Investor Briefing
Xero Limited

28 May 2013
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All information in this presentation is current at the date of this presentation, unless otherwise stated.

All currency amounts are in NZ dollars unless stated otherwise.
Contents

1. Business overview
2. Full year results
3. Market observations
4. Growth strategy
5. Questions
1. Business overview

Cloud aggregates and disrupts a large fragmented market
- Multi-billion dollar market.
- Accounting is foundation application.
- Cloud changes the economics.
- Desktop incumbents are not internet companies.

Xero
- Beautiful cloud accounting making business enjoyable.
- Integrates small business with their customers, banks, payment services, tax authorities and accountants.
- Monthly subscription model.
- Powerful ecosystem of partners and add-on cloud solutions.

Competitive strengths
- Best team, best funding, best architecture and five year head start.
- Disrupted incumbents with integrated client and accountants platform.
- No compromise, no legacy and unencumbered internet approach.
- Proven vision, strategy, platform and execution.
Xero

Leading small business cloud platform

Vision

Millions of people all over the world love doing business on Xero

Mission

Grow prosperity by connecting people through beautifully designed business software

Goal

Achieving scale and value by winning one million+ customers

>500m small businesses

Xero platform
2. Full year results
## 2013 Highlights

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue growth</td>
<td>102%</td>
</tr>
<tr>
<td>Customers</td>
<td>157,000</td>
</tr>
<tr>
<td>Staff</td>
<td>382</td>
</tr>
<tr>
<td>Accounting partners</td>
<td>6000</td>
</tr>
<tr>
<td>Service availability</td>
<td>99.97% (99.998% (CY 2013))</td>
</tr>
<tr>
<td>Cash to invest</td>
<td>$78m</td>
</tr>
<tr>
<td>Share price increase</td>
<td>274%</td>
</tr>
</tbody>
</table>
Growth continues

<table>
<thead>
<tr>
<th>March year end</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>204</td>
<td>950</td>
<td>6,000</td>
<td>17,000</td>
<td>36,000</td>
<td>78,000</td>
<td>157,000</td>
</tr>
<tr>
<td>Revenue ($000’s)</td>
<td>24</td>
<td>134</td>
<td>959</td>
<td>3,158</td>
<td>9,341</td>
<td>19,370</td>
<td>39,033</td>
</tr>
</tbody>
</table>

Regional growth to year ended 31 March 2013

- New Zealand: +56%
- Australia: +219%
- United Kingdom: +100%
- United States + Rest of the World: +100%
Continuing 100% revenue growth
Performance highlights

<table>
<thead>
<tr>
<th></th>
<th>12 months to March 2013</th>
<th>12 months to March 2012</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>39,033</td>
<td>19,370</td>
<td>102%</td>
</tr>
<tr>
<td>Total revenue &amp; grant income</td>
<td>39,969</td>
<td>19,771</td>
<td>102%</td>
</tr>
<tr>
<td>Operating expenses*</td>
<td>(51,407)</td>
<td>(26,491)</td>
<td>94%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>(11,438)</td>
<td>(6,720)</td>
<td>70%</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>(14,443)</td>
<td>(7,904)</td>
<td>83%</td>
</tr>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>78,224</td>
<td>38,976</td>
<td>-</td>
</tr>
<tr>
<td>Paying business customers</td>
<td>157,000</td>
<td>78,000</td>
<td>101%</td>
</tr>
<tr>
<td>Annualized committed monthly revenue</td>
<td>51.5m</td>
<td>25.5m</td>
<td>102%</td>
</tr>
</tbody>
</table>

* excluding depreciation and amortisation
Outlook for FY14

Xero is delivering on its plans and with substantial cash resources will continue its growth agenda to create long term shareholder value by building a global Software as a Service (SaaS) company.

The company’s focus this coming year is on scalability as we drive expansion in the United States, the United Kingdom and Australia to take advantage of the leadership position we are earning. Therefore losses can be expected to continue for the year ending March 31, 2014.

Xero anticipated the substantial opportunity as small businesses move to the cloud. We have shown it takes a significant investment and many years to build a broad and global small business financial platform.

Xero is a unique opportunity, addressing a vast market undergoing massive technological disruption. We believe we’re well positioned at the beginning of a massive market shift.
3. Market observations
Technology shift to a new trillion dollar market

Mainframe was taken over by client/server

And client/server will suffer as a result of SaaS

Historical Market Leaders mainframe: Apollo, Burroughs, California, Computer Products, Computer Applications, Computer Sciences, Control Data, Data General, Digital Equipment, IBM, Prime computers, Sperry Rand, Wang. Analysis allocates IBM market cap by relevant revenues, as the company was largely able to pivot out of the mainframe industry.

