Annual Meeting 2010
Re-appointment of Directors
Phil Norman

- 30 years ICT industry experience
- Focus on working with high growth companies expanding internationally
- VC and investment banking experience
- Extensive governance experience
Sam Morgan

- TradeMe founder, former CEO
- Professional investor. Including Sonar6.com, Visfleet, Pacific Fibre
- Director Fairfax Media, Tourism New Zealand, Gareth Morgan Investments, Visfleet, Sonar6
The internet enables a significant global market opportunity

- Traditionally the small businesses market has been too fragmented to cost effectively 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.
  - Lack of innovation in online small business accounting software from incumbents. The 2nd generation (desktop software) incumbents are largely constrained by legacy business models.
  - Accounting is a foundation software application for small business.
  - There is an opportunity to win this market.

- 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.
  - There are few technology companies that have spanned a technology generation.
The existing economic environment and technology market trends are favourable for Xero’s proposition:

- **Economic climate**
  - All businesses are likely to need a greater focus on cashflow.
  - There will be a 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 that all businesses must undertake.
  - Xero has a very diversified and growing customer base which is looking for a cost efficient and easy to use accounting system.

- **Over the next 5 years, emerging markets will leapfrog into a connected environment:**
  - Xero is currently gaining traction in Western markets (and winning some customers in emerging markets already).
  - Many developing markets are going straight to the mobile Internet

- **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.
  - Microsoft and other large global IT vendors are investing significantly in Cloud Computing. Steve Balmer, CEO of Microsoft, recently commented to his staff: “OK boys, Cloud Computing is the plan”. He also recently highlighted “software-plus-service, associating it with a platform in the cloud and delivering applications across PCs, phones, TVs, and other devices, at work and in the home.”

- **Small business as a key market for “big business”**
  - As the enterprise market slows down, larger businesses (like banks and telecommunications carriers) are focusing on the small business market as a key revenue source.
Global platform

- 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

Global hosting platform is operational and working well
• Xero has developed a highly scalable accounting platform that can cater for hundreds of thousands of customers.

• Significant investment has been made by Xero to get the “servers to run the business”.

Most start-ups probably do not have the resources to build this level of sophisticated platform.
Paying business customers have grown quickly to over 22,000.

Source: Xero - current paying customers
Steps to achieve the longer term vision

Xero is at the forefront of a market and technology transformation that could enable it to become the online accounting platform for a significant number of small businesses.

How will Xero win? Xero’s vision longer term is to be the accounting solutions platform of choice and this can be achieved through:

- Operational excellence with servers running the business – the online accounting platform of choice.
- Unlocking network effects and positioning Xero at the centre of an online ecosystem creating value for ecosystem participants.
- A disciplined and focused strategy for networked customer acquisition.
- Empowering accountants and other advisers for front line conversion and support.
- Activating carriers, banks and other broad partners as the new mass channel for online business.
- Understanding and responding to market and competitor dynamics
- Growing the US and entering other markets

Near term vision
100,000 customers

Longer term vision
Millions of customers

It is likely that the eventual winner in the online accounting software space will have millions of customers.
Competitive landscape

“Startups”

There are surprisingly few startups in this space as:

- Difficult to fund the SaaS revenue ramp
- Limited to web marketing - not effective in the early phases of this market
- Limited business development capability to build marketing partnerships
- Traditional feature-sets, primarily client side
- Have not built automated back office operational platform for scale
- Active primarily in home markets

Startups don’t have resources to be successful in this market

“Nimble and funded”

Netsuite (US)

- Medium business only
- Expensive sales model
- Missing small business market and trending up towards SAP

Expected competitors have not emerged

“Incumbents”

Sage (UK). Revenue: £1,439m

- Pulled SageLive due to security issues
- Have not always executed well in US

Intuit (US). Revenue: US$3,100m

- US centric
- Significant 24hr+ power outage in June, other outages in July

MYOB (Australia). Revenue: AU$175m

- Acquired by private equity
- Yet to deliver online product

Incumbents are struggling to deliver online accounting
Comparison of accounting platforms for the web

Xero’s accounting platform scores highly when measured against the other offerings

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Xero</strong></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>MYOB Live Accounts</strong></td>
<td>✓</td>
<td>x</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td><strong>Quickbooks Online Plus</strong></td>
<td>✓</td>
<td>✓</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>✓</td>
<td>x</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>SageLive</strong> (removed from market)</td>
<td></td>
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<td>x</td>
</tr>
</tbody>
</table>

