

## **FINAL TRANSCRIPT**

**Kinaxis Inc.**

**Fiscal 2017 First Quarter Conference Call**

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**Richard Monkman**

*Kinaxis Inc. — Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

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**Robert Young**

*Canaccord Genuity — Analyst*

**Richard Tse**

*National Bank Financial — Analyst*

**Paul Treiber**

*RBC Capital Markets — Analyst*

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2017 First Quarter Conference Call. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions.

Before beginning its formal remarks, Kinaxis would like to remind listeners that today's discussion may contain forward-looking statements that reflect current views with respect to future events. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements. Kinaxis does not undertake to update any forward-looking statements, except as required.

I'd like to remind everyone that this call is being recorded today, Thursday, May 4, 2017.

I will now turn the call over to John Sicard, Chief Executive Officer of Kinaxis Inc. Please go ahead, Mr. Sicard.

**John Sicard** — Chief Executive Officer, Kinaxis Inc.

Good morning, and thank you for joining us today. Yesterday afternoon we issued our first quarter results for fiscal year 2017, a copy of which is available on our website, kinaxis.com. With me today is our CFO, Richard Monkman.

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Kinaxis delivered a strong first quarter, with solid subscription revenue growth up 29 percent over Q1 2016, as well as consistent strong adjusted EBITDA, profit, and record-level cash performance.

We believe that consistently strong top-line performance and consistently strong bottom-line profit is what a software-as-a-service company is supposed to deliver, and our performance is setting us apart from others that sacrifice one for the other.

Our growth in the first quarter was fuelled by both new-named account subscriptions and expansions of our base customer accounts, which we describe as a land and expand business model. Kinaxis has the proven ability to land significant new customer accounts, and subsequently expand the scope of their solutions as they drive towards expanding the value we deliver.

As we have discussed on past calls, we continue to invest in scaling our business to deliver on growth potential we believe is in front of us. Most notably is our investment in readying our partners to sell and deploy RapidResponse. I'm excited to announce that our approach is continuing to yield success.

Deloitte, who signed on as a Kinaxis partner one year ago nearly to the day, played a significant role in closing a new major account this past quarter. In fact, the majority of our new booked subscription business this quarter were influenced by our partners. I'm thrilled with the momentum this program is driving.

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I believe it is a sign of recognition that the legacy supply chain planning techniques and technologies are coming to an end. Global manufacturers need a breakthrough approach. They need concurrent planning, adaptive collaboration, and powerful simulation capabilities. And they are turning to Kinaxis and our global partners to help lead them.

With that, I'll turn it over to Richard for an overview of the financials.

**Richard Monkman** — Chief Financial Officer, Kinaxis Inc.

Thank you, John, and good morning. As a reminder, all figures reported on today's call are in US dollars under IFRS.

Q1 revenue increased 20 percent to 32.5 million over Q1 2016. Total revenue was driven by our expanding base of subscription revenue, which increased 29 percent in the first quarter to 23.9 million, and was supported by the sustained strength of professional services revenue.

Professional services revenues remain an important component of our overall revenue mix. It is driven by new customers initially deploying RapidResponse, as well as by existing accounts expanding their applications. As John noted, our partners are playing an increasingly important role in these deployments of RapidResponse.

In the first quarter, professional services revenue increased 100,000 to 8.4 million, which reflects the partner participation, as well as the timing of the staging of our other direct engagements.

Gross profit increased by 17 percent in the first quarter to 22.2 million. Gross margin was 68 percent compared to 70 percent in the prior-year period. The change was due to targeted

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investments in additional support headcount, the increased use of third-party providers, and the global expansion of our data centre capability. We continue to make these types of key investments, as we believe they enable our long-term ability to profitably maintain consistent and sustainable growth.

Adjusted EBITDA in Q1 remained strong at 26 percent of total revenue and increased to 8.5 million, or 500,000 above Q1 2016. The increase in adjusted EBITDA was a result of Kinaxis scaling its revenue growth at a higher rate than its cost.

Net profit was 3.2 million, or \$0.13 per basic and \$0.12 per diluted share. The 4 percent reductions compared to the prior-year period was primarily due to the above-noted targeted investments in professional services and global data centre capability.

Cash generated by operating activities was a strong 10.3 million in the first quarter.

Given our strong growth prospects, we expect to continue to invest in the business through 2017. For the full year, our expectations remain that sales and marketing expense will grow in line with the business in the range of 23 to 26 percent of revenue. We also expect net R&D expense in a range of 16 to 18 percent.

These investments are appropriate to position us for long-term growth. They directly impact our long-term growth initiatives, specifically channel partners and Knowledge Services as we scale the business through customer success. We believe that investors recognize the value of a predictable

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business model that delivers top-line growth and consistent long-term profitable growth and positive cash flow.

In light of our Q1 results and reflecting the forward visibility we have in our business, today, as noted in our press release, we have revised our full year 2017 guidance. We have updated our revenue guidance to be in the range of 140 million to 144 million. Our annual subscription growth remains strong, with projected growth between 26 and 28 percent. And we now expect adjusted EBITDA to be in the range of 25 to 27 percent of total revenue.

With that, I will turn it back over to John.