Historical Market Leaders client server: Alcatel Lucent, Compaq Computer, Cisco, Dell, Gateway, Hewlett Packard, IBM, Intel, Microsoft, Oracle, PeopleSoft, Sun Microsystems, Silicon Graphics

Source: Matrix Analysis, Bloomberg, CapitalIQ, Compustat
Cloud segmentation

**Consumer**
Peaked?

- twitter
- Google
- LinkedIn
- Facebook
- Groupon
- Yelp

**Small business**
Emerging

- Square
- Constant Contact
- Bill.com

**Enterprise**
Maturing

- SuccessFactors
- Workday
- Intacct
- Tableau
- Marketo

**Monetization:**
- Consumer: Non direct
- Small business: Direct
- Enterprise: Direct

**Sales model:**
- Consumer: Online
- Small business: Online
- Enterprise: Enterprise

**Complexity:**
- Consumer: Simple
- Small business: Complex
- Enterprise: Complex
## Market observations

<table>
<thead>
<tr>
<th>Start-ups</th>
<th>Incumbents - MYOB, Sage, Intuit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-ups don’t have resources to compete long term.</td>
<td>Software companies, not internet companies, struggling with cloud transition.</td>
</tr>
<tr>
<td>Building features/applications not platforms.</td>
<td>Legacy comprises cloud offerings.</td>
</tr>
<tr>
<td>High barrier to entry as market requires both client and accountant solutions.</td>
<td>Online revenue insignificant to date.</td>
</tr>
<tr>
<td>Ecosystem participant.</td>
<td>Traditional approach to partnering.</td>
</tr>
</tbody>
</table>

- Expected competitors have not emerged, no one else significantly funded.
- Innovation rapidly redefining the market.
- Formidable combination of nimbleness, capability and execution.
- Open platform creator.
MYOB (Australasia)

Huge debt with revenue challenges

- NZ and AU markets only.
- Purchased by Bain fund for AU$1.3b (800 staff).
- Focus on returns to a few, not customers or partners.
- AccountRight Live launched October 2012 with many challenges:
  - ‘Cloud wash’ - not a SaaS cloud solution
  - Customer reception poor.
- Completed AU$150m of subordinate debt issue to release capital to Bain and swap debt.
- Banklink acquisition in May 2013 (adding a further AUD $60m of debt) possible justification to bolster revenue and meet cash-flow covenants.

“Calling this ‘2nd generation cloud’ is like calling regular postage ‘2nd generation email’. 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 email it ain’t!”
— Dewings Adelaide

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

“...initial reaction to MYOB’s latest products (the pure cloud LiveAccounts and the cloud/desktop hybrid AccountRight Live) was disappointing..”
— James Scollay
GM MYOB April 2013

Huge debt with revenue challenges
Sage (UK & global)

Encumbered by a legacy business model and fragmented desktop solutions

- Thirty months since the launch of SageOne in the UK.
- "Find a SageOne Accountant" online directory still only reports a total of 75 practices having adopted Sage's cloud accounting solution, out of a total of more than 20,000 accounting practices in the UK.
- Only 11,500 customers worldwide have adopted the solution

"Cloud is characterised by a land grab at present and Sage is, in our view, ceding territory. Fundamentally, if Sage cannot win in this market in its strongest territory (the UK) we think it will struggle even more elsewhere."

— Numis Securities Ltd
19 April 2013

"Sage has over 3.7m customers off support and is late to the cloud with a fragmented offering..."

— Numis Securities Ltd
5 November 2012
Intuit (US & global)

Driving cloud adoption across their customer base

- Focussed growing addressable market for small business accounting.
- Robust strategy.
- 10m+ customers leave Intuit annually (Quickbooks and Turbo Tax).
- US market ready to adopt cloud now.
- Encouraging Quickbooks desktop users to migrate to a cloud solution, increasing churn.
- Xero now recognized as #1 global cloud challenger in US market and positioned to take market share.

"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"

— Brad Smith
Intuit CEO
December 2012

SMB market is big and growing
- 29m SMBs in US
- 7m targeted for quickbooks
- 15 million with no solution today
- 11 Million with a payroll need
- 500m SMBs globally

— Intuit investor day
September 2012
4. Growth strategy
SaaS growth

Courtesy of David Skok, Matrix Partners*

The growth imperative:

• SaaS revenue comes over an extended period of time.
• Low churn in customers = long term revenue.
• SaaS businesses face significant losses in the early years.
• SaaS requires heavy upfront investment to acquire customers.
• The faster the business decides to grow, the worse the losses may become.
• Many investors have a problem understanding this, and want to hit the brakes at precisely the moment when they should be hitting the accelerator.

