Small Business market opportunity

The internet unlocks a significant global opportunity

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 – mobile data, NetBooks, and 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.
Macro trends

Existing economic environment and technology trends are favourable

**Economic Climate**

- All businesses are likely to need a greater focus on cashflow
- Greater focus on monthly management reports. Banks are increasingly asking for these and may insist on them as a pre-requisite for any further borrowing
- Low monthly fees are preferred by small businesses, compared to the up front capex model
- Accounting will always be a mandatory function for all businesses
- Xero has a diversified and growing customer base which is looking for a cost efficient and easy to use solutions

**Software as a Service (SaaS) and Cloud Computing**

- SaaS is compelling for small businesses with industry analysts seeing increased forecasts. "The worldwide software-as-a-service (SaaS) market reached $6.3 billion in 2006 and is forecast to grow to $19.3 billion by year-end 2011", according to Gartner
- Global IT vendors are investing significantly in Cloud Computing.

**Small business as a key market for “big business”**

- As the enterprise market slows down, larger businesses are focusing on the small business market as a key revenue source
Xero snapshot

• Listed on the NZ Stock Exchange in 2007
• Raised NZ$50m including Craig Winkler and Peter Thiel investments
• Invested over NZ$30m
• 100+ staff globally in NZ, AU, UK and USA
• 8th fastest growing tech company in Asia Pacific 2010 (Deloitte Tech Fast 500 Asia Pacific)
• Bank feeds to 2000+ institutions
• 50TB of production data and backups, 99.99% service availability and no security breaches
• Largest online challenger to QuickBooks & MYOB
Board of Directors

Phil Norman
Chairman

Rod Drury
Chief Executive/Executive Director

Hamish Edwards
Executive Director

Sam Knowles

Sam Morgan

Graham Shaw

Craig Winkler
Strong senior management team

Rod Drury
Chief Executive/Executive Director

Alastair Grigg
Chief Operating Officer
Ex CIO - AirNZ

Paula Jackson
General Manager Marketing
Ex Head of Channel Marketing - Vodafone, NZ

Paul Williams
General Manager Finance
Ex Senior finance positions - Telecom, NZ

Chris Ridd
Managing Director, Australia
Ex Director Dynamics Business Group - Microsoft, Australia

Gary Turner
Managing Director, UK
Ex Product Group Director - Microsoft, UK

Leanne Graham
Country Manager, NZ
Ex Managing Director Global - Enprise Solutions
Customers in 50+ countries
Customer acquisition record

Paying business customers have grown quickly
• Near tripling September half year operating revenues from NZ$1.3m in 2009 to NZ$3.7m in 2010

• This compares with 2010 full-year revenues of NZ$3.4m

• As of 30 Sept 2010 annualised subscriptions were running at approximately NZ$9.0m
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<td>Australia</td>
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| Overall costs | On target for break even this calendar year |
Xero shares on issue

Latest shareholder listing at Feb 2011

- Directors & staff: 68%
- Other shareholders: 32%
Xero operates globally

Our Global hosting platform is best in class

Scalable global online platform in place

Used by paying customers in over 50 countries

Active partnerships with:

- Rackspace (NYSE:RAX) Tier 1 global data centre
- Akamai (NASDAQ:AKAM) Global Content Distribution Network
Scaleable business platform

Most start-ups do not have resources to build this sophisticated platform

Highly scalable accounting and back office platform can cater for hundreds of thousands of customers

Significant investment so “servers can run the business”
# Xero delivers quality software - fast

## 50+ major releases

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<td>Xero Personal - Splits, Labels, Import Rules</td>
<td>VAT adjustments (UK)</td>
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<td>Analysis Codes and Bank Rules</td>
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<td>Managed Client Role Update (Partner Edition)</td>
<td>Kiwibank Bank Feeds (NZ)</td>
<td>Improved Organisation Search in My Xero</td>
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<td>Xero Personal - Detailed Search</td>
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<td>Xero Personal - Notifications (Financial Snapshots)</td>
<td>More Banks Feeds for Australian Banks</td>
<td>Custom Invoice Templates</td>
<td>2000+ Banks Feeds for US Banks</td>
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<td>55+ Bank Feeds for UK banks</td>
<td>Detailed Account Transaction Report</td>
<td>Salesforce integration</td>
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<td>Notification Inbox</td>
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<td>Edit Reconciled Spend/Receive Money Transactions</td>
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Competitive landscape

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

“Nimble, funded, global”
Expected competitors have not emerged

“Incumbents”
Incumbents are struggling to deliver online accounting and execute globally
Web 2.0 approach changes the landscape

Low cost solutions expanding up to the mid market

Product Costs

- $1,000,000’s
- $100,000’s
- $10,000’s
- $1,000’s
- $100’s

Xero

Traditional desktop feature set

Partner solution

Partner solution

Large

Medium

Small

Micro
Single ledger efficiency

For the Accounting Practice
- General ledger
- Management accounts
- Annual accounts
- Fixed assets

Shared data

For the Business
- Invoicing
- Debtors
- Creditors
- GST
- Expense claims
- Contacts
## Full product family

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<th>Small</th>
<th>Medium</th>
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<tr>
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<td>Accounts Production</td>
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Cloud benefit to Accountants is compelling

The old way

**BUSINESS SOFTWARE**
- Shoebox and Excel
- MYOB
- BankLink and Bank Connect
- Other SME systems

**PRACTICE SOFTWARE**
- MYOB AO & AE
- XPA
- Handisoft
- MAS

**INSTALLED SOFTWARE**
- Server hardware
- Networking infrastructure per user
- Server operating system, virus scanner, firewalls, etc
- Server(s) support and updates
- Practice software licenses
- Practice software maintenance
- Upgrades & maintenance
- Double handling data

$10,000’s +

2011

Xero
Modern practice

Email, Office, Print, Document Management

Practice Management & Tax

Website, CRM, eMarketing

Client Accounting, Final Accounts Production

PracticePoint Template

Migration and Support Partner
Themes for 2011

Everything goes mobile
Social Accounting

Connecting our customers customers

- Clients
- Partners
- Government
- Banks
US strategy

• Process underway to relocate Chief Technology Officer to the US to drive product development
• Xero beachhead being established in San Francisco
• Xero Inc has been incorporated
• Working on strategic partnerships
• Leveraging the Peter Thiel investment
• Full strategic update will be provided in late May
Drivers of value

What to look for in SaaS companies

• Growth and adoption of partners and ecosystem
• Ability to execute marketing partnerships in offshore markets
• Continued execution of product delivery
• Customer growth
• Revenue growth - contracted monthly revenue
Questions