FINAL TRANSCRIPT

Kinaxis Inc.

Fiscal 2016 Third Quarter Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2016 Third 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, November 3, 2016.

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

John Sicard — President and Chief Executive Officer, Kinaxis Inc.

Thank you. Good morning, and thank you for joining us today. Last night we issued our third quarter results for fiscal year 2016, a copy of which is available on our website kinaxis.com.

With me on today's call is our CFO, Richard Monkman.

We delivered another solid quarter with top line growth of 26 percent in Q3 over last year and strong bottom-line performance. Demand remains robust, as the world's largest companies seek new and effective ways to solve their modern-day supply chain planning challenges.

We continue to close large new client business, as well as expand subscription revenues with our existing customer base. Our pipeline of new customer and expansion opportunities remains very strong, and in fact, is growing as a result of our strategic partner initiative.

The proven power of RapidResponse platform, when combined with the growing need for large enterprises to address increasing supply chain risks and costs, are fundamental drivers that are fuelling our continued growth.

We continue to make strategic investments in a number of areas to ensure we remain well-prepared to scale the business. For example, our Knowledge Services division, which is a key component to our long-term land and expand strategy, is now fully operational. This group not only supports our customers in leveraging their investments of RapidResponse, it is also responsible for growing qualified and certified deployment consultants for partners, such as Accenture and Deloitte.

Driven by business success in Asia and Europe, we have begun significant investments in both hosting infrastructure as well as service operations to support our expansion in these regions. For example, following the Q2 Samsung win, we established two new data centres in South Korea; one production facility and one backup and recovery facility. Both became fully operational in Q3 with dedicated service operation staff. These centres will be leveraged to support further growth in Asia.

We will also continue to expand our European operations to support a major global customer win, which closed in the quarter. Similar to our recent investments in Asia, we expect to establish data centre facilities and service operations in 2017 to support our ongoing success in this part of the world.

Our partner strategy remains a critical component of our growth plans and ongoing investment priority. Our partner relationships continue to mature, and we are confident they will, supported by our direct sales team, drive new-name customer wins.

We believe, as we approach an inflection in our growth, that our expanding partner ecosystem, coupled with these operational investments, provide us with the scale to deploy new customers at a rate we could not otherwise manage independently.

Each of the investments we are making represents a critical component to capturing the full value of our RapidResponse platform. And we will allow Kinaxis to continue to grow and digest the strong demand that is building for RapidResponse.

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.

Total revenue in our third quarter increased 26 percent over Q3 2015 to 29.9 million. Total revenue growth is driven by our strong base of subscription revenue, which increased to 20.8 million or 25 percent on a comparative basis.

In the third quarter, our professional services revenue increased 2 million to 8.9 million as compared to the same period in 2015. This revenue is driven by new customer deployments of RapidResponse, as well as by existing accounts expanding their subscriptions.

As we've discussed on prior calls, our sales cycles are often 9 to 18 months in length. However, once we acquire a new account, RapidResponse becomes an integrated piece of their business fabric. As a result, our client retention remains strong with more than 100 percent net revenue dollar retention.

The nature of long-term contracts provides us with a high level of visibility into our forward 12 months of revenue. Our customer base is diversified across multiple market verticals, and our pipeline of new opportunities remains strong. This supports our ability to provide full year guidance with confidence.

In the third quarter of 2016, gross profit increased by 22 percent to 20.5 million. As a percentage of revenue, gross profit was 68 percent in Q3 2016 compared to 71 percent in Q3 of 2015. As John noted earlier, this change is a reflection of the significant ongoing investments we are making in our operations, in particular with respect to the establishment of our South Korean operations and data centres.

I would like to take this opportunity to remind our listeners that our practice is to fully expense all operating costs in the applicable period in which they occur. This includes new customer deal acquisition costs, which are fully expensed upon the commencement of the customer revenue arrangement. The increase in selling and marketing reflects the level of new business close in Q3.

As John noted earlier, this increase resulted, in part, from the addition of a new European-based global customer in the quarter together with a significant expansion of an existing customer's subscription.

In addition, we've had a significantly higher level of investment in our partner program and knowledge services from the comparative year. As you may recall, we launched Knowledge Services in June of 2015, and it is now fully operational.