*Matrix Partners is a different company to major Xero shareholder Matrix Capital
Aspirational cloud business models

Reference "Salesforce Dreamforce Analyst Day" September 2012

Mid-30%
non-GAAP operating margin at mid-single-digit % growth

Revenue - (COS + Renewal + R&D + G&A) - CPB x (Attrition + Growth)

Op. Margin = ____________________________

Recurrent Revenue

Operating Margin %

Growth %

Note: Renewal includes both customer management and renewal management costs. CPB represents the upfront costs of acquiring new business. Note: Non-GAAP measures exclude the effects of stock-based compensation, amortization of purchased intangibles, and net non-cash interest expense.
Comparative revenue growth rates

<table>
<thead>
<tr>
<th>Company</th>
<th>Years to $20m</th>
<th>Years to $100m</th>
<th>Years to $1b</th>
<th>% current growth rate YoY (USD valuation May 2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salesforce</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>35% (US$24.8b)</td>
</tr>
<tr>
<td>Workday</td>
<td>5</td>
<td>2</td>
<td></td>
<td>104% (US$10.5b)</td>
</tr>
<tr>
<td>Xero</td>
<td>5</td>
<td></td>
<td></td>
<td>102% (US$1.2b)</td>
</tr>
<tr>
<td>NetSuite</td>
<td>8</td>
<td></td>
<td>2</td>
<td>31% (US$6.5b)</td>
</tr>
</tbody>
</table>

- Years to $20m
- Years to $100m
- Years to $1b
- % current growth rate YoY (USD valuation May 2013)
Xero growth drivers

**Product**
Disrupt category with innovation.
Additional services.

**Channel & Network**
Building presence, ecosystem & advocates in chosen markets. GTM model for scale.

**Customer**
Delight customers to drive network effects.

**Business Model**
High margin, scalable SaaS model.
Online accounting journey

small business platform

smart

connected

online

Electronic Data Interchange (EDI)

payment graph

business network

bank feeds

notications

benchmarking

leads and opportunities

multi-user

anywhere

payments

mobile

anytime

group buying

invoicing portal
**Xero**
Beautiful accounting for small businesses, anywhere, anytime
*General Ledger, Banking, Bills, Purchases, Fixed Assets, Expense Claims, Payroll (*AU)*

**Add-ons**
Pre-integrated applications to drive your business forward
200+ pre-integrated apps including, point of sale, advanced inventory, job management, CRM, workforce automation

**Practice Studio**
Integrated accounting tools including:
Financial reporting, Practice Management, Workpapers and Tax (*NZ, AU*)

**Modern Practice**
Partnering with Integrated tools for practices in the cloud:
Document Management, Office & Emails, Content, and Migration Services
In the hands of a million+ customers

1,000,000+

2009 2010 2011 2012 2013 Goal

6 17 36 78 157

2009 2010 2011 2012 2013 Goal
Transforming the accounting industry
Subscription pricing

Pricing

Feature updates, automatic backups, support and more – for free. Get started now and sign up for your free trial.

All pricing plans include:
- Free trial, pay nothing until you're ready
- No setup fees, upgrade fees or contracts
- Unlimited users
- Unlimited customer support
- Access anywhere online
- Automatic backups
- Pay by credit card
- Cancel online at any time

- $29 NZD per month - Small
  - Ideal for freelancers and small property investors
  - Send 5 invoices + receive 5 bills per month
  - Reconcile 20 bank statement lines per month

- $49 NZD per month - Medium
  - Great for most small businesses
  - 100% of invoices per month
  - 100% of bank transactions per week

- $64 NZD per month - Large
  - Essential for businesses that bank or transact in foreign currencies
  - Multi-currency
  - 100% of invoices per month
  - 100% of bank transactions per week

New Zealand version - Excludes GST. Choose your pricing plan once you've ended your trial and are ready to pay.

Try Xero for free

Free trial, pay nothing until you're ready
Channel and network effects

- Small Businesses
- Accountants & Advisors
- Large Businesses
- Banks & Financial Institutions
- Add-ons
- Tax Authorities
Add-on application growth

200+ pre-integrated applications provide a comprehensive small business ecosystem
Delighted customers

• Education approach proving successful with channel and customers.
• Support centered in NZ with satellite offices now in UK and soon in Denver for US payroll, tax and market specialists.
• Low customer churn - mid to low teens per annum.
• CPA Practice Advisor award 5 out of 5 stars for customer experience.
• Customers emotionally connected to Xero. Word of mouth amplified by social media.
• Customer sentiment and completely open communications is polar opposite to incumbents.
The table above illustrates how, based on sample market share in New Zealand, Australia, UK, USA & Rest of the World, how Xero could achieve the goal of one million+ customers.