* Source: Xero - based on Xero’s internal analysis of competitor products

Xero is up to 2 years ahead of the incumbents and they cannot catch up organically
Web 2.0 approach changes the landscape

Low cost solutions expanding up to the mid market

Product Costs

- Large: $1,000,000's
- Medium: $100,000's
- Small: $10,000's
- Micro: $1,000's
- Very Micro: $100's

Traditional desktop feature set

XERO

PARTNER SOLUTION

PARTNER SOLUTION

PARTNER SOLUTION

$1,000,000's

$100,000's

$10,000's

$1,000's

$100's

$10,000's

$100,000's

$1,000,000's

PARTNER SOLUTION

PARTNER SOLUTION

PARTNER SOLUTION

Traditional desktop feature set

XERO
Single ledger efficiency

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

For the Business
- Invoicing
- Debtors
- Creditors
- GST
- Expense claims
- Contacts
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

Cloud benefit to Accountants is compelling

The old way

**BUSINESS SOFTWARE**
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**$10,000’s +**

2011
Xero data model transforms reporting

Company accounts

Reporting code

Vehicle Expenses

EXP.VEH

Delivery Van - #2
6-2550 - Travel Mileage
Petrol Costs
Fuel / Mileage
240/01 - Motor Vehicle Expenses
Unit Van - Travel
Dave’s Truck

Industry Comparison

Annual Report

Reports
Xero customer analysis

Previous accounting system used by Xero customers

- First accounting system: 47%
- From competitor: 53%

Customers acquired from competitors

- MYOB: 35%
- QuickBooks: 23%
- Other Desktop: 19%
- Other Online: 10%
- Sage: 8%
- BankLink: 4%

Source: Xero new users since 01 July 2009

Nearly half of Xero’s customers are first time users - Xero is developing a new market
Achieving scale and winning 100,000s of customers

<table>
<thead>
<tr>
<th>Phase</th>
<th>Customer Activities</th>
<th>Accountant Activities</th>
<th>Channel Activities</th>
<th>Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Product validation</td>
<td>Direct customer sales, targeting early adopters</td>
<td>Awareness and identification of reference customers</td>
<td>Initiate relationships</td>
<td>✓</td>
</tr>
<tr>
<td>(100’s of customers)</td>
<td>Gain customer insights for feature development and prioritisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Refine operational processes</td>
<td>Working with accountants to onboard their customers</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Generate buzz</td>
<td>Obtain validation and endorsement from industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Identify early mover markets</td>
<td>Establish marketing relationships, build brand by association</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Identify networks of users (recommenders and specifiers)</td>
<td></td>
</tr>
<tr>
<td>2. Market validation</td>
<td>Build case studies</td>
<td>Working with accountants to onboard their customers</td>
<td>Establish marketing relationships, build brand by association</td>
<td>✓</td>
</tr>
<tr>
<td>(1,000’s of customers)</td>
<td>Refine operational processes</td>
<td></td>
<td>Identify networks of users (recommenders and specifiers)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Generate buzz</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Identify early mover markets</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>3. Channel enablement</td>
<td>Link channel and customers</td>
<td>Implement conversion tools from existing software</td>
<td>Execute marketing partnerships</td>
<td>✓</td>
</tr>
<tr>
<td>(10,000’s of customers)</td>
<td></td>
<td>Link to Accountants in Practice</td>
<td>Link to ecosystems of users</td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Network effects</td>
<td>Activate referral model</td>
<td>Build value into accountants ecosystem</td>
<td>Solutions and businesses built on top of the platform</td>
<td></td>
</tr>
<tr>
<td>(100,000’s of customers)</td>
<td></td>
<td></td>
<td>Grow new markets</td>
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</tbody>
</table>

Xero is successfully executing its plan
## Pricing

<table>
<thead>
<tr>
<th></th>
<th>New Zealand</th>
<th>Australia</th>
<th>United Kingdom</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal (annual)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xero Personal</td>
<td>$59 NZD</td>
<td>$49 AUD</td>
<td>£24</td>
<td>$34 USD</td>
</tr>
<tr>
<td><strong>Partner</strong></td>
<td></td>
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<td><strong>Ledgers</strong></td>
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<tr>
<td><strong>Cashbook</strong></td>
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<tr>
<td><strong>Business (monthly)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small</td>
<td>$29 NZD</td>
<td>$29 AUD</td>
<td>£12</td>
<td>$19 USD</td>
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<tr>
<td>Medium</td>
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<td>$49 AUD</td>
<td>£19</td>
<td>$29 USD</td>
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<tr>
<td>Large</td>
<td>$64 NZD</td>
<td>$64 AUD</td>
<td>£24</td>
<td>$39 USD</td>
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<tr>
<td>Extra Large</td>
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</tbody>
</table>

*Xero Personal is for a year subscription including taxes*

*Xero Business / Partner Edition is a monthly subscription*
Financial summary

- Xero recorded an EBIT loss of $9.5 million for the 12 months to 31 March 2010 ahead of expectations.