#### **John Sicard**

As you've heard from Richard, we're off to a terrific start to 2017. We possess a robust and diverse pipeline of prospects today that we're working hard to bring onboard.

Our investments in key initiatives, including a comprehensive Knowledge Service practice and continuing efforts in nurturing and expanding the partner channel ecosystem, have begun to bear fruit, and we are excited by the level of success we have achieved thus far.

We have built our business around a single product capable of solving a multitude of sales and operations planning and supply chain planning problems. We're leveraging this one product across multiple market segments, including high-tech electronics, life sciences, automotive, industrial equipment, aerospace and defence, and most recently, consumer packaged goods.

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We're selling this one product in multiple geographies, including North America, Europe, Japan, and South Korean. Multiple verticals, multiple geographies, multiple areas of planning, one product to rule them all, period; that's what leverage looks like.

At Kinaxis, we are driven by two simple words: revolutionized planning. Our endeavour, our purpose, is to build the most innovative and potent planning software in the world, and ultimately become the go-to platform for partners to build upon.

We are pleased to see Gartner's recognition of Kinaxis as a leader in their recently published Sales and Operations Planning System of Differentiation report, and are looking forward to demonstrating our unique and differentiated value at the upcoming Gartner event, where hundreds of manufacturers meet to learn about the art of the possible.

With that, I'll turn the line over to the Operator for Q&A.

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## Q&A

### Operator

At this time, I would like to remind everyone in order to ask a question, press \*, then the number 1 on your telephone keypad. We'll pause for just a moment to compile a Q&A roster.

Our first question comes from the line of Thanos Moschopoulos from BMO Capital Markets.

Your line is open.

### Thanos Moschopoulos — BMO Capital Markets

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—or geography that was in? And how that deal evolved? What the sales cycle looked like relative to (unintelligible) deals?

**Richard Monkman**

Sorry, Thanos, we couldn't hear the first part of that.

**Thanos Moschopoulos**

Sorry. Can you hear me now?

**Richard Monkman**

Yes. We can.

**John Sicard**

Yeah. Yeah. We can hear you.

**Thanos Moschopoulos**

Sorry about that. Yeah. I was asking can you tell us a little bit more about the Deloitte deal in terms of perhaps what vertical or geography that it came from? How the sales cycle evolved? What the characteristics were of that deal?

**John Sicard**

Sure. Here's what I can share at this time. The geography was Asia Pacific. Certainly we're very excited by this particular deal. As I mentioned on previously calls, our pipeline and I'll say the enthusiasm towards concurrent planning and our unique approach in Asia Pacific has been warming up. So we're quite excited about it.

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**Thanos Moschopoulos**

Any colour on the length of the sales cycle for that deal or vertical?

**John Sicard**

I can't comment at this time on the particular account or vertical. The sales cycle was—well, as you know, a typical sales cycle is 9 to 18 months, and Deloitte signed on a year ago yesterday, in fact. So you can sort of assume the deal happened inside of that 12-month horizon.

**Thanos Moschopoulos**

Okay. Great. And can you provide us with an update in terms of what you're seeing with the other partners as well? And at this point, is the focus on primarily the three big partner relationships that you have, as well as the small existing ones? Or might we see some other very large SIs come one over the next 12 to 18 months?

**John Sicard**

Yeah. So as I noted in the text, the majority of our booked business, booked subscription business in Q1 were partner influenced. That's new. We're really thrilled about that. It tells us that we're on the right track. I can also say that all of our published partners have been engaged in Q1 activity.

I've also noted in the past that we do have some large partners that I call they're in the incubation phase, if you will. And you might expect to see some additional partners going public with

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Kinaxis in 2017 as a result. So we are working with the primary ones that you know about; Deloitte and Accenture for sure. There are others that we've engaged with that we're nurturing and maturing.

And stay tuned. You may hear some news in the rest of the year.

**Thanos Moschopoulos**

That's great to hear. And then finally, I noticed your customer concentration crept up a little year over year, which is unusual for a fast-growing company like yours. Does that reflect the fact that some of the newer engagements are larger than typical? Or is that more reflective of deeper penetration with some of your existing customers?

**Richard Monkman**

Yes. So, Thanos, just to clarify, it's 49 percent. So it has been in the high 40 percent range. But keep in mind that we've also considerably increased revenue. So how we look at it—and by the way, that's total revenue, so it's not only the subscription revenues from customers, but where they are in their deployment cycle—so we actually view it as a healthy and a strong metric that we're continuing to grow the business, and that the top 10 are in that range.

So I think this is sort of where we're going to be settling around that 50 percent mark. It may go slightly higher, but it's probably going to be in that range. And it is very much an indication of the larger deals that we are securing. And so we're very excited about that continued growth.

**Thanos Moschopoulos**

Great. Thanks, guys. I'll pass the line.

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**Operator**

Our next question comes from the line of Robert Young from Canaccord Genuity. Your line is open.

**Robert Young — Canaccord Genuity**

Good morning. The guidance implies that the professional services growth might be a little bit lower than you expected at the beginning of the year. So can we take that to mean that there's an accelerated shift towards the channel of that burden?

