

CAMERON PARTNERS 

 R ROTHSCHILD



BELL GULLY



NZX IPO Master Class

May 2013



The information provided in this document is a guide only and intended for general information purposes. It shall not constitute investment advice. In particular it does not constitute an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any transaction. While reasonable care has been taken in the preparation of this document to provide details that are accurate and not misleading NZX, its subsidiaries, directors, officers, employees, contractors and agents (a) do not make any representations or warranties regarding the use, accuracy, correctness, quality, completeness or timeliness of such information, and (b) shall not be responsible or liable for any use of any information contained herein under any circumstances. All descriptions, examples and calculations contained in this document are for illustrative purposes only. NZX and its subsidiaries offer services to market participants and to participants in its clearing and settlement system. Those who desire to trade any products available on any NZX market or to offer and sell any such products to others or to become a participant in the clearing and settlement system, should consider the requirements of the applicable Rules and other legal and regulatory requirements relevant to them, as well as the associated risks, before doing so. All intellectual property, proprietary and other rights and interests in this document are owned by NZX and its subsidiaries including, without limitation, all patent, registered design, copyright, trademark and service mark rights. No part of this document may be redistributed or reproduced in any form or by any means or used to make any derivative work without the written consent of NZX. © NZX Limited 2012

Introductions

Welcome by Tim Bennett – CEO, NZX

The presentation team:

1

Rod Drury

CEO & Founder, Xero

2

Ross Christie

Partner, Cameron Partners – Independent Investment Bank

3

Dean Oppenhuis

Partner, Bell Gully – Leading New Zealand law firm

Now is a good time to consider an IPO

The IPO market window is currently “open”

1. Global markets remain volatile, but investors have appetite for strong investment propositions in a low interest rate environment
 - There is over \$100 billion of retail funds in New Zealand bank accounts earning a low rate of interest
 - KiwiSaver funds of \$12.7 billion are building strongly (up from \$0.7 billion in 2008)
 - Institutions have growing pools of capital and are looking to deploy it in new opportunities
 - The New Zealand stock market has gained around 35% over the last 10 months
2. The IPO market in New Zealand has improved markedly as evidenced by the successful IPOs of Summerset, Trade Me, Fonterra and Mighty River Power – these lay a good platform for further successful listings
3. Listing on the stock market is not just for large cap companies:
 - The Capital Markets Development Taskforce recently identified that New Zealand has a funding gap for growth businesses seeking to raise between \$2 million and \$20 million – liquidity via an NZX listing helps to remedy that gap for both investor demand and growth companies seeking capital
 - Overseas markets have developed successful platforms for growth companies – Nasdaq, AIM, First North
 - Growth stocks have been some of the best performers on the NZX in the last couple of years – e.g. Xero, Diligent, A2 Milk, Pacific Edge
 - Hence, there is a strong appetite in the New Zealand market for growth companies with international business plans – we have recently seen the IPOs of Snakk Media, Moa, SLI Systems and The Mad Butcher
 - Global investment literature suggests that growth stocks should form a part of nearly every investors portfolio – yet there has been a dearth of (growth) company listings on the NZX in recent times
4. If investors have liquidity, they are more likely to invest providing a greater opportunity for companies to raise growth capital. Liquidity also helps to improve the overall valuation of a company, as illustrated on the next slides

Agenda

Intended to be an interactive panel discussion – please ask questions ...

1. Why undertake an IPO?
2. The IPO process
3. Life after listing
4. Questions?
5. Closing comments – Tim Bennett

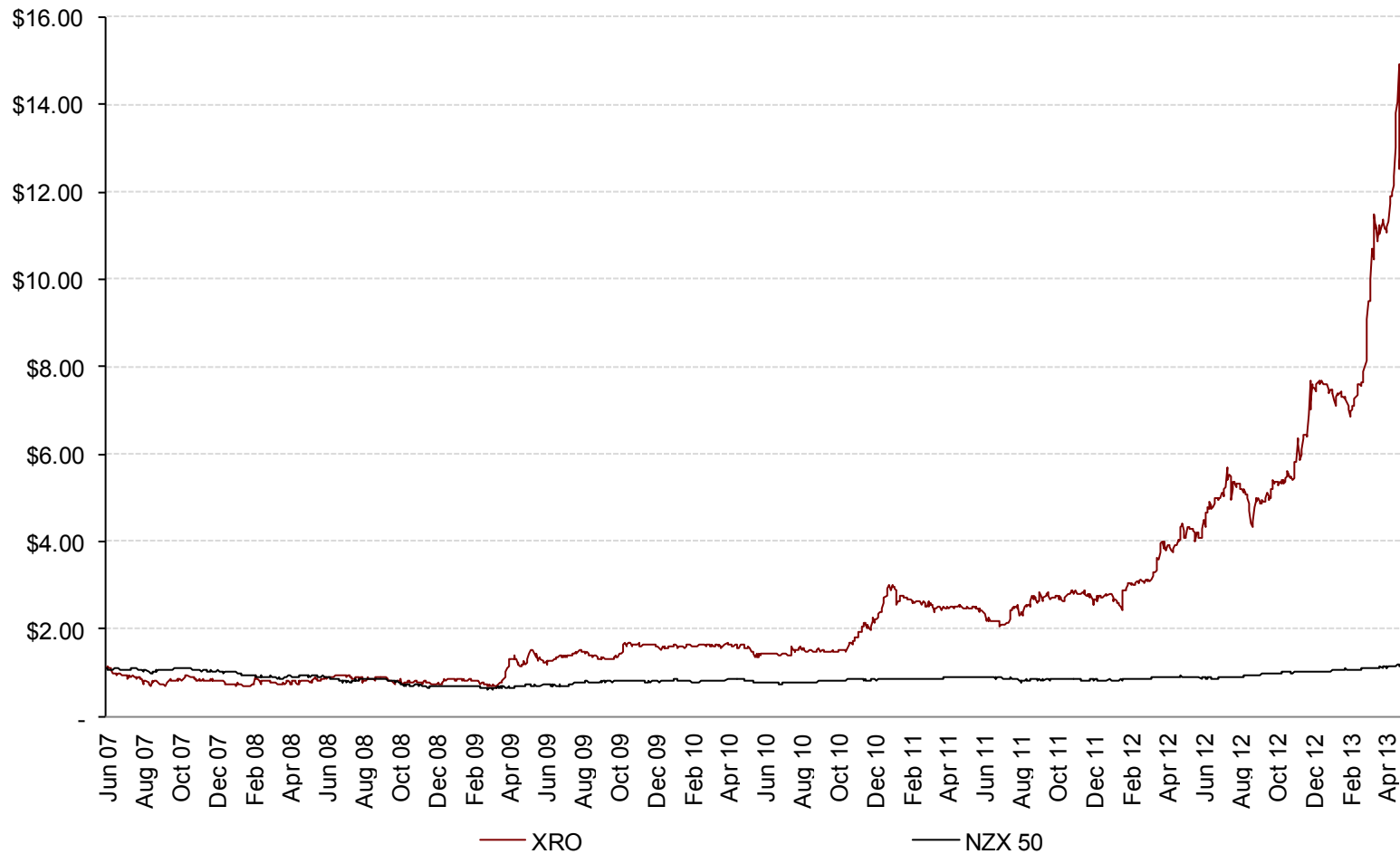
Growth companies like Xero have out-performed the market