- Customer numbers grew to 17,000 at 31 March 2010 and the pipeline is strong.

- At 31 March 2010, Xero has net cash resources of $21 million (with no external borrowings). The business continues to focus on cash preservation whilst ensuring the growth path continues.

<table>
<thead>
<tr>
<th>Summary Audited Financials (NZ$000's)</th>
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</thead>
<tbody>
<tr>
<td><strong>Income Statement</strong></td>
</tr>
<tr>
<td>Total number of customers</td>
</tr>
<tr>
<td>Total revenue</td>
</tr>
<tr>
<td>Total operating expenses</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
</tr>
<tr>
<td>EBIT</td>
</tr>
<tr>
<td>Number of employees</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
</tr>
<tr>
<td>Cash &amp; cash equivalents</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Net assets</td>
</tr>
</tbody>
</table>
Break even

- New Zealand direct sales: Now
- United Kingdom direct sales: October - December 2010
- Australia direct sales: January - March 2011

Overall costs: 2nd half calendar 2011
## Large global market

<table>
<thead>
<tr>
<th>Country</th>
<th>Potential Market (SME's)</th>
<th>Market share scenarios</th>
<th>Implied Customers</th>
<th>Sanity check</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low %</td>
<td>High %</td>
<td>Low %</td>
</tr>
<tr>
<td>New Zealand</td>
<td>322,000</td>
<td>10%</td>
<td>20%</td>
<td>32,200</td>
</tr>
<tr>
<td>Australia</td>
<td>1,200,000</td>
<td>5%</td>
<td>10%</td>
<td>60,000</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4,300,000</td>
<td>1%</td>
<td>2%</td>
<td>43,000</td>
</tr>
<tr>
<td>United States</td>
<td>25,000,000</td>
<td>0.5%</td>
<td>1%</td>
<td>125,000</td>
</tr>
<tr>
<td>Potential Customers</td>
<td></td>
<td></td>
<td></td>
<td>260,200</td>
</tr>
</tbody>
</table>

Source: Xero IPO prospectus, US Census Bureau

Xero is emerging as the technology leader in the 3rd generation of business software.
Summary

Strong product offering
- The product is now proven and is used by some 20,000+ customers.
- Xero has been widely acknowledged as having a leading online product internationally.
- Xero is now scaling the business internationally.

Strong business model and capability
- Xero’s management team has again picked a fundamental technology trend and has positioned Xero at the top of the wave. Cloud Computing is becoming larger than expected and suits the macro economic climate.
- Xero has achieved operational excellence.
- Management team with international experience leveraging international contacts

Positioned for growth
- Platform largely in place, focus on growth
- NZ sales strategy working well in a challenging market environment
- Build on success in initial overseas markets and enter new markets
We have finally seen MYOB LiveAccounts beta, first impression is that it still needs a lot of work to compare to how easy Xero is to use.

Hey everyone complaining about Intuit and Quickbooks Online being down - I'm very happy with @Xero

Thanks to our new book-keepers, I have finally found the best online accounting package: superb. http://www.xero.com/

Loving the automated PayPal link in @Xero invoices! You guys rock.

Too many low-value SaaS ISVs out there in accounting for SME-SMB space. Xero has outstanding user experience v. crowd of players.

@Xero superb invoice branding, we run 2 brands through Xero & this will save us hours & make monthly billing more flexible. Well done! :-)

Accounting day today - bank rec to do. Have imported my transactions and Xero is matching them up for me!

Well - GL is all in @xero as at June 30 historical invoices in and now we're rip roaring and ready to go. Love it more with each click.

@Xero It is true, they say this program can make accounting fun and I didn't believe it at first... I am a believer!!!

One mention of #xero and four recommendations in 30 mins! Right. Sold! Thanks @Totally4B @justsimplyace @andrew_haynes and @askhiil

@jasonroce: http://www.xero.com/ is probably the best online accounting system out there at the moment.

@donmcallister try http://www.xero.com Don... it made my company accounting a doddle.