**Richard Monkman**

Yes. Rob, that's a very good observation. So absolutely, as partners when a partner-influenced deal occurs we have varying degrees. In some cases, partners are taking virtually the whole deployment. We'll play a role in assurance, but through the certification program, through their years of experience—and by the way, we do have a number of partners—they play that leadership role, and as such we focus on the subscription revenue and they focus on the professional services.

In other cases, we work in tandem. So there will be certain elements of the engagement that we take and obviously that revenue, and they take, so yes, very much so. We're indicated that, as we've communicated before, our goal is to increase the content of subscription in our revenue mix. And as you can see from the performance and the guidance that we're providing, that is the path that we're on.

**Robert Young**

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Okay. Great. And then to just follow on Thanos's question, I mean given that you've got a larger percentage from the top 10, it sounds as though those deals are getting bigger and it would be weighted towards subscription. Would that be a good way to think about it?

**Richard Monkman**

Yes. It is weighted to subscription because that is the base of our revenue growth and the base of the forward visibility. But again, it's depending upon the stage of their deployment. So if the deployment's very active, you may have sort of customer, I don't know, 11 or 12 on subscription move up into the top 10 of total revenue, and then once they are in full production move back down. So there is a little bit of mix back and forth in that group.

**Robert Young**

Okay. And one more question. Deloitte you've highlighted in the past is very strong in the automotive segment. So could you give us maybe an update on that sector? And maybe talk about developments with Deloitte there in that sector? And then I'll pass the line.

**John Sicard**

Sure, Rob. I'll answer both questions separately. There's no question that we're seeing heightened interest and more activity in the pipeline as it relates to automotive. It's impossible not to note that. And we're thrilled by it, obviously. We've done exceptionally well with some bellwether accounts, and that's starting to take hold with other large automotive companies.

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Deloitte, you're right, has been exceptionally strong in the areas of automotive and other segments. They're strong in high-tech electronics as well. And we continue to develop a strong pipeline with them. I would say that's accelerated over the year. Part of that is us maturing and working well with extremely large global SIs. And part of that is their maturity in managing a pipeline. So we're pleased with both.

We're certainly pleased with how the pipeline is progressing in the automotive sector, and we're pleased with Deloitte and their recent contribution in Q1.

**Operator**

Our next question comes from the line of Richard Tse from National Bank Financial. Your line is open.

**Richard Tse — National Bank Financial**

Yes. Thank you. John, you touched a little bit on this, but I was just wondering if you could maybe just give us a bit more colour. If you sort of look at the pipeline going forward, what verticals and regions do you see the most strength in over the next 12 to 18 months?

**John Sicard**

So there's—that's a great question. I mean as I mentioned, automotive for sure is warming up considerably. In the past I've noted that life sciences was warm and continues to be warm as well. There's quite a bit of activity on the life sciences side. And most recently, consumer packaged goods, so we are seeing an uptick in that area as well.

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Now relative to other verticals, I wouldn't say it is as prominent. But for us, being the most nascent vertical that we're attacking we're really pleased with how it's coming along.

The other thing I would say about the pipeline, and again I think I noted it at the last call, was that it is also strong in Asia Pacific. We're seeing a really balanced pipeline. Where we might have been predominantly focused on North America, we're seeing a lot more balance now between North America, Asia Pacific, and Europe.

**Richard Monkman**

And if I may just, Richard, as you may recall, under IFRS, the way we disclose is really the party that executes the agreement. So all our—generally our customers are global. And it's not unusual for, say, a company in Europe to execute under US paper, and we'll note that as a North American deal. But these really are global deployments.

**Richard Tse**

Okay. And then obviously you guys are getting much bigger here dealing with a lot of different customers. As you grow from an operational perspective, have you kind of noticed is there any changes you need to make in the organization to make sure that you're well positioned to capture that growth? Often like some of these companies that grow they may overlook certain nuances of the business. Have you kind of noticed anything? And should we expect any sort of nuances to change over the next 12 to 18 months?

**Richard Monkman**

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Well, that's a great note. I mean one of the things—I mean John and I have been working together for over 12 years, and this is a company that's exciting because we have 30-year people; we have 30-day people. And so we're continuing to assess what we need at a corporate level, and building the team or drawing new members to that team. So yes, you're going to see continual nuances, I guess, continual changes.

One of the strong things about subscription revenue is that forward visibility. So that is why, for instance, we can invest with confidence in new data centres. We've indicated we're growing our data centre capacity in Europe, we are extending the teams geographically, and as you've seen with additions to the management team, we're drawing on industry leaders as well.

So yes, you're going to see it, but I like term nuance. You're going to see sort of this gradual expansion and solidification of the business, because we do think a lot about how we are able to execute. And that's reflected also in the partners.

So John talked about partners earlier. You will see an expansion of partners. But those partners are investing in that business as well. And so it's not just simply a matter of racing to add logos. It's building a foundation of execution partners.

### **Richard Tse**

Okay. And just one last quick one for me; John, you sort of started the comments initially with land and expand. I think we're all really familiar with that strategy, and you guys have done a

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great job. I'll ask this question that I asked before. Can you give us some colour as to how much your existing customers have been spending with you kind of on a year-over-year basis?

**John Sicard**

Well, I mean our land and expand model, as you know, we do have one measure that we track—well, there's a couple of measures, but as we noted recently, we're starting to see more new-named account as a percentage of subscription revenue versus the expansions. And that's largely fuelled by new bookings essentially. So we're sitting today at roughly 65 percent of our subscription revenue ...

