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16 August 2018

Xero: Fund Manager Alleron expects Xero to report UK and US success

Xero has recently transitioned to a new CEO, experienced global technology executive Steve Vamos to lead the company in its next phase of global growth. Founder Rod Drury remains with the company as a non-executive director and major shareholder who intends to focus on product development. Recent announcements such as the strategic alliance with US company Gusto to provide full-service payroll and the acquisition of Hubdoc, a leading data capture company that automates the collection of bank statements, bills and receipts give an indication of Xero's intention to accelerate growth in the US.

[This would support Alleron's change argument that Xero can replicate the success of its market leading platform in Australia and New Zealand in other geographies.](#)

We expect an update at Xero's AGM next week on the 16th of August on their progress in the two important markets of the UK and US, as well as new growth opportunities that were highlighted in the 2018 result of Asia and Canada.

Here is what we said about Xero in June 2017. Since then, it has reported an installed revenue base of nearly \$500m and 1.4 million customers giving confidence that its target of \$1 billion in revenue is achievable.

Xero Limited (XRO) – Long Position

Energy Argument: Xero is one of the only truly cloud based accounting software packages available for small businesses. The market reach is now extended through multiple continents and jurisdictions including the significantly larger UK and US markets. The founders of Xero, through their experience with founding competitor MYOB, developed a superior product that has taken the lion's share of the cloud-based accounting market in Australia and New Zealand. Further, the benefit of the cloud system is that it allows Xero to create an ecosystem of suppliers and clients and app store in which they are the hub and for which they manage the data which could be of tremendous value to the company.

Trigger: A trigger event may indeed be a single piece of information that grounds our thesis in reality. However, it may also be a mosaic of information that together has the same effect, as is the case with Xero. We initiated a position in the company in 2015 after it had demonstrated continued growth in customers to 593,000, and raised new equity to cover costs of growth. Further, National Australia Bank had also announced the linking of the bank's and Xero's data platforms to enable faster approval for business loans.

Outlook: When Alleron entered the stock, Xero had fallen over 70% from its share price high as expectations of the Company's growth exceeded its actual growth profile and certain management changes were considered disruptive. The execution of our triggers highlighted that the business momentum was intact. The first target for the company post its recent 1 millionth customer milestone is that of \$1bn in revenue. With the installed revenue base of about \$360m and +30% customer

growth profile, the \$1b revenue base target is achievable. More importantly, should its growth in the UK be similar to that of Australia, it confirms management strategy and provides some confidence for US market growth.

Website: <http://alleron.com.au/>

Media comment

Alan Kwan CFA
Senior Portfolio Manager
Alleron Investment Management
North Sydney
alan.kwan@alleron.com.au
0421 412 333

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Alleron Investment Management

Alleron is a large cap Australian equities growth manager delivering concentrated, high conviction long and long-short portfolios. It is an Australian boutique wholesale fund manager that was founded by Barry Littler and Albert Hung in 2004.

In 2015, there was a management buyout from Westpac and Alleron is now wholly owned by staff.

The Australian Eagle Trust Long-Short Fund was established in mid-2016 to leverage the benefit of Alleron's investment process in the long short space.