We will continue to make key investments, as we believe they enable to our ability to profitably continue our consistent and sustainable long-term growth. As a result of onetime expenses, such as sales commissions, as well as key infrastructure investments, such as data centres, operation team, and Knowledge Service expansion, our adjusted EBITDA margin was 23 percent in Q3, as compared to 34 percent last year.

Net profit was 2.4 million or $0.10 per basic and $0.09 per diluted share in Q3 of 2016 compared to 3.8 million or $0.16 per basic and $0.15 per diluted share in Q3 of 2015. This change in net profit was primarily driven by our higher sales and investments compared to the prior-year period.

Cash used in operation activities was 1.5 million in the third quarter, as a result of a short-term increase in accounts receivables. Year-to-date, we have generated 14 million in cash, demonstrating the robustness of our business model.

Given our growth prospects, we continue to invest in the business throughout 2016 as we build scale and surpass 100 million in revenue. For the full year, our expectations are that sales and marketing expense will be in the range of 25 to 27 percent of revenue. We also expect net research and development expense will be in the range of 18 to 20 percent.

These investments are appropriate to position us for long-term growth. They directly impact our growth initiatives, specifically channel partnerships and knowledge services, as we scale the business through customer success.

Through RapidResponse, we enable very large enterprises to address their critical business challenges. We support them in driving savings while strengthening their relationship with their customers. While no sector or business is immune to economic cycles, the maturity of our model, the diversity of our revenue base, and the strength of our innovative product provides us with sustained confidence.

In light of our year-to-date booking performance and the forward visibility we have in our business, as noted in our press release, we have revised our full year 2016 guidance. We've increased our annual revenue guidance for fiscal year 2016 to be in the range of 115 million and 116.5 million.

Given the strong subscription revenue growth thus far, we’ve increased our expectations to grow subscription revenue to between 24 and 25 percent over 2015.

Based on the continuing investments and near-term customer opportunities, we expect annual adjusted EBITDA as a percentage of our total revenue to be in the range of 23 to 26 percent.

With that, I will turn the call back over to John.

John Sicard

Thank you, Richard. As you’ve heard from Richard, we are making great progress towards executing on our goals for growth in 2016 and beyond.

Last month, in Nashville, we hosted our most significant customer event, what we call the Connections Conference. As always, we hosted experienced customers, new customers, partners, industry influencers and bloggers, as well as many prospective customers looking to learn and confirm their future supply chain planning strategies.

Presentations from Ford, Xilinx, Amgen, Vizio, and Cisco, to name a few, provided attendees with proof points on how RapidResponse is delivering exceptional results over the legacy approaches of the past.

Attendees heard from Kevin O’Mara, one of the world’s most recognized thought leaders in supply chain, on significant supply chain trends and on the revolution that is afoot to absorb them.

Both Accenture and Deloitte also took to the stage to share their respective position and vision for the future of supply chain planning. Both very much aligned with the Kinaxis perspective of driving towards concurrent planning.

The Connections Conference also serves as an early indicator to sustaining our long-term growth objectives. As you know, high-tech electronics, life sciences, automotive, aerospace and defence, and the industrial equipment sector remain core target verticals for Kinaxis. This year, not only did we host more prospective companies than ever before, we saw representation from new market verticals such as consumer packaged goods, food and beverage, footwear and apparel, and the furniture manufacturing sector.

The interest outside of our current market verticals demonstrates the growing opportunity for RapidResponse, as well as the growing acknowledgement that the old ways of planning have come and are now gone. More and more frequently, global conglomerates are embracing the need for a breakthrough approach to solving their supply chain complexity. And they're turning to Kinaxis and their global partners to help lead them.

On behalf of Kinaxis, I would like to thank you for your support and, as always, for taking the time to join us.

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

Q&A

Operator

Thank you. If you would like to ask a question at this time, simply press *, then the number 1 on your telephone keypad. To withdraw your question, press the # key.

Your first question comes from the line of Thanos Moschopoulos from BMO Capital Markets. Your line is open.

Thanos Moschopoulos — BMO Capital Markets

Hi. Good morning. John, looking at your Q2 results and guidance, it seems like your subscription revenue growth might be accelerating. If I adjust for the customer that dropped off in June, it seems like subscription revenues were up 34 percent this quarter, and your guidance implies 38 percent growth next quarter. Would you say that you might be seeing an inflection point in your growth? Or might it be a little too early to draw that conclusion?