Annualised return of 53% since listing in 2007 – through the GFC period

In Xero's capital raising of \$35 million in February 2012, around \$15 million came from free float investors willing to invest more in the company

This shows strong retail support for a good growth story in the current market

In November 2012, Xero also raised \$60 million of new capital from Valar Ventures and Matrix Capital Management to accelerate its investment in the business to take advantage of market conditions



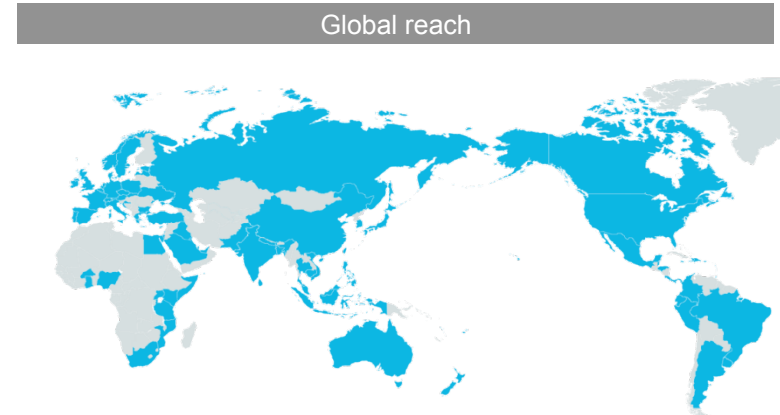
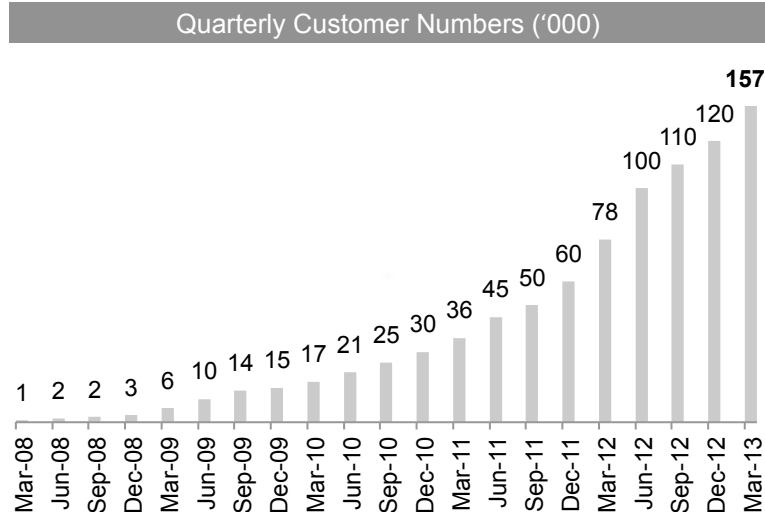
Source: Capital IQ, 13 May 2013

Xero's growth record

Xero has 157,000+ customers, 200,000 users in over 100 countries and has processed over \$100 billion in transactions on behalf of customers

Customer numbers have been growing exponentially year on year

31 March 2013, Annualised Monthly Committed Revenue is \$51.5 million (up from \$25.5 million 31 March 2012) – 62% is from offshore markets



A SELECTION OF COUNTRIES OF XERO'S PAYING CUSTOMERS

Xero's first 50,000 customers took 5 years to achieve, the second 50,000 was achieved in 10 months

ARGENTINA
AUSTRALIA
BELGIUM
BRAZIL
BULGARIA
CANADA
CAYMAN ISLANDS
CHILE
CHINA
COSTA RICA
ESTONIA

FIJI
FRANCE
GERMANY
GIBRALTAR
HONDURAS
HONG KONG
INDIA
IRELAND
ISLE OF MAN
ISRAEL
ITALY

JAMAICA
JAPAN
JERSEY
KENYA
KUWAIT
LUXEMBOURG
MALAYSIA
MEXICO
NETHERLANDS
NETHERLANDS ANTILLES
NEW ZEALAND

OMAN
PAKISTAN
PANAMA
PHILLIPINES
PUERTO RICO
ROMANIA
RUSSIAN FEDERATION
SAINT KITTS AND NEVIS
SAUDI ARABIA
SINGAPORE
SOUTH AFRICA

