



Beautiful accounting software

Operating update

9 OCTOBER 2014

Forbes

World's Most Innovative Growth Company 2014

Important notice

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

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- should be read in conjunction with, and is subject to, Xero's Annual Report, market releases, and information published on Xero's website (www.xero.com);
- includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control – Xero's actual results or performance may differ materially from these statements;
- includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance; and
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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 otherwise stated.

Investor calendar



Annual meeting
(strategic update)



Operating update



Interim financial results

FY2015 half year highlights

30 September 2014

H1 SUBSCRIPTION REVENUE

\$52M

\$28.1m for 6 mths end 30 Sep 2013

H1 YOY SUBSCRIPTION
REVENUE GROWTH

85%

91% constant dollar

CUSTOMERS

371,000

76% increase from 30 Sep 2013

ACMR

\$132M

87% growth from 30 Sep 2013

CASH TO INVEST

\$171M

Equivalent USD \$133m

ACCOUNTING PARTNERS

13,900

57% increase from 30 Sep 2013

Country performance

PAYING CUSTOMERS

	SEP 2014	SEP 2013	GROWTH
NEW ZEALAND	119,000	86,000	38%
AUSTRALIA	158,000	79,000	100%
UNITED KINGDOM	61,000	30,000	103%
NORTH AMERICA	22,000	10,000	120%
REST OF WORLD	11,000	6,000	83%
TOTAL	371,000	211,000	76%

PARTNERS

	SEP 2014	SEP 2013	GROWTH
	2,818	2,465	14%
	6,400	4,085	57%
	2,467	1,267	95%
	1,663	734	127%
	509	284	79%
	13,857	8,835	57%

Revenue growth

SUBSCRIPTION REVENUE

\$millions – 6 months to 30 Sep

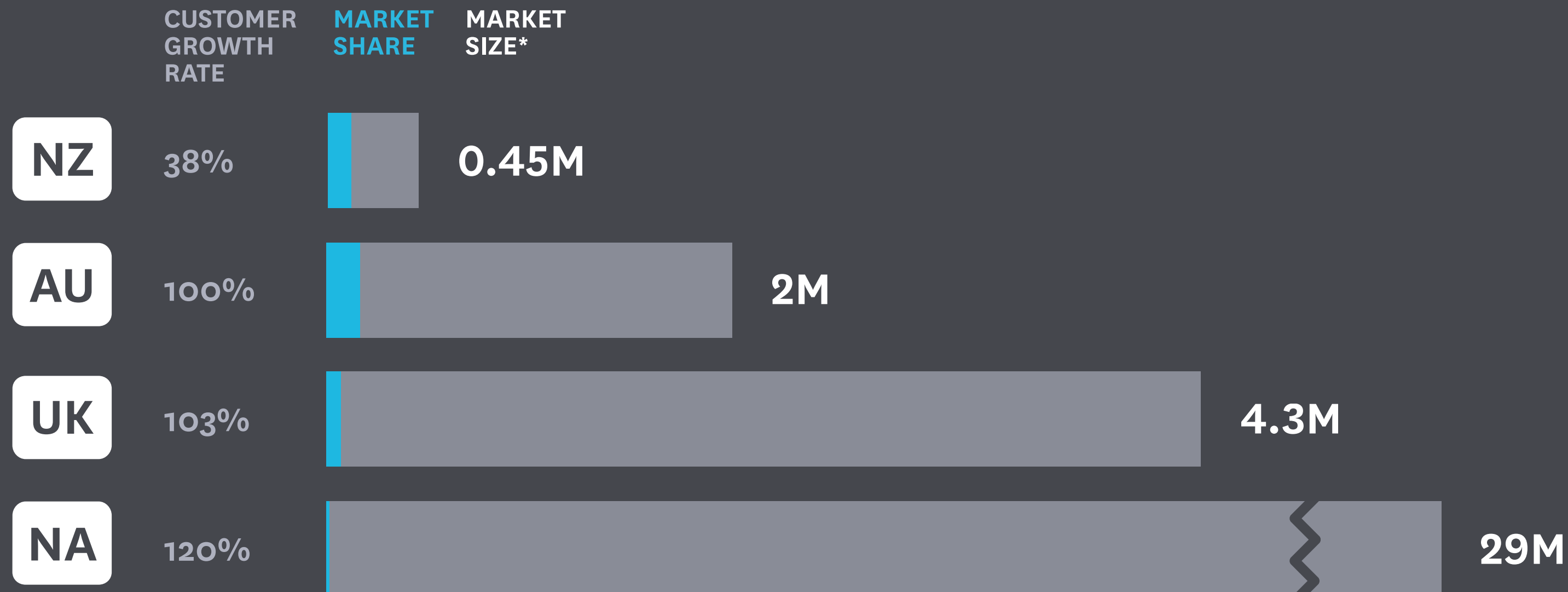
	SEP 2014	SEP 2013	GROWTH
NEW ZEALAND	15.1	10.6	42%
AUSTRALIA	23.9	11.1	115%
UNITED KINGDOM	8.0	4.0	100%
NORTH AMERICA	3.0	1.3	131%
REST OF WORLD	2.0	1.1	82%
TOTAL	52.0	28.1	85%