Richard Monkman

So then—it's Richard, Thanos. Let me address that. So as we have previously disclosed, so I'll say it publicly that it is we occasionally do lose customers. And one of those customers was BlackBerry, which did, because of their circumstance, did not renew at the end of the quarter. And so yes. They were not included in our Q3 revenue. And so I understand your math.

And I think what that reflects though is really the growth that we have driven in the business; the ongoing nature of our other customers that continue to land and expand with us.

I would not—while we're very positive on the business, we are very cautious with regards to declaring a hitting a point of inflection at this point in time. We, as noted in our opening comments, are very pleased with the health of our funnel and with the progress that we're making with our partners.

And so I think, at this point, we would ask you though to refer to our guidance, which is ongoing strong, mid-20 percent growth.

John Sicard

I would add to that, Thanos, that the two main ingredients, I would say, that I focus my attention on is the size of the pipeline and the speed at which we're infusing new opportunities. But more importantly, the cycle time to closing, which as you've heard us talk about, is still in the typical 9- to 18-month range; in some cases longer, depending on the size of the organization that we're dealing with.

So as Richard said, I think it's too early to declare. At the same time, I really don't believe that we're going to cross over a day between a Friday and Monday, and we will have experienced an inflection. I think it's more of a slow-burning process.

As Richard said though, we are exceptionally confident in the pipeline and having it fuel the growth as we've indicated.

Thanos Moschopoulos

Fair enough. The gross margin dipped a little bit relative to last quarter. Is there anything of note there? Is that primarily tied to the ramp-up of the new data centres? And how should we think about margins over the next while?

Richard Monkman

So there are certain onetime costs establishing a data centre and, as I've noted, we tend to expense things as opposed to capitalize it. We are going to have an ongoing investment. We're comfortable in the—traditionally we've been in the 70 percent range. And we're comfortable holding to that plus or minus 1 or 2 percent range.

Thanos Moschopoulos

Okay. And then on OpEx, I realize it may be too early to talk about '17, but I'll ask the question. How should we think about operating margins and operating leverage over the next year? Will the focus be on maintaining OpEx in the same ballpark as a percentage revenue? Or might we see some operating leverage on certain line items?

John Sicard

Well, it's interesting, because our model, with its forward visibility lends itself to strong leverage. However, our focus is first and foremost on growth. And so we're going to continue to invest in growth.

And the areas that that entails are primarily on the sales and marketing side of things. As well as, though, you can see the expansion of the product when you route connections. We are going to continue to invest in R&D.

I do not see growing R&D at the same rate as we're growing revenue, but depending upon our success with the partners and our other opportunities, sales and marketing may grow in step with the revenue growth.

Thanos Moschopoulos

Great. Thanks a lot. I was wondering if ...

John Sicard

But as you know, we're going to provide—sorry. We're going to provide—on our next call we'll provide guidance.

Thanos Moschopoulos

Okay.

John Sicard

For '17.

Thanos Moschopoulos

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

Operator

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

Robert Young — Canaccord Genuity

Good morning. I think I'll continue that last question. I think an area of concern from investors will be where EBITDA margins will go. And so I was—if you look at the guidance, if you look at the bottom end of the two ranges, you could have a Q4 in the mid-teen EBITDA margin. And so I think the assumption may be that that's large customer wins and you're expensing the sales in the period. But I was wondering if you could talk about other factors which might change the level of spend in Q4 or potentially going forward.

Richard Monkman

Sure, Rob. It's Richard. The key variable, at this juncture of the year, because we have built the team with regards to whether it's Knowledge Services, R&D, the geographic expansion of the sales team. Those costs are in place and will continue.

So from a variable perspective, costs really are driven on the sales side of things. And as we've noted, we immediately expense sales on the commencement of the activities. So if we were to close a deal on December 24th and it started right away, we would fully expense that as opposed to January. Hence, we do give that band with regards to our adjusted EBITDA performance.

I think the takeaway though is this is a very, very strong EBITDA performance. And we've, right from our IPO, we talked about well over 20 percent. We are going to continue to drive out a consistent EBITDA performance.

As I said, our focus is on longer-term growth because we believe with higher longer term growth will come higher overall EBITDA drive. And so I appreciate those that are looking for us returning to the 30 percent EBITDA range. But at this juncture, our guidance is we're seeing strong growth. We're going to continue to execute on that growth. And we believe this is an appropriate level of investment.