SPAIN
SWITZERLAND
THAILAND
TRINIDAD AND TOBAGO
TURKEY
UNITED ARAB EMIRATES
UNITED KINGDOM
UNITED STATES

Source: Xero management

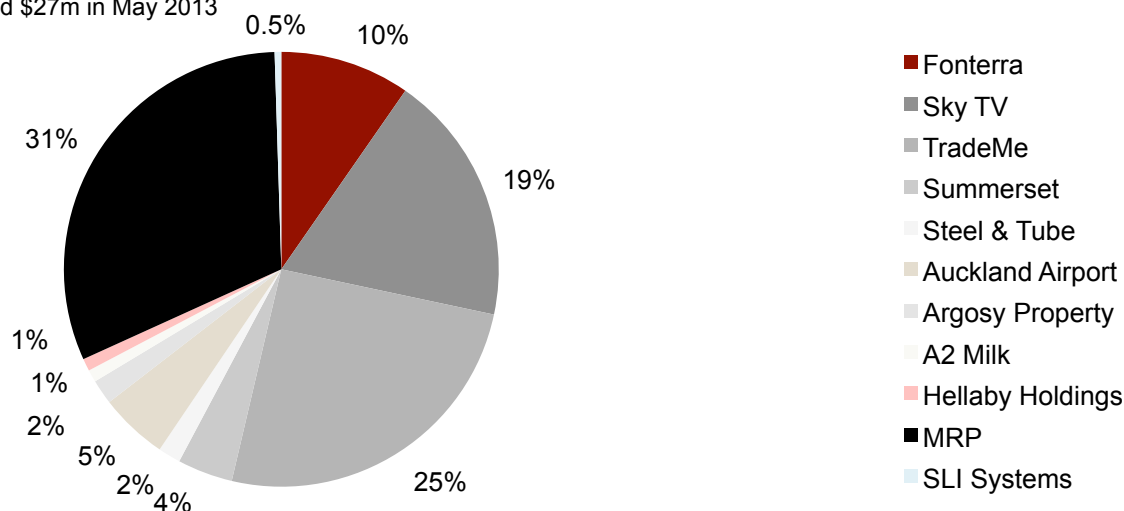
Recent New Zealand equity capital markets activity

Recent IPOs and secondary market equity issues have seen strong appetite from institutions and retail investors, including:

Capital raisings in the NZ market have recently raised around NZ\$4-5 billion, illustrating the market appetite for new issues

Mighty River Power listed on the NZX on 10 May 2013 at \$2.50, raising around \$1.7 billion. Over 440,000 retail investors pre-registered to receive the Prospectus. The final number of New Zealand investors was 113,000

- Fonterra – IPO raised \$525m in November 2012
- SKY TV – Todd Corporation sold \$218m (November 2012) and News Corp sold down their full stake worth \$815m (March 2013)
- TradeMe – IPO raised \$364m in November 2011, followed by two sell downs by Fairfax (Australia) worth \$202m (June 2012) and \$810m (December 2012), respectively
- Summerset – IPO raised \$124m in October 2011, followed by Quadrant Private Equity selling a further 18.6% for \$100m in March 2013
- OneSteel (Arrium) – Sold down its 50% stake in Steel & Tube for \$91m in October 2012
- Auckland Airport – New Zealand Super Fund placed \$276m with local institutions in February 2013
- Argosy Property – Raised \$100m of new capital for growth in December 2012
- A2 Milk – \$50m founder sell down plus new capital raised for growth in December 2012
- Hellaby Holdings – \$50m raising in April 2013
- Mighty River Power – IPO raised \$1.7b in May 2013
- SLI Systems – IPO raised \$27m in May 2013



Source: Capital IQ, 13 May 2013

Some NZ listed growth companies

NZ listed companies with strong global growth plans are trading on healthy revenue multiples

Investors are looking for new opportunities that are listed on the NZ stock market

An early stage listing, potentially provides access to larger pools of capital in the New Zealand market, without terms attached

Growth company opportunities span a range of sectors, not just technology

Listed Company	Sector	Enterprise Value \$m	Historic Revenue / Revenue Run Rate \$m	Historic Revenue / Revenue Run Rate Multiple
Xero	Technology	1,542	51.5	29.9x
Diligent	Technology	820*	70.1	11.7x
Snakk Media (recent listing)	Technology	32	2.0	16.2x
Pacific Edge	Biotech	161	0.3	537.0x
A2 Milk	Consumer	474	78	6.0x
Moa Beer (recent listing)	Beverages	37	2.4	15.2x
Scott Technology	Hi-tech manufacturing	102	61	1.7x

Source: Capital IQ, 13 May 2013
* Fully diluted, based on 116 million shares

Why undertake an IPO?

Why undertake an IPO?

Joining a public market is a way to grow and enhance your business

Why List?		Xero's Experience
1. Provides access to capital for growth	▶	<ul style="list-style-type: none">• Raising growth capital in NZ is challenging – especially in the \$2m to \$20m range• Xero has raised over \$145 million of growth capital – including a further \$29 million in 2009 and \$35 million in February 2012 and \$60 million in November 2012. Unlikely to have achieved this without the initial IPO
2. Place an objective market value on the business and create a market for the company's shares	▶	<ul style="list-style-type: none">• Xero listed at \$1.00 per share and the current share price is around \$13.75 per share
3. Encourage employee commitment and incentivise their long term motivation and performance	▶	<ul style="list-style-type: none">• Xero implemented an employee share scheme post listing to incentivise employees
4. Raise corporate profile <ul style="list-style-type: none">- Public awareness- Increased press coverage- Analysts reports	▶	<ul style="list-style-type: none">• Xero's profile has been greatly enhanced by being on the NZX• A strong PR strategy has also been key
5. Enhance the company's status and credibility with customers and suppliers <ul style="list-style-type: none">- Transparency of stability and performance	▶	<ul style="list-style-type: none">• Xero's access to capital and financial transparency has helped to instil customer confidence, especially in international markets
6. Provides the ability to make future acquisitions and access to raise further capital	▶	<ul style="list-style-type: none">• Xero has undertaken two key fundraisings following the IPO as well as two small bolt-on acquisitions

Getting ready for an IPO

Some early issues to get your head around

1. Are the members of the management team prepared for the greater disclosure, openness and accountability that investors and the market require?
2. Is the management team and board ready to invest the time and effort to plan and execute the IPO? It requires a strong team effort to make an IPO a success
3. Will the growth business plan have a high chance of being delivered – not just a “pipe” dream?
4. Is the current structure of your company, including the management team and Board, appropriate for life as a publicly traded company?
5. Is there a credible IPO “story” – easily understood by investors?
6. Do you believe you can convince an investment bank, or a broker, to come on board to help you prepare for and promote the IPO?