ACMR

\$millions – as at 30 Sep

	SEP 2014	SEP 2013	GROWTH
	34.0	23.9	42%
	63.9	30.2	112%
	20.9	10.2	105%
	8.2	3.8	116%
	5.3	2.5	112%
TOTAL	132.3	70.6	87%

Early into a huge opportunity



*Number of small businesses estimated from various market sources – March 2014

New Zealand

\$34M

ACMR

At 30 Sep 2014

42%

SUB REVENUE GROWTH H1 YOY

\$15.1M sub revenue

119,000

CUSTOMERS

38% increase since 30 Sep 2013

ACMR

42% growth



Sep 13

Sep 14

CMR BY CHANNEL



60%
Partners

40%
Online

CUSTOMERS BY CHANNEL



80%
Partners

20%
Online

New Zealand – innovation market

- Focus now on winning entire practices
- Introduce NZ Payroll in 2015
- Developing next phase of platform services:
 - Connect Small Business to Enterprise, Financial Institutions and Government
 - Banking 2.0: Two way bank connectivity and new Financial Services
 - Small Business Data at scale – \$60B processed in last year

Australia

\$63.9M

ACMR

At 30 Sep 2014

115%

SUB REVENUE GROWTH H1 YOY

\$23.9M sub revenue

158,000

CUSTOMERS

100% increase since 30 Sep 2013

ACMR

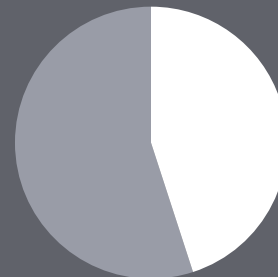
112% growth



Sep 13

Sep 14

CMR BY CHANNEL



55%
Partners

45%
Online

CUSTOMERS BY CHANNEL



71%
Partners

29%
Online

Australia summary

Achievements

- Xero online tax lodgements to ATO approaching 200,000
- Xero voted #16 in BRW best places to work in Australia (for companies >100 staff)
- Xerocon 2014 was largest accounting/tech event in AU
- Launched Xero API-enabled workers compensation insurance product to SMEs

Growth actions

- Complete delivery of Xero online tax for accountants & bookkeepers
- Xero Cashbook for Financial Advisors
- Continue free MYOB to Xero conversion tool (now well into the thousands)
- Grow online channel

