>Ideal for freelancers and small property investors</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>$49 PER MONTH</td>
<td>Great for most small businesses</td>
</tr>
<tr>
<td>LARGE</td>
<td>$64 PER MONTH</td>
<td>Essential for businesses that bank or transact in foreign currencies</td>
</tr>
</tbody>
</table>

- Up to 5 Accounts Receivable and 5 Accounts Payable invoices per month
- Up to 20 reconciled bank statement lines per month
- 100’s of invoices per month
- 100’s of bank transactions per month
- Multi-currency
- 100’s of invoices per month
- 100’s of bank transactions per month

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

<table>
<thead>
<tr>
<th>PLAN</th>
<th>PRICE</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST CASHBOOK</td>
<td>$19 PER MONTH</td>
<td>For managed clients who do not require invoicing</td>
</tr>
<tr>
<td>CASHBOOK</td>
<td>$10 PER MONTH</td>
<td>For managed clients who do not require invoicing or GST</td>
</tr>
<tr>
<td>LEDGER</td>
<td>$5 PER MONTH</td>
<td>For clients who only require year end accounts</td>
</tr>
</tbody>
</table>

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

Personal
Small
Medium
Large

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

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

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

“Incumbents”
- Incumbents (MYOB, Sage, Intuit) have finally entered market with less competitive products and architectural legacy
- Xero acknowledged as leading challenger
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 - launched a AU$125m note issue - subordinate to AU$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

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

“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

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

<table>
<thead>
<tr>
<th>Company</th>
<th>Customers UK</th>
<th>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>Disclosed</td>
</tr>
<tr>
<td>Quickbooks</td>
<td>360,000</td>
<td>100,000</td>
<td></td>
<td>Small</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></td>
<td>Small-mid</td>
<td>Numis ests based on 2011 data</td>
</tr>
<tr>
<td>Freeagent</td>
<td>20,000</td>
<td>20,000</td>
<td>15,000</td>
<td>Small</td>
<td>Numis ests, based on PR statements</td>
</tr>
<tr>
<td>Netsuite</td>
<td>8,000</td>
<td>1,000</td>
<td></td>
<td>Mid</td>
<td>Numis ests based on 2010 data</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 FY 2012 Financial Results

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

SMB Market is big and growing
- 29m SMBs in the US
- 500m SMBs globally
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:
Overall winner of ICT Excellence award, the highest accolade at CeBIT

Sydney, May 2012
Australian execution

The Aussie market

- 2,000,000 small businesses
- Addressable market of 1,200,000
- 11,000 Accounting Practices
- 18,000 Bookkeepers
- Dominated by MYOB and Reckon
- A country renowned for early adoption

Xero achievements in 18 months

- From 4,500 to 35,000 Australian customers
- From 180 to 1,500 partners
- From 7 to 60 staff
- Acquisition of Paycycle in July 2011
- 4 offices across Eastern seaboard
- Winner of 2012 CeBIT & Mobies awards
- Successful new Partner Program launch on October 1st
- Listed on ASX on November 8th, 2012
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>

<table>
<thead>
<tr>
<th></th>
<th>At 30 Sept 2012</th>
<th>At 30 Sept 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>$30.6m</td>
<td>$11.4m</td>
</tr>
<tr>
<td>Paying business customers</td>
<td>111,800</td>
<td>51,300</td>
</tr>
<tr>
<td>Annualised Monthly Committed Revenue</td>
<td>$38.7m</td>
<td>$18.0m</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
Large global market opportunity

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.

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Xero customers (Sept 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>57,300</td>
<td>322,000</td>
<td>17.8%</td>
<td>120,000</td>
<td>37.3%</td>
</tr>
<tr>
<td>Australia</td>
<td>32,500</td>
<td>1,200,000</td>
<td>2.7%</td>
<td>195,000</td>
<td>16.2%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15,100</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>6,900</td>
<td>29,000,000</td>
<td>0.0%</td>
<td>535,000</td>
<td>1.8%</td>
</tr>
<tr>
<td>Total customers</td>
<td>111,800</td>
<td></td>
<td></td>
<td>1,000,000</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>&gt;7,000,000</td>
</tr>
</tbody>
</table>
“Stars are aligned - now is the time to go ”
Funding next wave of growth

Existing investors & markets
- Opportunity provided in March 12
- Major raise distraction on execution
- Likelihood of supporting $6 valuation unknown

Existing SaaS specialists
- SaaS natives
- Big for our US brand
- Approached us
- Supportive of the valuation
- Ease of transaction execution

Credibility of Xero as a SaaS accounting market leader shown by increased backing from major US funders, who are seeing our growth and potential there and ability to take on incumbent Intuit’s Quickbooks Online.
“Accounting software company Xero zeros in on QuickBooks with $67M”
Venture beat.com

“Peter Thiel’s Valar Ventures Joins $67 Million Round For Xero”
Forbes.com

“Xero nabs $47m from Peter Thiel and Matrix Capital to take on Quickbooks”
TheNextWeb.com

YAHOO.com

“Peter Thiel, the former PayPal CEO who is also famous for making billions investing in Facebook during it’s early days, just made another huge bet.

According to TechCrunch, He’s teamed up with a handful of investors to put ~$50 million into accounting software for small businesses company Xero.

Xero – from New Zealand, where Thiel is an active investor –wants to nuke Intuit's Quickbook business with a product you can access over the Internet.”
Accelerated investment for growth

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Investment focus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product</strong></td>
<td><strong>Continued product disruption</strong></td>
</tr>
<tr>
<td></td>
<td>• Deliver full horizontal product</td>
</tr>
<tr>
<td></td>
<td>• Deliver channel practice management tools</td>
</tr>
<tr>
<td></td>
<td>• AU Tax features and US Payroll</td>
</tr>
<tr>
<td></td>
<td>• Driving network effects</td>
</tr>
<tr>
<td><strong>Channel &amp; Network</strong></td>
<td><strong>Further expansion of the sales teams to take advantage of incumbent competitors limitations</strong></td>
</tr>
<tr>
<td></td>
<td>• Drive our global brand</td>
</tr>
<tr>
<td></td>
<td>• Continue with existing approach and channels in NZ</td>
</tr>
<tr>
<td></td>
<td>• Increase GTM resources in AU and UK</td>
</tr>
<tr>
<td></td>
<td>• Increase investment in US</td>
</tr>
<tr>
<td><strong>Customer</strong></td>
<td><strong>Continue to deliver great experience and extend service to meet global expectations</strong></td>
</tr>
<tr>
<td></td>
<td>• Cloud platform to support future growth</td>
</tr>
<tr>
<td></td>
<td>• Extend support options to drive delight</td>
</tr>
<tr>
<td></td>
<td>• Continue to expand banking partnerships</td>
</tr>
<tr>
<td></td>
<td>• Grow our customer add-ons partner network</td>
</tr>
<tr>
<td><strong>Business Model</strong></td>
<td><strong>Managing growth while building towards a high margin business</strong></td>
</tr>
<tr>
<td></td>
<td>• Continue to build on solid SaaS fundamentals</td>
</tr>
<tr>
<td></td>
<td>• Investment to scale and support our growth</td>
</tr>
<tr>
<td></td>
<td>• Continue to build for scale and high margin business</td>
</tr>
</tbody>
</table>
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