Developing your IPO “story”

Every IPO needs a unique and convincing “story”

Xero’s “Story” was clearly articulated and laid out in its IPO Prospectus

It is key to continue to re-emphasise a clear and concise message

An early PR strategy is essential – social media can be helpful

Elements of a good “Story”		Xero’s Story
1. Proven business model with strong growth prospects	▶	<ul style="list-style-type: none"> Accepted technology shift to software-as-a-service (“SaaS”) model was proven e.g. Salesforce.com in CRM market. No credible online player in ERP (accounting) market SaaS business model enabled a NZ company to genuinely play in a global market Xero had paying customers at the time of the IPO
2. Growing market opportunity	▶	<ul style="list-style-type: none"> Large market opportunity with over 5 million SMEs in NZ, Australia and UK. US much larger SaaS model ideal for the fragmented SME market Large incumbent providers were desktop software constrained
3. Compelling product offering		<ul style="list-style-type: none"> Low cost accounting system – online, easy to use, continuous innovation, cost effective, real time access, assists decision making, easy to switch to Xero
4. Credible, capable management team	▶	<ul style="list-style-type: none"> Management had depth and had built, scaled and sold businesses previously
5. Experienced Board of Directors (including independents with public markets experience)	▶	<ul style="list-style-type: none"> A mixture of public company and international technology experience who were willing to put their reputations on the line and invest at the IPO price of \$1.00 per share
6. Clear reasons for raising money (growth vs. sell down)	▶	<ul style="list-style-type: none"> To raise sufficient growth capital (\$15m initially) to quickly scale the business – no sell down at IPO To achieve a market leading position in the global online accounting space ahead of others
7. Timing <ul style="list-style-type: none"> - Clear reasons for “Why now?” - Market dynamic 	▶	<ul style="list-style-type: none"> Technology shift to the SaaS model was happening and proven IPO window was open in early/mid 2007

Key criteria for an IPO on the NZX

Some key rules

1. Generally, no minimum amount of capital to be raised
 - However, directors/advisors/investors will want comfort that the business will raise sufficient working capital to trade for at least 24 months
2. At least 25% of free-float shares in public hands post listing
3. At least 500 shareholders
4. Prospectus and disclosure requirements
5. Board structure requirements with a minimum number of independent directors
6. Embargos from key shareholders (e.g. founders) from selling shares for a period after the IPO
7. Sponsor / Organising Participant to sponsor and certify the company to the market – typically an investment bank, approved by the NZX, that is willing to put their credibility/reputation on the line

The IPO Process

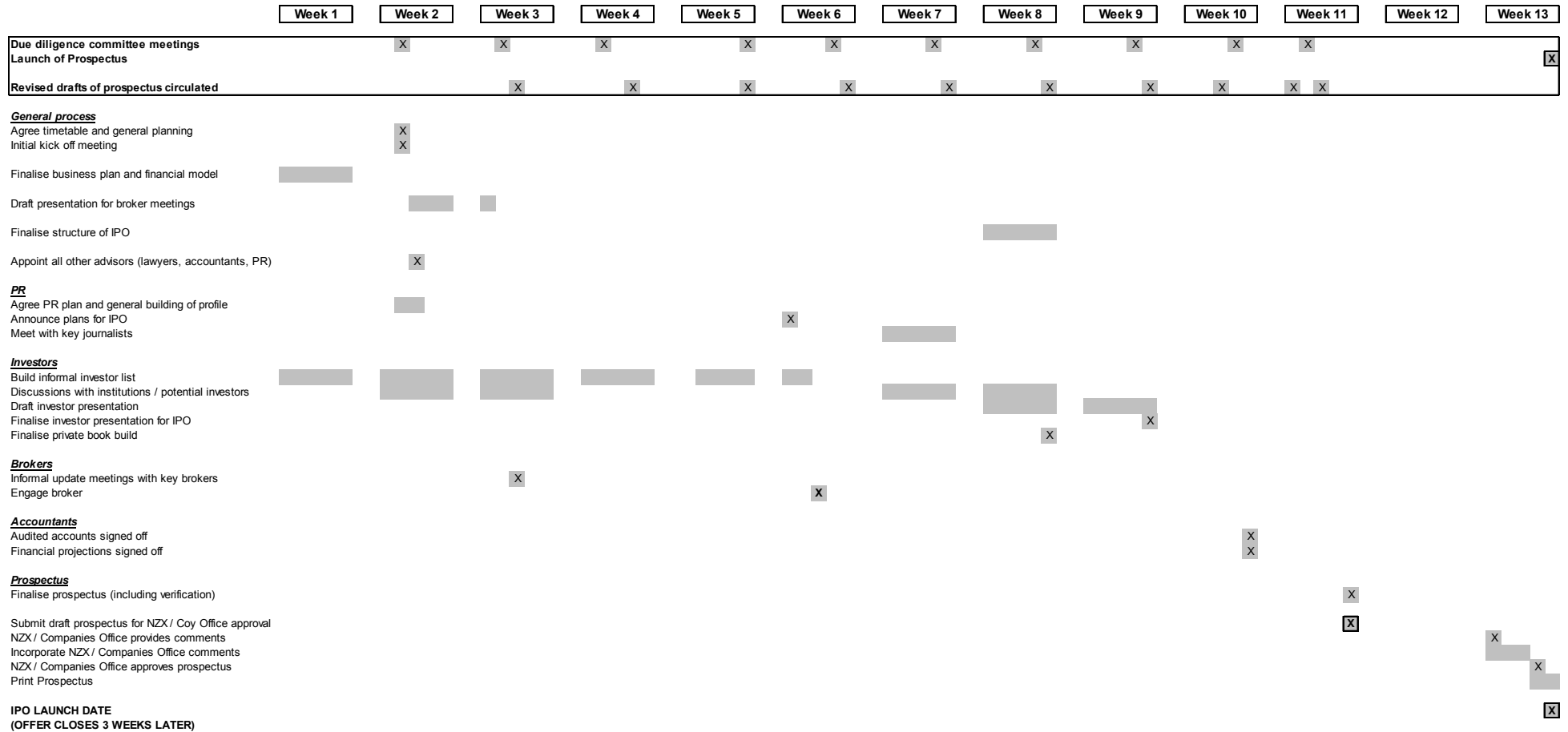
Pre-IPO planning

As always, preparation and planning is key

1. Ensure a high-quality management team is in place
2. Solve any key outstanding business issues ahead of the IPO process
3. Develop a PR strategy early – build company profile and awareness well ahead of the IPO
 - Once the IPO process is formally underway there are legal restrictions about what can and cannot be said about the IPO
4. Appoint capable and experienced advisors with market standing – initially the investment bank and law firm
5. Assemble a credible Board
 - Directors need to be willing to be involved in the IPO process (e.g. due diligence committee etc)
 - Identify gaps at Board level – the investment bank can probably assist
6. Establish an IPO timeline and process – look to deliver to the plan

