Xero Investor update
Important notice

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(Company number NZ 1830488, AU ARBN 160661183 NZX/ASX:XRO).

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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.
## FY 2014 first half year

<table>
<thead>
<tr>
<th></th>
<th>6 months to September 2013</th>
<th>6 months to September 2012</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenue</td>
<td>$30.3m</td>
<td>$16.5m</td>
<td>84%</td>
</tr>
<tr>
<td>Total revenue &amp; grant income</td>
<td>$31.0m</td>
<td>$16.9m</td>
<td>83%</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>$(44.6)m</td>
<td>$(22.7)m</td>
<td>96%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>$(13.6)m</td>
<td>$(5.8)m</td>
<td>134%</td>
</tr>
<tr>
<td>Net loss after tax</td>
<td>$(17.1)m</td>
<td>$(7.0)m</td>
<td>144%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>as at 30 September 2013</th>
<th>as at 30 September 2012</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>$55.3m</td>
<td>$30.6m</td>
<td>81%</td>
</tr>
<tr>
<td>Paying business customers</td>
<td>211,300</td>
<td>111,800</td>
<td>89%</td>
</tr>
<tr>
<td>Annualized Committed Monthly Revenue (ACMR)</td>
<td>$70.6m</td>
<td>$38.7m</td>
<td>82%</td>
</tr>
</tbody>
</table>
Growth trajectory continues

ACMR (NZ$m)

Sep 08  Sep 09  Sep 10  Sep 11  Sep 12  Sep 13

$20,000,000
$40,000,000
$60,000,000
$80,000,000

$75,000
$150,000
$225,000
$300,000

ACMR  Customer Numbers
SaaS - investing to drive high growth

**Salesforce**

- Operating costs % of Revenue
- Revenue (USD M)
- Revenue Growth Rate

**Workday**

- Operating costs % of Revenue
- Revenue (USD M)
- Revenue Growth Rate

**Xero**

- Operating costs % of Revenue
- Revenue (NZD M)
- Revenue Growth Rate
## Country customer growth

<table>
<thead>
<tr>
<th></th>
<th>Customers at 30 Sep 2013</th>
<th>Customers at 30 Sep 2012</th>
<th>Growth</th>
<th>% total small businesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ</td>
<td>85,500</td>
<td>57,300</td>
<td>49%</td>
<td>19%</td>
</tr>
<tr>
<td>AU</td>
<td>79,100</td>
<td>32,500</td>
<td>143%</td>
<td>4%</td>
</tr>
<tr>
<td>UK</td>
<td>30,100</td>
<td>15,100</td>
<td>99%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>US/RoW</td>
<td>16,600</td>
<td>6,900</td>
<td>141%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>211,300</strong></td>
<td><strong>111,800</strong></td>
<td>+89%</td>
<td></td>
</tr>
</tbody>
</table>
## Country operating revenue growth

<table>
<thead>
<tr>
<th>Country</th>
<th>6 months to Sep 2013</th>
<th>6 months to Sep 2012</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ</td>
<td>$10.8m</td>
<td>$7.3m</td>
<td>48%</td>
</tr>
<tr>
<td>AU</td>
<td>$12.3m</td>
<td>$5.5m</td>
<td>124%</td>
</tr>
<tr>
<td>UK</td>
<td>$4.4m</td>
<td>$2.4m</td>
<td>83%</td>
</tr>
<tr>
<td>US/RoW</td>
<td>$2.8m</td>
<td>$1.3m</td>
<td>115%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$30.3m</strong></td>
<td><strong>$16.5m</strong></td>
<td><strong>84%</strong></td>
</tr>
</tbody>
</table>
## Country ACMR growth