United Kingdom

\$20.9M

ACMR

At 30 Sep 2014

100%

SUB REVENUE GROWTH H1 YOY

\$8.0M sub revenue

61,000

CUSTOMERS

103% increase since 30 Sep 2013

ACMR

105% growth



Sep 13

Sep 14

CMR BY CHANNEL



58%
Partners

42%
Online

CUSTOMERS BY CHANNEL



71%
Partners

29%
Online

United Kingdom summary

Achievements

- Strategic partnership with KPMG
- Direct bank feeds with RBS, NatWest and SVB
- Grew UK team from 45 to 98 staff, expanding UK footprint
- Doubled customers in last 12 months
- Brand firmly established with accounting profession

Growth actions

- Introduce Payroll in 2015
- Expand partner channel
- Grow online channel
- Secure technical & commercial relationships with remaining UK banks
- Invest in brand development & awareness with UK Small Business community

North America

\$8.2M

ACMR

At 30 Sep 2014

131%

SUB REVENUE GROWTH H1 YOY

\$3.0M sub revenue

22,000

CUSTOMERS

120% increase since 30 Sep 2013

ACMR

116% growth



Sep 13

Sep 14

CMR BY CHANNEL



38%
Partners

62%
Online

CUSTOMERS BY CHANNEL



51%
Partners

49%
Online

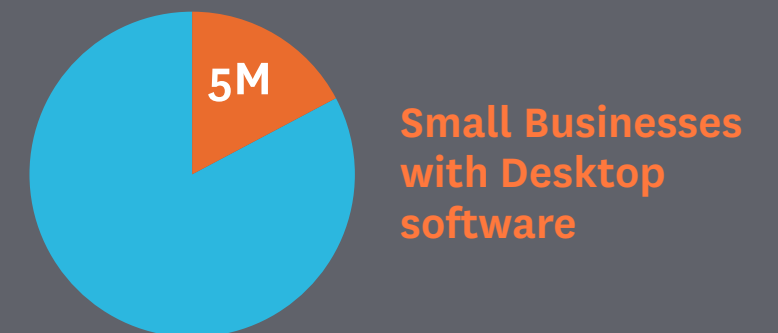
US opportunity is open

- Early adopter accountants are beginning the transition to the cloud and delivering advisory services
- Majority of accountants remain compliance focussed and only at the beginning of the transition to the cloud and proactive advisory services
- Cloud tools do not yet replicate features of desktop software
- Many US small businesses are using online tools, the majority do not yet have an accounting solution

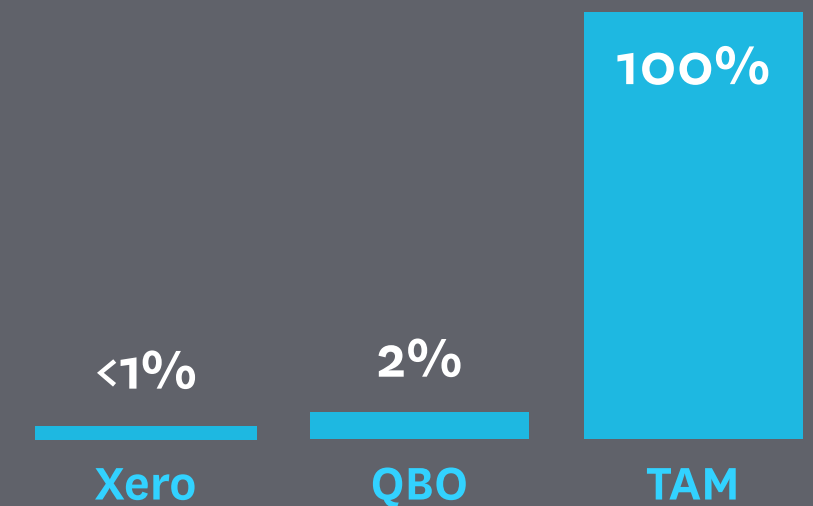
THEREFORE

- Online channel is of greater importance to reach millions of customers
- Brand relationships will be key to quickly reach the target market
- The transition to the cloud will play out over several years