Indicative IPO timeline – for a growth company

3-4 months+ of preparation to be in a position to launch the IPO



IPO Process – Due Diligence Committee

An issues driven, bottom up due diligence approach is best

The law firm and investment bank guide the due diligence process, as observers on the due diligence committee

1. The law firm and investment bank can advise on the best practice due diligence approach to maximise efficiency, whilst ensuring it meets Prospectus legal and marketing requirements
2. A thorough due diligence process helps to identify issues and provides protection and comfort for directors and promoters of the issue. All statements in the Prospectus ultimately need to be formally verified

The due diligence committee meets on a regular basis to ensure that all key issues are being addressed and that a rigorous IPO process is being conducted to ensure the Company is “investor” ready

Due diligence overview

Legal due diligence

A review by Company and legal counsel of material contracts, corporate structure, litigation and other legal diligence items

Corporate

- Material contracts
- Related party transactions
- Risk factors
- “Other information” disclosure in prospectus

Business and regulatory due diligence

Analysis by Company, advisers and legal counsel of specific business related and operational performance (current and historic), including regulation

Business

- Business description
- Growth strategy
- Board and Management
- Risk factors
- Regulation

Financial and tax due diligence

Analysis by Company, advisers, accountants and legal counsel of the historic/ current / forecast trading of Company and key tax issues

Financial and tax

- Management discussion and analysis
- Historical financials
- Forecast financials
- Tax implications for investors
- Independent Accountants Report

Market specific due diligence

Issues related specifically to the offering, offer structure etc. Usually compiled by the advisers and legal counsel

Structure / Markets

- Offer structure
- Market Information
- Management
- Underwriting

The role of advisors

An IPO needs motivated advisors that can work as a team

Advisors		Functions in the IPO
• Investment bank / broker	▶	<ul style="list-style-type: none">• Primary responsibilities include managing and driving the IPO timeline/ process, prospectus drafting, offer structuring and marketing the IPO, arrangement of research (if possible), selling effort, distribution and management of brokers• Helps to certify the IPO to the market and potential investors
• Legal advisor	▶	<ul style="list-style-type: none">• Management of the due diligence process and offer document verification process, assisting with offer document preparation and lodgement, ensure compliance with NZX and other regulatory bodies and undertake all legal due diligence work
• Accounting/tax advisor	▶	<ul style="list-style-type: none">• Corporate structure for listing, audit pro-forma historical financials, review prospectus forecasts and pro-forma balance sheet• Prepare investigating accountant's report for prospectus• Provide specialist tax structuring advice and tax due diligence
• Public Relations advisor	▶	<ul style="list-style-type: none">• Promote positive media coverage of the company during the IPO marketing phase and post listing• Help ensure correct messaging is delivered through various media outlets, including social media
• Technical consultants (if required)	▶	<ul style="list-style-type: none">• Provide specialist reports as required by the Due Diligence Committee, such as asset condition or environmental reports
• Logistical providers	▶	<ul style="list-style-type: none">• Share registry, printers, website application providers, designers, advertising agency

Some key issues to manage

An appropriate offer structure is key to success

	Issues likely to arise		Xero experience
Offer structure	<ul style="list-style-type: none">▪ Sell downs by founders / key existing investors▪ Balance to be obtained between maximising offer sizing, potentially to the detriment of price▪ Institutional investors versus retail investor balance▪ Fixed price (e.g. Xero, Summerset) versus book build process to determine the price (e.g. Trade Me)	➤	<ul style="list-style-type: none">▪ Xero set a fixed price IPO of \$1.00 per share▪ No sell downs; independent directors invested at IPO▪ Raise was set at \$15 million with the ability to take \$3 million of over-subscriptions. The IPO minimum was \$10 million to enable it to proceed▪ High net worth and retail subscribers – over 1,000 shareholders at IPO. Over 25% free float post IPO▪ Today there are more funds/institutions in the market looking for growth opportunities
Financial information	<ul style="list-style-type: none">▪ Too long a forecast period, may increase Prospectus risk for Directors▪ Detailed financial disclosure of assumptions and key value drivers which may be commercially sensitive to the Company	➤	<ul style="list-style-type: none">▪ Xero only forecast one year ahead, given early stage nature of the business▪ Minimum forecast disclosure period has now changed to approximately 2 years with key forecast assumptions stated▪ Forecasts to be reviewed by reporting accountants
Capital structure and dividend policy	<ul style="list-style-type: none">▪ Investors will want conservative capital structures versus what is the optimal capital structure for the Company▪ Dividend yield may enhance the ability to sell to retail and institutional investors, versus what is reasonable having regard to the Company's capital structure and growth outlook	➤	<ul style="list-style-type: none">▪ Xero was a growth company, thus offered investors a conservative capital structure (no debt), but equally no dividend yield▪ Technology companies globally tend to have net cash on their balance sheets and are typically capital gain plays

Some key issues to manage

Momentum is key to building investor appetite and valuation

Valuation and equity story

Issues likely to arise

- It is key to have a strong IPO “story” that is clearly conveyed to build investor demand
- Brokers are often more aggressive on pricing at the outset and less so once the Company is fully committed to the process
- Often a “valuation vacuum” in the process, so valuation momentum needs to be maintained



Xero experience

- Xero achieved a pre money valuation of \$40 million (and a post money valuation of \$55 million)
- Independent directors invested at the IPO price of \$1.00 per share, which was key certification
- Valuation was also certified to the market by Cameron Partners and held firm with the brokers
- The full \$15 million was obtained – achieving balance between price and size of offer

Pre-marketing

- Develop IPO “story”
- Ensure that presentation materials are properly prepared and reviewed ahead of broker/analyst presentations
- Need to judge time of meetings with key brokers in the market place – need to visit them 2-3 times to build the “story”
- Key to convey momentum is building, the opportunity is real and the investor book is building
- Try to achieve analyst coverage of the stock (and a brokers note) to use in the IPO – often difficult in a small IPO
- Other tactics – see next slide