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Xero customers (Mar 13)</th>
<th>Small businesses</th>
<th>Current market share</th>
<th>Sample market share</th>
<th>Implied market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td>73,000</td>
<td>455,000</td>
<td>16%</td>
<td>120,000</td>
<td>26%</td>
</tr>
<tr>
<td>Australia</td>
<td>51,000</td>
<td>2,000,000</td>
<td>3%</td>
<td>350,000</td>
<td>18%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>22,000</td>
<td>4,300,000</td>
<td>&lt;1%</td>
<td>170,000</td>
<td>4%</td>
</tr>
<tr>
<td>United States/RoW</td>
<td>11,000</td>
<td>29,000,000</td>
<td>&lt;1%</td>
<td>360,000</td>
<td>1%</td>
</tr>
<tr>
<td>Total customers</td>
<td>157,000</td>
<td></td>
<td></td>
<td>1,000,000</td>
<td></td>
</tr>
</tbody>
</table>
# US execution

## Product

**Xero platform**

- Localized product.
- Engaged Xero Advisor Panel driving US features.
- US payroll this year.
- Expanding add-on pipeline.
- Major cloud alliances (e.g. Harvest, Bill.com).
- Practice tools 4.75 stars. Quickbooks Online score 4.5 stars.

## Channel

**Accountants & online**

- Building accountant channel in CA. Presence in San Francisco and LA.
- 430+ active partners.
- 2,000+ accounting professionals completed Xero training events.
- Leading PR mentions in target channels.
- Strong progress in online search.
- Winning the thought leaders. e.g. 25,000+ member LinkedIn group renamed “Quickbooks & Xero cloud consultants”.

## Growth

**Team & customers**

- Year one growth exceeds other countries for customers and partners.
- Over 50% growth from accountant channel.
- Largest private accounting firm in the California (29th largest in the US) is now a Gold partner.
- Over 10 of top 100 accounting firms in process of moving clients to Xero.
- Recruiting exceptional industry talent.
# Accelerated investment for growth

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Investment focus</th>
</tr>
</thead>
</table>
| **Product** | • Deliver full horizontal product  
• Integrate accounting practice management tools  
• AU Tax features and US Payroll  
• Mobile & touch  
• Driving network effects  
• Financial documents  
• Closer links to banks and payments |
| **Channel & Network** | • Expand our global awareness and channel advocates  
• Continue with existing channels in NZ  
• Increase GTM resources in AU and UK  
• Significant increase in US investment  
• Continue to expand banking partnerships |
| **Customer** | • Deep focus on education  
• Extend support options to drive delight  
• Grow our customer add-ons partner network  
• Unleash referral channel |
| **Business Model** | • Internal automation so the servers run the business to grow efficiency and margin |
Cloud investment landscape (USD)

Key competitors:
- Intuit 8,500 staff, $17.5b
- Sage 13,500 staff, $6.2b
- MYOB 800 staff, $1.2b

Private

Public

Success Factors $3.4b (SAP)
Square $3.2b
Netsuite $6.5b
Tableau $3.1b
Yelp $1.9b

Salesforce $24.8b
Workday Inc $10.5b

Yammer $1.2b (MSFT)
Box $1B
Marketo $0.8b

Intuit 8,500 staff, $17.5b
Sage 13,500 staff, $6.2b
MYOB 800 staff, $1.2b
Incredibly well positioned

Massive opportunity

• >500m small businesses

Strategy

• Xero Strategy

  - Customer
  - Product
  - Channel & Network
  - Business Model

Execution

• Grow business to global scale
• Wall of innovation
• Focus on customer acquisition & revenue
• Engineer high margin SaaS model

“...it’s just the beginning”
Questions
Appendix: About Xero
Public company

• Approximately 4,700 shareholders (900 new shareholders since Mar 2013)
• 89% of investors hold less than 10,000 shares each
• 47% of shares held by Directors & staff
• 117m shares on issue, average daily trading volume of around 150,000 shares
• NZX50, Market cap as at 10 May 2013 $1.5 billion
• 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>Matrix Capital and Valar Ventures</td>
<td>60,000</td>
</tr>
<tr>
<td><strong>Total</strong>*</td>
<td><strong>145,600</strong></td>
</tr>
</tbody>
</table>
Xero Board

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

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

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

* Independent Director