**Richard Monkman**

Incremental.

**John Sicard**

Incremental subscription revenue from new-named accounts and 35 percent from the expansion. And we also track—and we haven't really seen a change in this—and we look at the entire cohort of our customers and we do measure the speed at which a customer will expand to a doubling of their initial subscription revenue number—or contribution. And so that still tends to be in that three-year horizon. We haven't really seen a change in that.

**Richard Tse**

That's great. Thank you.

**Operator**

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Our next question comes from the line of Paul Treiber from RBC Capital Markets. Your line is open.

**Paul Treiber** — RBC Capital Markets

Oh, thanks very much, and good morning. With the increasing mix of partner-influenced deals, how do you see that impacting your sales and market spending? Is there perhaps some leverage on that spend? Or does the nature of the spend shift from more of like a direct sales focus to more marketing support?

**Richard Monkman**

Thank you, Paul. So from a partner perspective, what we do is very different. We're not aware of another vendor that can provide the concurrent planning capabilities, so it is very different. And so we are working very closely in the sales cycle with our partners. And both teams are aligned so that there's an incentive to work together, I'll just say it that way. And so there's absolutely leverage.

Partners are playing a greater role. But what they're—some of their ability is to introduce us to new opportunities. They have the privilege of those relationships already and really just an additional recognition of our unique capabilities.

So yes, we will see leverage, but we're going to see leverage as part of the maturing of the organization. And it's—the model is set up so that it's successful for both parties.

**Paul Treiber**

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Okay. And one more for Richard and then I'm moving to John; on European revenue I think you might have addressed this earlier. European revenue declined slightly year over year and quarter over quarter. Is there anything to read into that? Or is it reflective because some of the European wins are coming under the US or Americas line?

**Richard Monkman**

It's very much the latter. So we're very excited about Europe. Europe is growing. And what it is is that if it's an entity, as you noted, if it's signed by our European entity then we'll note it there. But it's generally European co-global, but running it through their US subsidiary.

**Paul Treiber**

Okay. Makes sense. John, in the fall you mentioned that there's more of a platform strategy that may be emerging with RapidResponse. Are you seeing the interest from partners or the existing ones or new ones in terms of building analytics and algorithms on top of RapidResponse? And when do you see some of those getting to the market?

**John Sicard**

Yeah. So the answer to that is without question. As I noted in the text, we have exactly one product that's serving a multitude of verticals, a multitude of solutions, and a multitude of geographies. And we've built RapidResponse to be what I call mass run-time configurable. There's just no custom code in the field. It's completely run-time configurable.

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And we've built that from the ground-up. We knew in advance that no two supply chains were going to be alike. They're kind of like people. They're close, but they're not 100 percent alike. So our decision around the design of RapidResponse was to have no custom code; mass run-time configurable, which by definition means you can configure brand-new value propositions, if you will, in the field. And we've been pushing that envelope as part of our development philosophy, if you will, since day one.

And our partners, for sure, have expressed interest in building what they would describe as their own intellectual property on top of RapidResponse, whether it's building an automotive framework, an automotive package, if you will, on top of RapidResponse, or brand-new solutions perhaps around an engineer-to-order business and building best-in-class processes and artifacts, such as dashboards and scorecards and task flows and the like.

So our partners are definitely interested in moving in that direction, and we are also interested in engaging with them. I've said this in the past, force.com for sales force is just that. It's an opportunity for third parties to build direct value associated with salesforce.com.

I liken those to adjacencies, right? So rather than Kinaxis having to dream up what adjacency should we go after, I'd much rather have partners dream them up and build them. And we'll get huge economies of scale, if you will, by doing it that way.

So we continue to invest in R&D. It's one of our innovation strategies is to push RapidResponse as a platform.

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**Paul Treiber**

Okay. Thank you. I'll pass the line.

**Operator**

Our next question comes from the line of Daniel Chan from TD Securities. Your line is open.

**Daniel Chan — TD Securities**

Oh, hi. Good morning, guys.

**John Sicard**

Good morning.

**Daniel Chan**

So you just released the Gartner Magic Quadrant study this morning. Can you give us an update on the competitive landscape?

**John Sicard**

Yeah. So the Magic Quadrant that was released this morning is the system of differentiation which focuses on sales and operations planning. And we're obviously pleased with our movement there and our strength.

And one of the things that makes Kinaxis distinct and unique is our ability to link this particular Magic Quadrant, what they call as Sales and Operations Planning System of Differentiation, with the Supply Chain Planning System of Record. These are two distinctly different Magic Quadrants.

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And one of the things that's unique with RapidResponse is it's the same product on both. So we are bridging both of those solutions and both of those value propositions with a singular product.

That to me anyway it's almost the definition of concurrency is that you can solve these two distinct problems with a singular platform and a singular solution. They're inextricably connected.

So I think the report itself you can certainly read about the competitive landscape and how others are faring. As it relates to Kinaxis, however, we're certainly pleased with their recognition most notably on the on the on the Vision Axis and our movement in that direction, and we think it's directly related to our ability to bridge both the MQs.