<table>
<thead>
<tr>
<th>Country</th>
<th>ACMR at Sep 2013</th>
<th>ACMR at Sep 2012</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ</td>
<td>$23.9m</td>
<td>$16.3m</td>
<td>47%</td>
</tr>
<tr>
<td>AU</td>
<td>$30.2m</td>
<td>$14.3m</td>
<td>111%</td>
</tr>
<tr>
<td>UK</td>
<td>$10.2m</td>
<td>$5.4m</td>
<td>89%</td>
</tr>
<tr>
<td>US/RoW</td>
<td>$6.3m</td>
<td>$2.7m</td>
<td>133%</td>
</tr>
<tr>
<td>Total</td>
<td>$70.6m</td>
<td>$38.7m</td>
<td>82%</td>
</tr>
</tbody>
</table>
Country costs include sales and marketing costs and service delivery costs including both in-country and allocation of centrally managed costs. (Page 11 Interim Report September 2013)
### Business highlights

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting partners</td>
<td>8,800</td>
<td>(Nov 2012, 4,600)</td>
</tr>
<tr>
<td>Availability</td>
<td>CY 99.97</td>
<td>(Last 6 months 99.999)</td>
</tr>
<tr>
<td>Add-ons apps</td>
<td>300</td>
<td>(Nov 2012, 220)</td>
</tr>
<tr>
<td>Staff</td>
<td>584</td>
<td>(Nov 2012, 278)</td>
</tr>
</tbody>
</table>
Capital raise

- Raised $180m of new capital on 14 October 2013.
- US investors accounted for $147 million of the raise.
- Priced at $18.15 per share for 9.92 million shares representing 8% of shares on issue after raise.
- Clear signal of our aspirations to serve millions of customers.

As at 31 October 2013 Xero had $230m in cash
<table>
<thead>
<tr>
<th>Placements</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre IPO</td>
<td>$2.0m</td>
</tr>
<tr>
<td>IPO</td>
<td>$15.0m</td>
</tr>
<tr>
<td>Craig Winkler (MYOB founder)</td>
<td>$18.0m</td>
</tr>
<tr>
<td>Private placement</td>
<td>$5.0m</td>
</tr>
<tr>
<td>SPP</td>
<td>$6.0m</td>
</tr>
<tr>
<td>Valar Ventures (Peter Thiel)</td>
<td>$4.0m</td>
</tr>
<tr>
<td>Valar Ventures, Sam Morgan, Sam Knowles &amp; Craig Winkler, Institutions</td>
<td>$20.0m</td>
</tr>
<tr>
<td>SPP</td>
<td>$15.6m</td>
</tr>
<tr>
<td>Matrix Capital and Valar Ventures</td>
<td>$60.0m</td>
</tr>
<tr>
<td>Various</td>
<td>$180.0m</td>
</tr>
<tr>
<td>Total</td>
<td>$325.6m</td>
</tr>
</tbody>
</table>
Allocating resources

Investment principles
- Invest to deliver long term growth
- Recruit global management talent to grow each team
- Investment levels based on countries GTM stage
- Broad product portfolio to win category and increase ARPU
- Disrupt product category away from competitors
- Internal systems to deliver long term efficiencies
- Architect high margin model

Success
- +80%–100% growth YoY
- New products
- New markets

Allocations from:
- ACMR $75m
- Cash $230m

October 2013
Investment in people
249 staff hired from 1 Jan 2013 - 30 Sep 2013

- Sales, enablement & training: 72
- Marketing: 22
- Product development: 64
- Finance, legal, HR, facilities, internal IT: 20
- Customer experience: 48
- Platform: 23
Positioning for new products

US price changes

<table>
<thead>
<tr>
<th></th>
<th>Starter</th>
<th>Standard</th>
<th>Premium 10</th>
<th>Premium 20</th>
<th>Premium 100</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD / Month</td>
<td>$9</td>
<td>$30</td>
<td>$70</td>
<td>$90</td>
<td>$180</td>
</tr>
</tbody>
</table>
Go to market update
Partner channel is key

Customers by channel as at 30 Sep 2013
- Direct: 72%
- Partner: 28%

Revenue by channel for 6 months to 30 Sep 2013
- Direct: 54%
- Partner: 46%
Xero platform

Online accounting software
Using Xero, your clients manage the day-to-day finances of their business with software that’s smart and easy-to-use. You always have instant access to their data and files.