- Xero carefully prepared an investor presentation
- Xero met with key brokers 2-3 times during the process to build the “story”
- Xero also built its own investor book, which comprised several million dollars, which was key to success
- First NZ Capital pushed the offering to its retail investor base
- No broker research was obtained. However, there are now independent research houses in the market which will assist the process to provide investors with an independent view of the opportunity

Launching the IPO

It is key to launch an IPO already knowing it will be successful

1. There needs to be a high degree of confidence that the IPO will be successful before it is launched – strong pre-marketing should deliver that certainty
2. Other tactics to generate investor support, include:
 - Asking investors to pre-subscribe to the IPO and sign up to receive the Prospectus
 - Writing to the share registers of other listed companies (with their approvals) to reach a wide investor base
 - Getting pre-commitments from ‘lead steer’ investors prior to the Prospectus being launched – industry insiders, key institutions, independent directors etc.
 - Broker support and independent research
 - Broker firm commitments to buy stock – usually off the back of their client indications
 - Scarcity of shares on offer – institutional versus retail pools
 - Further investor presentations and road shows
3. A strong and consistent PR strategy is key from the outset – continue to market the IPO (social media, newspapers)
 - Need to get key market commentators across the story and generate their support
4. Set a realistic minimum amount to raise as the default position (often lower than the targeted amount)

Costs of IPO

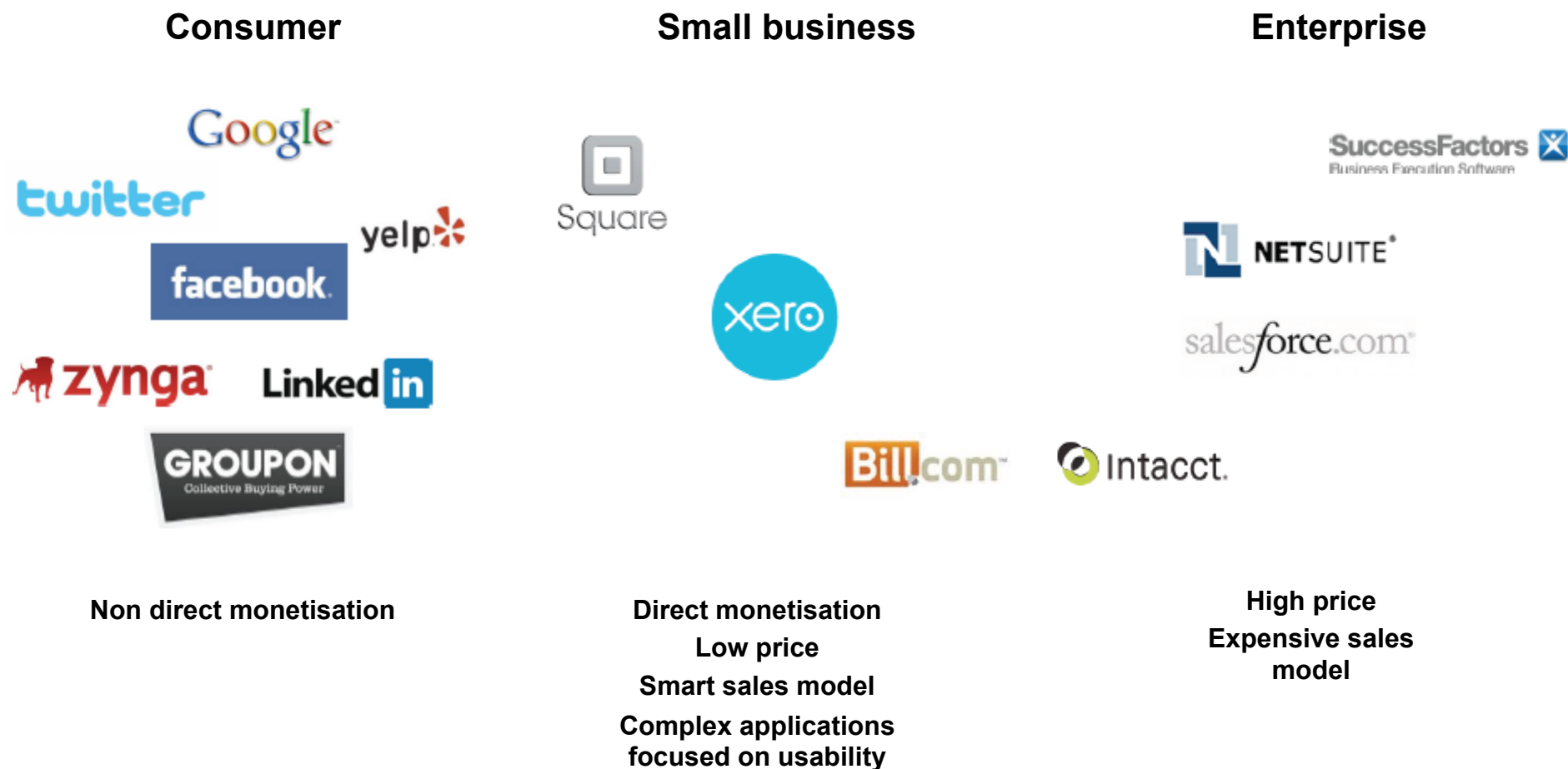
- Costs of an IPO vary with the amount of capital raised:
 - A large IPO – total costs in the order of up to 3% of funds raised
 - A medium sized IPO – total costs in the order of 3-5% of funds raised
 - A smaller IPO – total costs might be in the order of 5-7% of funds raised
- Some costs can be weighted towards success – for example, the investment bank is typically paid a modest retainer and then a success fee on completion
- Some other advisor costs can be weighted towards the back end of the process when there is certainty of success – printing, registry, brokerage
- Thus, costs can largely be paid out of the fundraising proceeds

Key success factors for Xero's IPO in 2007

1. The founders wanted to do it
2. Recruited a high quality management team at the outset
3. Engaged an experienced board early
4. Developed the IPO story
5. Engaged advisors early
6. Developed a PR strategy early – built company profile and awareness well ahead of the IPO
7. Established an IPO timeline and determinedly delivered to it
8. “Dug deep”, but had fun along the way

Life After Listing

Maintaining the vision ...