#### **Daniel Chan**

Okay. Great. Thank you. How's the European data centre going? And is this something that's a gating factor, given that data sovereignty regulations in the region so that once you complete it is this something that should open up the European market for you?

#### **Richard Monkman**

Well, so thank you, Dan. So first off, the European market is absolutely open for us, and we've been successful there and we're continuing to gain leverage there. We do have a Canadian data centre, so that is not a roadblock with regards to sovereignty. We are on track to have that data centre operational later this year.

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It is more of a statement of our long-term commitment to Europe, and absolutely we're going to be supporting the European customers there. But in this day and age we can do so via Canada, but it's really we think it's the right thing to do long term for the business.

**Daniel Chan**

Okay. That's great. And then just one final one for you, Richard. Any thoughts on capital deployment? Obviously your cash flow is very strong. It more than covers your CapEx needs. So what are your thoughts on capital deployment as your cash builds up here?

**Richard Monkman**

They remain the same. So yes, absolutely this model generates significant free cash flow more than sufficient, as you noted, to support our leverage and investment in the business. This is something that we as a company and a board do review, but at this point in time the consensus from our key investors and the board is to build those reserves and to look opportunistically for new investment opportunities. We continue to keep an open mind with regards to potential acquisitions, but as we've noted before, they would be one to support and accelerate our organic growth. They're not going to be top-line revenue purchases. And so therefore they have certain criteria, and we have not found an investment that fully met those criteria.

So at this juncture, Dan, it's going to be continuing to strengthen the balance sheet and to keep our opportunities open.

**Daniel Chan**

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Great. Thank you.

**Operator**

Our next question comes from the line of Gus Papageorgiou from Macquarie. Your line is open.

**Gus Papageorgiou — Macquarie**

Thanks for taking my question. Two questions; first one for you, Richard, and second one for you, John. If I look at your gross margin, so there's two influences: your mix is improving, so more subscription revenue, but your investments in data centres is degrading margin. So if I look out past this year, as you say, you're going to continue to invest in data centres for the remainder of the year. So if I look out past this year and I look into next year and if you look at your mix, where do you think your gross margins can go? I mean historically the highest you've done is about 73 percent. So kind of going forward where do you think they could go based on mix?

And then, John, for you, can you give us any metrics on trials? So kind of number of trials that you have in the field this year versus last year? And maybe the mix of those trials have you skewed to the new verticals you're looking at?

**Richard Monkman**

Sure, Gus. Well, let me start, and then John can comment on the proof of concepts and so on. So while our focus is long-term growth, what we disclose publicly is our one-year guidance. And so the guidance really is focused very much on 2017. You know that—you may recall that we are very

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conservative in our accounting practices, so everything is taken as a period cost, whether that is start-up of a data centre; whether it is recruitment of new professional services or service ops folks and their training period. And so, yes, that is for the current compression, if you will, of gross profit, absolutely the increased component of subscription revenue is a positive factor.

The model has strong leverage. So yes, as those onetime costs are behind us and as we increase the subscription component level that will lead to gross profit expansion. The reason we don't comment on specifics is, again, because of our investment nature. We have not hesitated in the past when we've seen some unique initiatives, whether they're partner or moving into, say, the automotive or consumer packaged goods verticals, to invest to secure that future wins.

And so that's why we don't comment, but I know a number of analysts do model that leverage into their models.

### **John Sicard**

And, Gus, thanks for your question. As it relates to proof of concepts, this is a key differentiator in our sales process. They're very common for us. In fact, most people when they hear of a breakthrough, something that sounds too good to be true, they need to experience it; they need to see it in order to believe it. And so during our sales cycle it is very common to hit that point, that aha moment where they say, oh my gosh, if this is true this is going to be wildly valuable; you need to show this to me. In fact, prove it with your data.

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So at any one time we have multiple proof of concepts going on. It's something that welcome. And quite frankly, we believe the result of a proof of concept is a prospect that can't live without what they just experienced or what they just witnessed, and that's why we do them.

As it relates to which verticals we're working on on this day without being specific, as I mentioned, we're seeing heightened activity in the automotive sector; in the consumer packaged goods sector. We've always been strong in the high-tech electronics sector, and life sciences continues to be very warm. Those are the predominant sectors where we're seeing a lot of activity. I hope that answered your question.

**Gus Papageorgiou**

Yeah. Thanks. Is there any way you can give me a rough win rate for your POCs? Like how many of them convert to a sale?

**Richard Monkman**

Remember, the period of time is 9 to 18 months, so in some cases, Gus, the POC is quite light in that they're already confident from whether it's Gartner or customer references, other sources of information. And in other cases, the proof of concept can be a little more extensive, especially where they have experienced lack of success, I'll say, with regards to another vendor.

So there's this time dimension. So it doesn't really sort of lend itself to necessarily a straight win/loss ratio.

**Gus Papageorgiou**

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Okay. Thanks for taking my questions.

**Richard Monkman**

Thanks, Gus.

**Operator**

Our next question comes from the line of Todd Coupland from CIBC. Your line is open.

**Amy Dyck — CIBC**

Oh, hi. Good morning. This is Amy Dyck in for Todd. Just one quick question for me; can you speak to why the current portion of deferred revenue was so strong in this quarter? Thanks.