Robert Young

So just maybe nailing it down on EBITDA margin a bit, if you—are you saying that greater than 20 percent is kind of where the Company expects to operate in the future? Or is 25 percent a better number, but 30 percent would be too high? Maybe you could give us a range that might be a little more helpful.

Richard Monkman

Yeah. So again, Robert, we'll give you guidance on our next call, but what that 20 percent number, that was what we said at the IPO. So two years ago, when we came out as a public company in June, we said that our—once again the message is growth. We've now significantly exceeded all those targets that we established when we achieved.

We believe that investors will look to the longer horizons. So again, we only provide the annual guidance. We are executing in the mid-20 percent range. We are continuing to guide to that on the EBITDA performance. But you are also hearing us guide, even as we have managed with one account with that account not renewing, to continue to grow in the top line in the mid-20 percent range.

Robert Young

Okay. Well, understood. One thing I'd like to clarify is I think earlier in the call you called Samsung a Q2 win. Would that have meant that those period costs would have fallen in Q2? And then I'm just curious where that would fall. And the European global win you have announced this quarter. Would that be in the Q3? Or should we expect that in Q4?

Richard Monkman

Well, yes. So again, Samsung was a Q2 win, and we commenced that arrangement in Q2. And so, therefore, we fully expensed those costs. And that was one of the key drivers of the Q2 sales expense.

We commenced the European, the major European—again, but I want to stress it as global—customer arrangement in Q3. And so, therefore, those costs were fully expensed.

There was also—I mean we have ongoing expansions, but there was also a significant expansion for one of our existing customers. So it was a strong quarter from that sales performance and really resulted in us increasing the guidance as well as the subscription revenue target for the full year.

Robert Young

Okay. And so then the potential for lower EBITDA margin in Q4, what would be driving that if we have a large—Samsung would have been Q2. This large European would be in Q3. What would be the factors in Q4? And then I'll pass the line.

Richard Monkman

So please keep in mind we said full year 23 to 26 percent. So there's a number of elements. The sales and marketing includes not only the variable compensation, but it is also the presales organization, the sales, the management. It includes marketing and key marketing programs in Q4. We're not only at conferences, but our customer conference, Knowledge Services. So there's a number of elements.

The reason again why we toggle is we see strong activity in the funnel. We are doing everything we can to close that, but sometimes deals will move out to the following quarter.

So that’s why we have that toggle. And we’ve given you the guidance on the full year selling and marketing expense range.

Rob, we understand some of these questions, but we believe this is a very, very strong EBITDA performance, especially in light of the growth, and especially in light of our focus on taking everything as a period cost, as opposed to amortizing that over a longer period.

Robert Young

Okay. Great. Thanks for all that colour. And I'll pass the line.

Operator

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

Paul Treiber — RBC Capital Markets

Thanks very much. I mean you've won a number of large customers in the past. I mean it seems like all your customers are fairly large. But it seems like you're calling out sales commissions more frequently now as an unusual item. Is that primarily a reflection that the deal size and revenue opportunity from the deals that you're winning now are much larger than what they have been in the past?

Richard Monkman

It's a combination of the size of the deal, Paul, as well as you can probably appreciate that from a sales commission perspective it's not unusual for top performing sales people to be in overachievement levels in the latter part of the year. And so just given the strength of some of these bookings, that is the situation that we're in right now. And it's a positive role.

So what we're calling them out is, again, because of the nature of us fully expensing, when we look at some comparable companies that do not fully expense, we're trying to help provide that colour, that education for our investors.

Paul Treiber

And then should we—the magnitude of the sales commission as a variable comp this quarter seems similar to last quarter. Does that suggest that the bookings are similar to what they would've been last quarter as well?

Richard Monkman

So we've had two very, very strong quarters. But, Paul, I need to stress that sales and marketing is a number of elements. So it's not just simply the sales commission. It's costs as we expand the sales team, as we expand our geographies. It's the marketing conferences that we discussed, including the Connections event that you attended. It is the knowledge. It's a significant portion of our Knowledge Services cost. It's our investment in partners. So there's a number of elements that are collectively driving this growth.