Xero's vision to be the global leader in online accounting for small businesses – small business is a big monetisable, internet opportunity

Xero – a one page snapshot of achievements

Xero is the leading emerging international SaaS based accounting platform

Xero was one of the first companies to create a solely online accounting product and has quickly established itself as one of the leaders in its field

Business description

- Xero (XRO) is a New Zealand based developer of online accounting software, targeting Small and Medium Enterprises (SME's - businesses with fewer than 20 staff) and, more recently, individuals
- The company was founded in 2006 and is headquartered in Wellington, New Zealand. Xero employs over 370 staff (150 staff hired in past 2 years)
- The company listed on the New Zealand Stock Exchange in June 2007, with an initial market capitalisation of \$60m, following a successful \$15m IPO at \$1 per share

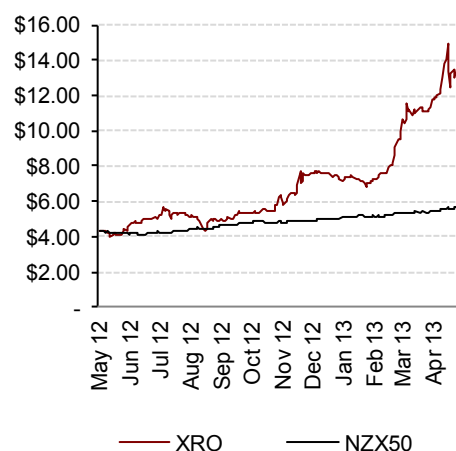
Xero's market positioning

- **Client accounting software** – online accounting for small businesses
- **Accountant side accounting software** – practice accounting software for the accounting including extended reporting tools
- **Modern practice software** – a set of integrated cloud solutions allowing accountants to run their practice entirely without on premise hardware
- **Personal financial management** – untangle personal and business expenses for the small business owner

Recent news

- Xero acquired Spotlight Workpapers in July 2012 for \$800,000 – a Wellington-based software developer
- Xero acquired Paycycle in March 2012 – an Australian online payroll company for A \$1.5m as well as WorkflowMax – a time and cost application for professionals for NZ\$6m (\$2m cash, \$4m shares)
- Xero was New Zealand's fastest growing exporter in the 2011 Deloitte Fast 50 Index

Share price graph



Source: Capital IQ, 13 May 2013
PAGE 28

Financial overview

NZ\$ million	FY09A	FY10A	FY11A	FY12A
Operating Revenue	1.0	3.2	9.3	19.0
growth		229%	196%	103%
Reported Net Loss before Tax	(6.8)	(8.5)	(7.5)	nd
EBITDA (forecast format)	(8.2)	(10.2)	(10.2)	nd
EV/Revenue	1542x	482x	166x	81x
As at 13 May 2013:				
Share price				\$13.75
Market cap				1,572
Total debt				-
Minority interest				-
Cash				78
Enterprise value				1,542

Source: Capital IQ, 13 May 2013 and Xero Limited Annual Reports

Customer split

	Mar-11	Mar-12	Mar-13	Growth 11-13
NZ	23,000	47,000	73,000	217%
Australia	6,000	16,000	51,000	750%
UK	5,000	11,000	22,000	340%
US/Global	2,000	4,000	11,000	450%
Total	36,000	102,000	157,000	340%

- Significant growth is expected in international markets and the company has publicly said it is targeting 1 million customers in the medium term

Maintaining market leading position



“Startups”



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

Category now also requires client accountant software

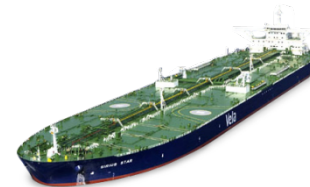
“Nimble, funded, global”



Expected competitors have not really emerged

No one else has significant funding

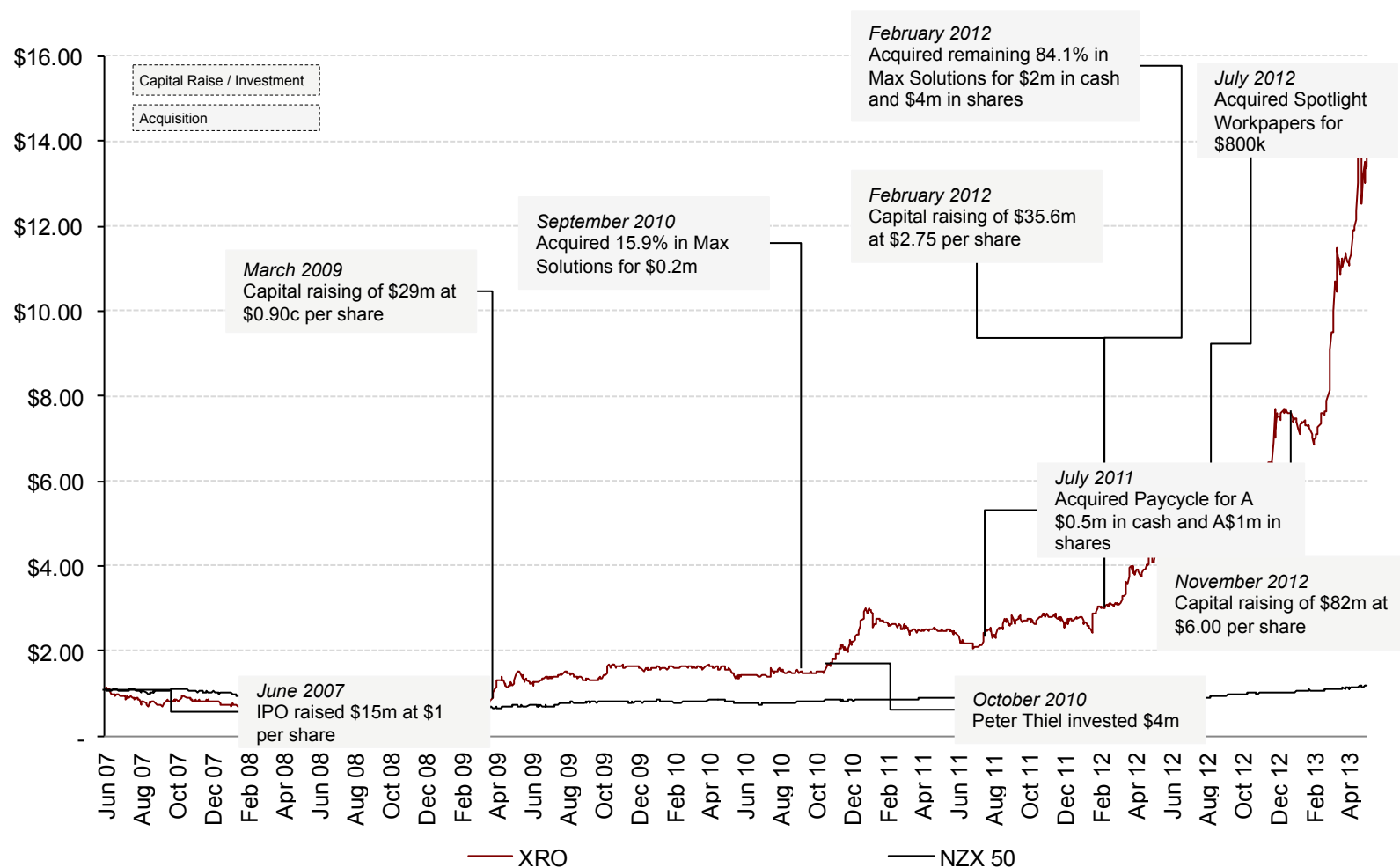
“Incumbents”