**Richard Monkman**

Sure, Amy. Thanks for the question. So deferred revenue is, as you may know, just it's simply the billings that we have made and revenue that we haven't taken. So when—our contracts generally are annual prepays, and so it's really a function of the level of activity for new customers, as well as renewals and the timing of the billing. So both the current and the long-term portion, growth is related to business growth and the timing of those billings.

**Amy Dyck**

Okay. That's it for me. Thanks.

**Operator**

Our next question comes from the line of Kevin Krishnaratne from Paradigm Capital. Your line is open.

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**Kevin Krishnaratne — Paradigm Capital**

Hi. Good morning. I was wondering if you can talk about the progress being made on the training of consultants at your partners? I'm thinking any metrics you could share on RapidResponse certifications, how large the teams are between the three different partners, and just how to think about the growth of the number of people that are involved with RapidResponse evolving through 2017 at your partners?

**John Sicard**

Sure. We continue to see a lot of traction on certifications from every partner, not just the published ones that you would be aware of. And certainly the ones that we have in the incubation phase as they look to join deployments.

In terms of the total number, we don't necessarily publish that. I will say that each and every month we are seeing an increase. We are definitely seeing an increase of third-party certifications. We're working hard to broaden the certification to Level 2 and Level 3. Consider that sort of Level 3 as the mastery phase, and we'll be rolling that out through the year and expect to see a continued adoption on that front.

I mean the other thing I would note is, as Richard has stated, we're seeing an uptick in their direct involvement in professional services and deployments. And that's the direct result of them increasing their certifications, and quite frankly, being ready to deploy for their customers.

**Kevin Krishnaratne**

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Got it. Thanks for that. I guess on a related note, any commentary on Knowledge Services benefits besides the intangibles? I think in the past you've talked about the potential of generating subscription revenue. Any thoughts on that? Is that a possibility for '17? How big could subscription revenue related to learning and training get to?

**Richard Monkman**

It is a reality, Kevin. I mean this is what's so exciting. So this program was introduced with Sarah joining Kinaxis in mid-2015. The digital content has exploded, not only the certifications. That's a separate program. And we have a number of customers now with varying level of subscriptions. And what's very exciting is as customers understand the value right from initiation of the subscription they're also adding in Knowledge Services subscription.

We're not providing guidance at this point in time, but we do see it is growing rapidly. We see it becoming a meaningful part of our business. So what we're seeing is actually a transition from that traditional model of coming on site to really leveraging the subscription because it's also about continuous learning. So it's not just simply the initiation of using RapidResponse. It's how you can continue to drive value, how you can continue to develop your own, and in some cases customers are certifying and developing their own career.

**Kevin Krishnaratne**

That's great to hear. Thank you for that. And I guess just a final one switching gears for me. Are you able to comment any difference in the type or the number of modules or apps that these

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bigger client wins that the partners are bringing on? And beyond that if you could share kind of the number of apps or the type of apps that in Q1 the Deloitte win? And just any additional colour that you could provide would be appreciated.

**John Sicard**

Sure. Our approach to growing functionality spans two vectors really. We consider them horizontal and vertical, how deep do you go and how broad do you go? And then we look at those as it relates to verticals as well. So as mentioned in the last quarter, consumer packaged goods is a new vertical for us. When that happens we start our, I'll call it, our verticalization of that particular segment. So it's broadening the value propositions in application spaces to fit that particular vertical. And we're continuing to invest in analytics and solutions to meet their particular needs.

As it relates to partners, we had a question earlier about the interest partners have in building unique value propositions on top of RapidResponse, and we do have very significant interest. They definitely have their eye on building their own unique value propositions using RapidResponse. And ultimately, I do have a belief that while we're in six market segments today—I get this question from time to time—why are you not in oil and gas? Why are you not in cut and sew? Why are you not in retail? How about fashion? Food and beverage? I can go on and on and on on all of the types of verticals that are potentially a fit for us. And if we attempted to do that organically, well there'd be a time horizon for us to absorb all of that. If we engage partners to help us get into those verticals, we should see acceleration.

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So that's the model that we're working to in terms of how we would leverage partners and how we can expand into new market verticals using that approach.

**Kevin Krishnaratne**

Great. Thanks very much for all that. I'll pass the line.

**Operator**

Our next question comes from the line of Eyal Ofir from Eight Capital. Your line is open.

**Eyal Ofir — Eight Capital**

Thanks. Thanks for taking my question. John, just a quick question for you on you talk about the incubation period with potentially new partners and the training process. But should we assume that when you actually announce the next partner they're already going to be all fully trained, ready to go, and potentially even already involved in the pipeline?

**John Sicard**

I think it's a bit of a mix, but usually, yes, we wait to see. I think I've said this before. We have more people ringing our doorbell than we let into the house. There's a lot of interest. Everybody's saying, hey, please can you put our logo on your website? We have an account, et cetera, et cetera. But we're extremely cautious about bifurcating our energy and working with only those partners that are really serious about building a practice.

Those partners that are serious about building a practice understand what it takes to invest in training. It's not just about a press release and a logo. And we've learned that, and we've learned

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that with our existing partners. So by the time a press release is announced we have convinced ourselves and they have convinced themselves that this is a serious endeavour. This is about building a practice, and they're aware of the investments required to keep the practice alive and prosperous.