Connected services
Over 200+ small business apps integrate with Xero. Connecting these solutions gives you and your clients a view of their entire business.

Practice Studio
Connect client data with your practice software like Practice Manager, Workpapers and Tax. All on one platform in the cloud. And it’s free.

Modern Practice
As a business owner yourself, these tools let you to run your practice in the cloud – with your email, documents, marketing and content all connected together.
Partners – lead growth indicator

- NZ: 2,250
- AU: 4,500
- UK: 6,750
- US/ROW: 9,000
- Total: 19,450

Channel partners for Sep 12 and Sep 13.
New Zealand is the proving ground and launch pad for global growth. Arrival of inventory, payroll, full Practice Studio and new services will drive further growth in FY2015.

Growth accelerators

1. Inventory (stock) including support for farming
2. Full release of our V2 reporting framework for accountants
3. Practice Studio features required to switch out incumbent products
4. Tier 1 and 2 accounting firm adoption
5. NZ payroll 2014
Australia

Growth accelerators
1. Build on current execution
2. Continue brand awareness marketing campaign
3. Focus on roadshows and partner adoption
4. Practice Studio features required to switch out incumbent products
5. Expansion of AU tax integration

Growth is accelerating as we win share from incumbents and remain product of choice for new businesses. Won national iAward for payroll product of the year.
Xero is now the leading online accounting provider in the UK. Growth and partner adoption far outweighs the incumbent. Won the Client Software Product of the year at the Nov 2013 British Accountancy Awards.

Growth accelerators

Accountants now ready for adoption of SaaS
1. Now recognized as the cloud leader
2. UK payroll
3. Extend sales presence across UK and increase market awareness
Cloud tipping point in the UK

Independent research commissioned by Xero involving a survey of 250 UK accounting practices in September 2013

- Using cloud now: 28%
- Intending to move: 27%
- No plans to move to cloud: 45%
UK practices working online

- FreeAgent: 29 certified, 161 uncertified
- e-conomic: 181 certified
- Clearbooks: 21 certified, 98 uncertified
- Sage One: 82 certified

Figures obtained from each vendor’s public directory and Xero as at August 2013
US strategy is to accelerate development of the partner channel and increase market awareness through online media and SEO/SEM.
FY14 Outlook

• Revenue growth over 80%
• Continuing strong investment will lead to increased operating losses for the second half period:
  - Increased product development capability
  - Continued recruitment of senior leadership
  - Accelerated expansion in UK and continued US investment
• Sufficient cash for current business plan
Leaders emerge
Cloud disrupts small business

- Small business is a giant market.
- Accounting is at the heart of small business software.
- Cloud creates a single global market accessible by over 500 million small businesses.
- Opportunity for global winner will be a cloud native business.
Market observations

App providers

- Young, small, underfunded
- Dropping away, acquired or being rolled up into venture funds
- Building features/applications not platform
- Ecosystem participants

- Enterprise software experienced entrepreneurial management, $200m+ cash
- No one else significantly funded
- Innovation rapidly redefining the market
- Formidable combination of nimbleness, capability and execution
- Open ecosystem and Platform

Incumbents

Intuit, Sage, MYOB

- Desktop software a different business, have been operating at maturity for some years
- Struggling with cannibalization of legacy cash flows
- Technical legacy makes cloud transition difficult
- Traditional approach to partnering
Barriers to entry

Incumbents

- Desktop business
- Slow ecosystem
- Legacy Code
- Old processes
- Legacy Relationships
- Rigid culture
- Talent attraction

Startups

- Accountant tools required
- $200m for a platform
- Capital
- Freemium trap
- Ability to scale
- Hard to build ecosystem
- Experience
First cloud native to scale revenue