US 29M SMALL BUSINESSES



US ONLINE ADDRESSABLE MARKET PENETRATION



US performance



GOING GREAT

Growing more confident in our “cloud-native” products and GTM strategy as we deliver US features

Positive early adopter accountants

Positive product feedback and reviews

Partnerships & opportunities

Ecosystem

Banking relationships



NEEDS WORK

Some product gaps

Speed of refining and tuning sales model

Dissatisfied with execution and leadership

Recruitment a challenge in the Bay Area

US execution



ACTIONS UNDERWAY

Recruit local leadership team

Implement sales model:

- Hyperlocal for field sales
- Inside sales in Denver
- Online channel at scale

Lift marketing both online and traditional

Consistent sales growth over last 12 weeks



EXECUTIVE FOCUS

Global success allowing more executive time in the US

- Rod Drury (CEO) 2 out of every 5 weeks
- Ross Jenkins (CFO) in US
- Simon McIver (VP Global Sales Operations) acting US VP Sales

Andy Lark incoming CMO - 15 years US marketing experience

US product progress

REVIEWED IN

PCWorld

TOP ONLINE
ACCOUNTING APP



Macworld

★★★★★

CPA Practice
Advisor

★★★★★

SHIPPED SINCE MAR 2014

- Payroll updates
- Batch deposits
- Faster spend/receive money data entry
- New Profit and Loss report
- QB conversion for accountants
- New partner bank feed - Silicon Valley Bank
- Smart Lists

IN PROGRESS

- Features to match and exceed available desktop products
- Integrated Payroll in more states
- Payments
- Practice management
- Business Intelligence

When they find us, they love us



Cristina Garza
Accounting prose

Xero has allowed me to double my practice. Switching to Xero has been the best strategic move we have ever made.



Jeremy Smith
H&R Block

H&R Block scanned the market for the best online accounting solution and chose Xero. It gives real-time financial insights small businesses need to grow and make more money.



David Barrett
CEO, Expensify

They're smart, passionate, very tech-savvy, and extremely creative in a space that hasn't seen a ton of innovation.



John Schweisberger
CEO, RBZ

Couple a great product with the powerful marketing and technical support we receive from Xero, and we benefit greatly from having a true business partner.

INTEGRATIONS/PARTNERSHIPS



H&R BLOCK



Square



SQUARESPACE



Expensify

Group outlook

- Net loss after tax for the six months to 30 September 2014 is expected to be around \$25M
- We confirm our guidance of full financial year subscription revenue growth of approximately 80% on a constant dollar basis

A person's hands are shown typing on a laptop keyboard. The laptop screen displays a website with the heading 'Foxglove Studios' and various data points and charts. The entire image is overlaid with a solid blue color. The text 'Investor story' is written in a large, white, sans-serif font across the center of the image.

Investor story



What valuable company is nobody building?

PETER THIEL, *ZERO TO ONE* PUBLISHED SEPTEMBER 2014

WWW.AMAZON.COM/ZERO-ONE-NOTES-STARTUPS-FUTURE



As Facebook is to the consumer market, someone must build the global financial platform for small business