Incumbents (MYOB, Sage, Intuit) continue to struggle to deliver online accounting given their legacy desktop offering

Share price performance post listing

Compounded annualised return of 53% since listing in 2007



Capital raisings post IPO

Xero has undertaken four subsequent capital raisings

1. March 2009 – raised \$29 million at \$0.90 per share
 - Craig Winkler (ex founder of MYOB) invested \$20 million
 - Share purchase plan of up to \$5,000 offered to all other shareholders – raised \$7 million
2. October 2010 – raised an additional \$4 million from Peter Thiel (ex founder of Paypal and investor in Facebook)
 - Key US investor to assist expansion in the US market
 - Price was based on the volume average weighted share price for prior 20 days – around \$1.50 per share
3. February 2012 – raised \$35 million at \$2.75 per share
 - Raised \$20 million from existing, larger shareholders plus institutions
 - Share purchase plan of up to \$15,000 offered to all other shareholders – raised \$15 million
4. November 2012 – raised \$82 million at \$6.00 per share
 - Matrix Capital Management invested \$58 million and Valar Ventures invested \$24 million
 - Their total investment of \$82 million included a purchase of \$22 million of shares from Xero's three largest shareholders

A listing on the NZX has provided Xero with direct ability to raise further capital – liquidity has helped to attract key international investors and institutions

Key capital raising rules

Some key considerations

1. Shareholder approval not required for placements of new shares up to 20% of the current issued share capital in any 12 month period
2. Shareholder disclosure required once a shareholding reaches 5%
3. Employee share schemes of up to 3% of current issued share capital in any 12 month period (without shareholder approval)
4. Share purchase plan rules – refer next slide

Share purchase plan (“SPP”)

A cost-effective way to raise more capital from existing shareholders

- An efficient way to raise new capital – avoids “Prospectus” process for a rights issue
- Can offer up to \$15,000 of new shares offered per shareholder, irrespective of shareholding (without shareholder approval)
- Often undertaken following a larger placement to raise new capital
- Largely ensures that minority shareholders are not diluted from the larger capital raising
- No Prospectus required – simple 3-4 page document only
- Typically open for 21 days
- Take-up rate typically above 30-40%, depending on other strategic initiatives announced at the time and nature of shareholder base

It is important to look after the minority shareholders, especially in dilutive capital raisings that introduce new shareholders

Acquisitions

A listing gives a “currency” to make bolt-on acquisitions



- Xero's strategy is not acquisition led, however being listed on the NZX has enabled it to undertake in-fill product acquisitions, where:
 - the acquisition was core to the Xero product in a specific geography or globally
 - it gains Xero a development “leg-up”
 - the acquisition is cost-effective

Workflowmax



- In July 2011, Xero acquired Paycycle, an Australian online payroll company, given payroll is seen as an integral part of the accounting system in the Australian market. Price was A\$0.5 million in cash and A\$1 million in shares
- In September 2010, Xero also acquired 16% of MaxSolutions Ltd., a company that offers a SaaS practise management platform (Workflow Tax) and provides on-line tax filing in New Zealand
- In February 2012, Xero acquired the remaining 84% of MaxSolutions for \$2 million in cash and \$4 million in shares
- In July 2012, Xero acquired 100% of Wellington-based software developer Spotlight Workpapers for \$800,000 using a combination of cash and shares, with a component of the price payable in March 2013
- Xero may or may not consider other small, product-led, bolt-on acquisitions in the future

SPOTLIGHTWORKPAPERS

Investor relations

1. It's your job to get coverage
2. NZX announcements get covered – think about Market Release vs. Media Release
3. Annual Meetings are an opportunity
4. Blogs allow you to extend the message
5. Continually thank shareholders and make them feel part of the team. They are the business owners
6. No matter what you do, there are still millions who have never heard of you

Measuring the success of an IPO

1. Strong share price and investor returns
2. Successful employee incentive plan
3. Enhances corporate profile – analyst and financial press coverage
4. Business momentum – customer and supplier confidence
5. Follow on capital raisings
 - Attracting institutions and overseas investors
 - Strong SPP take-up from existing investors
6. Acquisitions
 - Vendors willing to take shares as consideration
7. Strong financial performance

Xero ticks these boxes

Questions?

1. What haven't we covered?
2. Call any of us for an informal and confidential chat – we are very happy to discuss further

There exists a significant opportunity for you to list your business on the NZX – go for it!

Contact Details:

Rod Drury

CEO & Founder, Xero – rod.drury@xero.com – 027 6000 007

Ross Christie

Partner, Cameron Partners – ross.christie@cam.co.nz – 021 715 368

Dean Oppenhuis

Partner, Bell Gully – dean.oppenhuis@bellgully.com – 021 317 697

John Fernandes

NZX – john.fernandes@nzx.com – 04 495 2808

Closing – Tim Bennett