So that's how I would describe the incubation period, if you will. It's almost like we're running our own proof of concept with a particular partner. And it usually involves a particular prospect. Somebody who says I want to be a partner and they don't have anybody to work with, typically we are not engaging with them at this time.

#### **Eyal Ofir**

Okay. And then just another follow-up; I'm not sure if this was talked about on the call. I got cut off halfway. But with your pipeline and you said that obviously the contracts that were booked in the quarter were mainly driven by the partner channel, on average are they similar sized, larger, slightly smaller than historic direct-to-market contract opportunities? And how would you say response has been also via the current client base? Are they're saying because you have more capability now via the partner channel can they expand you faster within their own organization?

#### **Richard Monkman**

Oh yeah, absolutely the goal is to expand faster to increase our growth rate, to get broader penetration, to leverage the privilege and the relationships with the partners. But what's interesting is we do—often the focus is on the strategic partner, so like a Deloitte or an Accenture, and yes, those deal sizes are generally larger because they're just dealing with very, very large enterprises.

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But we also have execution partners and they are very, very active, and they can be in different size of deals. So it still remains that we could sign a 4 million or 5 million a year subscription arrangement; we could sign a 400,000 or 500,000 subscription arrangement. And so the partners are playing across that spectrum, and that's again a positive focus for us.

### **Eyal Ofir**

Okay. And then just final question before I pass the line; are they having any specific success within the application deployments? Or is it pretty much across the board in terms of what they're pitching and what they're seeing conversion on?

### **John Sicard**

So we're still—we're still seeing the typical entry point being sales and operations planning as it relates to connecting it with the system of record, if you will, this notion of being able to do long-range planning and instantaneously seeing the short-term implications of change inside of that planning horizon. And so that remains true.

I would also suggest, though, that that's not necessarily uniform for every market vertical. Okay? So certain market verticals might focus more on supply side optimization, right, making sure that the right inventory—lowering inventory while simultaneously maintaining or improving fill rates, or what they often describe as on time in full; OTIF is a common term, right? On time in full, I want to deliver orders on time in full with less inventory.

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So it's really dependent on the market vertical, but I would say in general we're seeing the typical entry point being sales and operations planning. I might suggest—maybe it's just my belief—but the most expensive mistakes indeed happen during the sales and operations planning cycle.

**Eyal Ofir**

Okay. Okay. Thank you. I appreciate the feedback.

**Operator**

Our next question comes from the line of Paul Steep from Scotia Capital. Your line is open.

**Paul Steep — Scotia Capital**

Great. John, could you talk a little bit about your plans to expand the total addressable market for your solutions? And how you're thinking about those markets? You talked a little bit today about some of the newer markets, auto and CPG. How do you think about the overall opportunity size today?

**John Sicard**

So it's a great question. Thank you for that, Paul. When we think about the total available market, especially as we add consumer packaged goods, we're seeing roughly 2,000 named opportunities in the geographies that we currently serve. So we're hyper-focused. This is what I believe is part of our secret, if you will, to success is hyper-focus; making sure we're not diluting our energy and maximizing on everything we attack. And so today, as you know, we have roughly 100

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customers, so I still feel like we're—the term I often use is chapter one, book one—we're just getting started.

Growing that, and again, as I mentioned in the text, we're succeeding in all of these market verticals with exactly one code base. Whether it's aerospace and defence, drug manufacturing, high-tech electronics, making cars, aircraft, they're leveraging exactly the same object code, which is very unique. And these supply chains are so distinct; they're so unique and different. And so it's a—we consider it a competitive advantage that we're able to do it with mass run-time configurability.

So growing our TAM, growing our total available market into oil and gas and forestry and fashion and retail, that's all in the future for us. I have a complete confidence that we were—we will be in a position of growing our single product to cover those additional markets, especially as we leverage our partner ecosystem to help us accelerate it.

### **Paul Steep**

Great. Thank you. And then just you started to touch on it a little bit in terms of your key R&D initiatives. But how should we think about your movement into what I would term at least flow manufacturing industries, energy, areas like that that you traditionally haven't touched? Is that a five-year out time frame? Or is that sort of closer in that we should think about moves down that path?

### **John Sicard**

We're still—well, we're still focused more on what I describe as discrete manufacturing as opposed to flow, although we have won some business in that kind of related area. And again, it's a

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testament to the flexibility of the product. We do have customers outside the six verticals that we talk about. It just means—what we're saying is those aren't necessarily focused direct sales and marketing campaigns that we're running.

So I would say in the near term we're going to continue to focus on what I described as discrete manufacturing. And in terms of innovation and driving out new capabilities of RapidResponse, we—and I might have mentioned this; well, I know I did during the last call—investing our R&D efforts in the areas of machine learning and IoT. In fact, we have a functioning in-production solution where RapidResponse is reading directly sensors, if you will, from an IoT sensor and measuring consumption of inventory in real time. So we're heavily interested in that particular area.

And around machine learning there is a lot of academic articles to read. As I described, there's a lot of academically interesting articles. We are hyper-focused on practical use of machine learning and working directly with customers to establish value propositions that are meaningful in Earth Time. This is looking for areas of leverage where machine learning can automate decisions at a pace and a rate and an accuracy that can't be matched by humans, and that's where we're investing.