CLOUD NATIVE

250m invested in a pure cloud company

Accounting is the beachhead application for small business

Pure SaaS architecture for global scale

Open ecosystem

SMALL BUSINESS FINANCIAL PLATFORM

Natural accountants channel

+

Connect small business, enterprise, banks & Government

+

Small Business data graph

=

Growth potential ahead of Enterprise SaaS ERP

GLOBAL

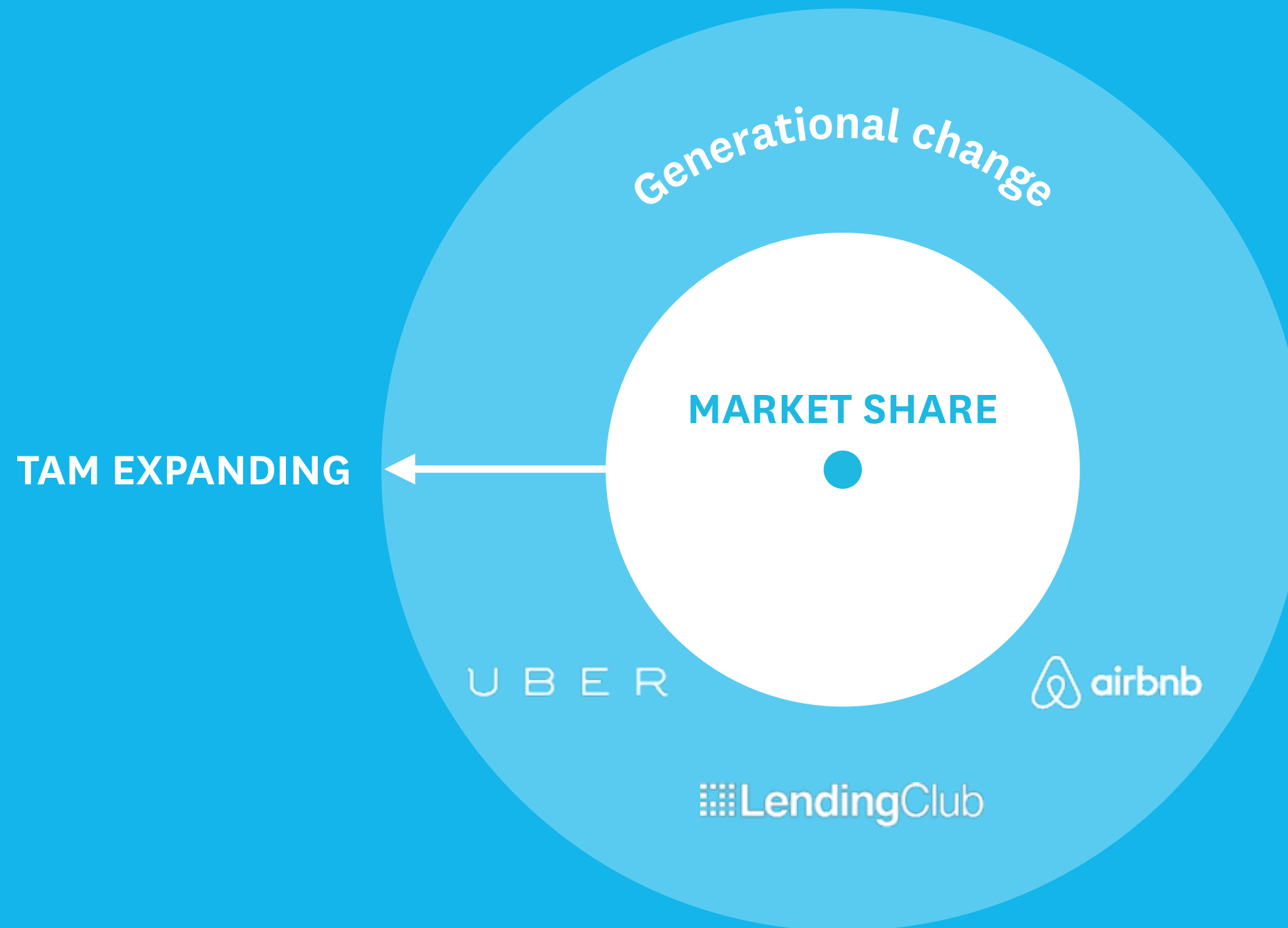
Day-one global strategy

Diversified global growth and revenues

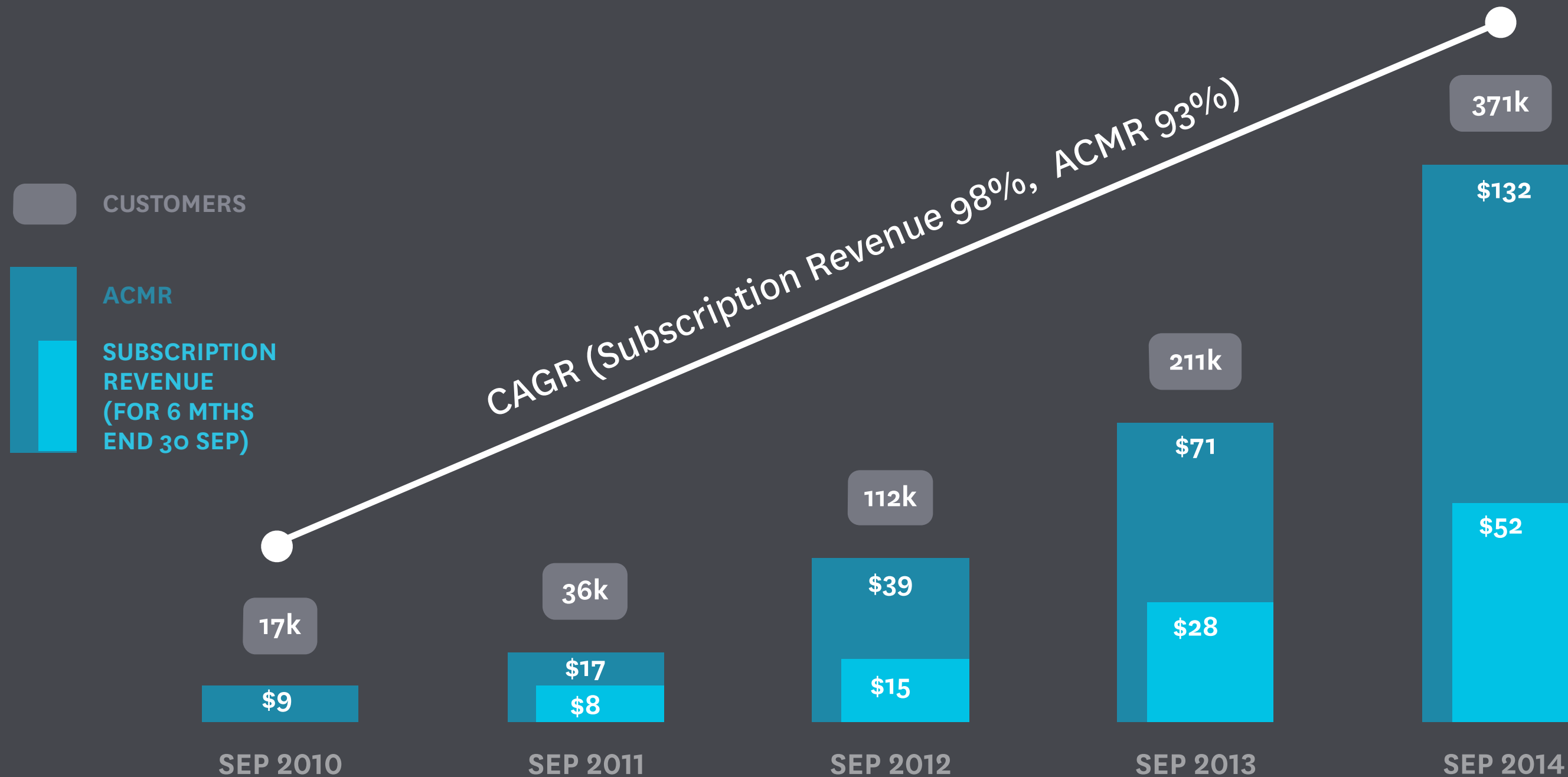
Sustained high growth

Massive and expanding TAM

Massive and expanding TAM



History of strong growth





Cloud native disruptors
routinely succeed



Q&A



Beautiful accounting software