- Intuit
- MYOB
- Sage
- Reckon
- Freshbooks?
- Wave
- Incumbents
- Pure cloud
Cloud adoption

Sources: Publicly available company reports
Executing to win

What we’ve done

Frequent major releases (Files, Purchase orders, US payroll)

Resourced UK and US growth engines

Building high energy culture and ecosystem

Added further robustness to delivery systems

What we’re doing

Build the best global team

Continued wall of new innovations

Extending sales focus across US and UK

Extend the cloud platform

Amplify network effects across the ecosystem and partner channel

Apply data to automate sales and marketing
Moving the product category

Quickbooks Online

Online Accounting

Xero

Single Code Base
Seamless files
Expense claims
Fixed assets
Categorization engine
Unlimited users
Collaboration
300 add-ons
Seamless payroll

Convert for free
Intuit payroll – 4 day down time
Xero best-in-class

Data security
Never a breach nor data loss
Private cloud platform with frequent backups

Data ownership
You own the data, we are the stewards of it

Uptime
Availability and performance are key to service (99.97% CY2013)

Data portability
Monthly subscription with no lock-in
Intuit API – multiple attempts

- Intuit Partner Platform
- ~55 add-ons
- Plays favorites
- Work with a select few and go deep
- Documentation complex
- 2 platforms (QBO and QBD)
- Restrict access when competitive

"Every one page of documentation at Xero is like ten pages for QuickBooks"

"For every one end-point we built to for Xero, we had to build to three for Intuit"
Xero API energizes the ecosystem

- Acquire customers via network effects, and address larger businesses
- Open reliable API on with which to grow your business
- Expert talented team and support
- Smiling mutual customers that don’t churn
- No fees and strong SaaS network
- 300 and growing network of global SaaS partners added to Xero’s wall of innovation
Beautifully integrated payroll
Payroll becomes fast, reliable and mobile.

@RealTimeAccing
Incredibly well positioned

Uniquely placed

- Immense upside in our addressable global market and platform adoption
- Absence of effective product competition for first five years and only one serious threat today
- Technically superior product and future innovations anchor our ongoing leadership
- $230m of cash to invest

Pulling away

- Best in class delivery cadence, proven operational excellence
- Expanding network effect of users, partners and add-ons
- Distribution and business model built for scale, globally
- Customers that love Xero and who are committed to our future success
Thanks for attending today.

Questions?
Appendix 1. Platform for growth
Xero platform

**Online accounting software**
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**Connected services**
Over 200+ small business apps integrate with Xero. Connecting these solutions gives you and your clients a view of their entire business.

**Practice Studio**
Connect client data with your practice software like Practice Manager, Workpapers and Tax. All on one platform in the cloud. And it’s free.

**Modern Practice**
As a business owner yourself, these tools let you to run your practice in the cloud – with your email, documents, marketing and content all connected together.
The single ledger

A single copy of financial data and documents in the world's most advanced double-entry accounting engine.
Online accounting

Automated bank feeds
- Online invoicing
- Mobile access
- Free & automatic updates
- Unlimited users
- Smart reports
- Unlimited email support

It's easy to reconcile more often

Xero receives your bank statement lines automatically. You can reconcile from anywhere – even from bed with our mobile app.

Find out more about bank feeds
Xero delivers the dream of client, accountant and bookkeeper tools on a single platform.
Modern Practice

- DOCUMENT MANAGEMENT
- OFFICE & EMAIL
- MARKETING TOOLS
- CONTENT TEMPLATES
Our goal is to have the richest, most active and high quality network of SaaS applications for small business. From the global internet giants to the latest niche solution.
Xero’s cloud engine

- Beautiful design
- Accounting, workflow & collaboration features
- Global, double entry, accounting engine
- Industry relational data model
- Multi-tenant, multi-shard, global architecture
- Scalable, secure, resilient and global infrastructure, operational excellence