**Paul Steep**

Great.

**Richard Monkman**

Great. Thanks, Paul.

**Paul Steep**

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Thanks.

**Operator**

Our next question comes from the line of Deepak Kaushal from GMP Securities. Your line is open.

**Deepak Kaushal — GMP Securities**

Hi. Good morning. I know we're getting long into the hour here, but thank you for taking my questions. I'll try to be brief. John, Richard, you talked a lot about the land and expand model. You have a good, loyal customer base. What can you say are some of the speed limits to expanding within the existing customers, both self-imposed and customer-imposed?

**Richard Monkman**

I really wouldn't say they're speed limits. Keeping in mind that we continue to expand the base of revenue from existing customers, and as John noted earlier in the call, that has just with the growth of new-name acquisitions has changed from last year's sort of 60-40 to 65-35 on a sort of more recent basis. So you're going to see continual uptake there.

I think from a speed perspective, it's really the speed of new customer growth and new customer acquisition that's exciting. And coming back to John's chapter one, book one, with about 100 customers today and 2,000 identified prospects, while we're going to continue to work with and serve and grow with our existing customers, there's very significant opportunity out there for that speed and acceleration with new customers.

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**John Sicard**

Yeah. I might add just the flipside to that coin is—and we do talk about it—is derailers to our growth. And one of the things we do care about is diluting our energy. And we feel like that often happens to fast-growing companies where they dilute their energy. They try to do too much, go after too many verticals, and they fail at all of them. That's just not who we are.

We're hyper-razor focused on leverage, and that comes back to having a singular product to serve them all. When we tackle a new vertical we tackle it full on. We don't dilute our energy by taking on too much because we need to succeed in everything that we do.

So as Richard said, an add-on, but we feel like we're still getting started.

**Deepak Kaushal**

Great. Thanks. And just to follow up, you mentioned briefly there tying in with IoT and real-time inventory sensing. When you look at your most mature customers, have you seen some of them shift from problem-solving mode to innovation mode and developing deeper competitive advantage mode by using your software?

**John Sicard**

I would say we are providing a breakthrough. There's no question. I mean I do believe that what we're providing them is a giant leap forward. It's providing them with a capability that's simply impossible with current legacy technologies and techniques.

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And I think, as I said, I often use this analogy. It's like flight. If you went back far enough and told somebody that they could fly but airplanes hadn't been invented before, they'd know what flight was. They'd see birds flying every day. They just don't know how they could fly, but make no mistake: They'd know what kind of breakthrough that would be if they could

So we're providing very much the same mechanism for them. And the business results that they see as a result of taking on those techniques are absolutely revolutionary; they're breakthrough.

**Richard Monkman**

Good. Thanks, Deepak.

**Deepak Kaushal**

Thank you, guys.

**Operator**

And our next question comes from the line of Blair Abernethy from Industrial Alliance Securities. Your line is open.

**Blair Abernethy — Industrial Alliance Securities**

Thanks, guys. Thanks for taking my call. Just, Richard, on the Deloitte win, was that additive to your Q1 gross billings?

**Richard Monkman**

We don't talk about specific accounts. Again, the timing of what you'll see in deferred revenue is a little different from the booking. So sometimes what'll happen is we will close a deal later

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in the quarter, but as the entity while they've signed the deal hasn't issued the PO yet, we haven't actually invoiced. So there may be sometimes a difference with the deferred revenue.

I think, Blair, the main thing is to really take rather than worrying about some of the timing of those elements is to sort of focus on the guidance that we're providing. And so what we have indicated is that uptick in subscription revenue growth for the current year, and we're extremely comfortable with that, given this visibility that we have and the book that we have closed.

**Blair Abernethy**

Okay. Great. Thank you. And what about any colour at all on renewals? Obviously, January Q1 is a big renewal period for you.

**Richard Monkman**

Well, actually renewals are staged throughout the year, so this is not sort of the perpetual type of company where you have that cliff coming up in your fourth quarter or Q1. Our arrangements are multiyear, and we're very happy with regards to our renewal. I mean we continue to have very, very strong retention with the customers, so. And that renewal track record is also reflected in that growth in our guidance of subscription revenue.

**Blair Abernethy**

Okay. Great. Thank you. And just one last quick one for John on the partner side of things; are the partners running proof of concepts on their own now? Or with you guys? Or are they still kind of coming up the curve to be able to do that?

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**John Sicard**

They're—we work in lockstep with our partners. These are very, very large engagements; large campaigns; large corporations. And the ultimate solution is still hosted by RapidResponse. These are proof of concepts with customer data; they're hosted in our data centre. So this is not something that our partners are going to run autonomously.

**Richard Monkman**

Great. Well, thanks, Blair.

**Blair Abernethy**

Thank you.

**Operator**

We have no further questions in queue. I'll turn the call back to the presenters for closing remarks.

**John Sicard**

Well, thank you for participating on today's call. We appreciate your questions, as well as your ongoing interest and support of Kinaxis.

We look forward to speaking to you all again in August when we report on our Q2 2017 results. Goodbye.

**Operator**

This concludes today's conference call. You may now disconnect.

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