

MARKET RELEASE

Xero announces strategic alliance with Gusto for US payroll

Supporting future growth by providing US small businesses with full-service payroll solution

WELLINGTON, 20 July 2018 - Xero Limited (ASX: XRO) announces a strategic alliance with leading full-service US payroll platform Gusto that will integrate Xero's platform in the US with Gusto to provide customers access to full-service payroll in all 50 States.

The strategic alliance allows Xero to better serve the US market with a full-service payroll offering that meets the needs of customers working across 50 US states, each with different payroll tax requirements. Gusto handles all aspects of payroll on behalf of the small business owner, including all federal, state and local payroll taxes.

The strategic alliance is expected to enhance Xero's North American customer proposition and is also consistent with its US strategy communicated in 2017 to drive sustainable growth through accounting partners.

As a consequence of ceasing development of its US in-house payroll product, a NZ\$16.2 million non-cash impairment of assets will be incurred, which will be recognised in the first half of the 2019 financial year.

This decision allows Xero to redeploy resources into Xero payroll in other markets and other projects. In June 2018, 1.25 million employees outside the US were paid via Xero payroll.

Xero Chief Executive Steve Vamos said: "The strategic alliance with Gusto is an important step in the implementation of our US growth strategy. Through the alliance Xero will serve the needs of customers in all 50 States and address one of the greatest pain points for US small businesses - managing payroll with beautifully integrated accounting."

"We have found the majority of US small businesses want a full-service payroll solution. This strategic alliance allows us to focus our investment in our payroll product and brings important financial benefits and more efficient deployment of our resources as we execute our growth strategy."

About Xero

Xero is a beautiful, easy-to-use global online platform for small businesses and their advisors. The company has 1.4 million subscribers in more than 180 countries. Xero seamlessly integrates with more than 700 apps. It was ranked No. 1 by Forbes as the World's Most Innovative Growth Company for two years running.



About Gusto

Gusto's mission is to create a world where work empowers a better life. By making the most complicated business tasks simple and personal, Gusto is reimagining payroll, benefits and HR for modern companies. Gusto serves over 60,000 companies nationwide and has offices in San Francisco and Denver.

Contact

Xero Corporate Communications

Kate McLaughlin

+64 27 533 4529

kate.mclaughlin@xero.com