But why do we call out the sales? Trying to give a little bit more flavour as investors do look for a little bit of variability and explanation why. And that, from a variability perspective, is probably one of the key drivers. And so as we close major deals, and especially in the latter part of the year, you will see that variance.

Paul Treiber

Could you, on a year-over-year basis, segment out the change in the variable comp versus the other investments in sales and marketing?

Richard Monkman

Our practice is just to provide the overall. It's a highly competitive marketplace, and there's a number of initiatives. And depending upon, again for instance, our period costs. Q4, we have external conferences as well as our customer conference. But in Q3, there's a lesser conference load. And so I think it would be too detailed to go into that. And so this is the level of disclosure that we're comfortable providing.

Paul Treiber

Okay. Fair enough. Just a question for John. You've had the expanded relationship with Accenture now for just about a year. How do you characterize the impact that Accenture's had on your sales pipeline? And then also, could you comment on your direct sales strategy, in light of the expanding relationships that you have with SI partners?

John Sicard

Sure. So you're right, our Accenture relationship is just crossing over the 12-month mark, and the pipeline and the work that we're doing with them remains very, very strong. And then again, in the past, we have closed business with Accenture. And we're working on some very significant opportunities with them now.

Our opportunities remain still, I'd say, the 9- to 18-months sales cycle. So we're sort of entering that fertile ground, if you will, the next six months. We're entering a time where we expect to see some positive movement and some deal closure.

With Deloitte, it is new. We're just entering that cycle, if you will. But they're extremely aggressive. We have opportunities that we've closed with them in the past. And so we're seeing a strong momentum. That is definitely fuelling the pipeline.

What I can tell you about the pipeline is it is definitely more diverse than we have seen in the past. And I made that point earlier as it reflects—the prospective customers that came to Connections. Many of those were brought to Connections, to that conference, by Accenture and Deloitte. So we're definitely seeing great diversity, not only in the market verticals, but the geographies as well.

As it relates to our direct sales strategy. We're expanding that. When we look at our direct sales strategy, I look at it as two components. There's the component that supports the partner ecosystem, and we're very often working with them in lockstep. And it's also direct deals that we have closed, some of them the major deals that we've talked about most recently.

So we're definitely looking at expansion. We're looking at South Korea as a fertile environment for a direct sales team. And we're going to continue down that path.

Paul Treiber

All right. Thanks very much. I'll pass the line.

Operator

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

Andrew McGee — National Bank

Hi, guys. It's actually Andrew in place of Richard. I'm wondering if you could help us understand the growth, and when I mean by growth, help characterize the split between new and existing customers, maybe what you're seeing today, and how you see that over the next few years?

Richard Monkman

Sure, Andrew. Thanks for the question. So it will vary a little bit by quarter, but we do continue to show a pattern of approximately 60 percent of our incremental subscription growth coming from new name customers and 40 percent from expansions thereof.

What's interesting is that we continued, as I noted this quarter, even with a significant level of existing subscription revenue, another customer did a further significant increase with his subscription revenue, so it's very much reinforcing our land-and-expand (phon) capabilities.

I think, as we continue to accelerate new name wins, we'll see a slight higher weighting with the result to the mix of incremental subscription revenue. But it's nice to have both those levers to continue to grow subscription revenue in the mid-20 percent range or higher.

Andrew McGee

Okay. And then just as we look at your professional services, obviously, you had a pretty big quarter. I noted that you had hired some external contractors to come in and help with that. When you look longer term, as a percentage of revenue, what do you see as an ideal mix for your pro services?

Richard Monkman

So by the way, let me just clarify. Those external contractors, those are actually partners. So part of our partner strategy is to continue to work closely with partners. And where we have opportunities to allow them to, beyond their certification and training capabilities, to actually shadow us in engagements and support us collectively, we draw upon those. So those are really ways to continue to accelerate our relationship with the partners.

At this point in time, we are focused on both elements of growth, but as partners continue to pick up that capabilities and those opportunities to deploy RapidResponse, we'll see a higher percentage of our revenue moving towards subscription.

Andrew McGee

Okay. That's helpful. Appreciate your time.

John Sicard

All right. Thank you, Andrew.

Operator

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

Paul Steep — Scotia Capital

Great. Good morning. John, could you maybe talk just a little bit and characterize in more detail the pipeline coverage? I'm meaning not a number there, but just the trending, and how you've seen that go. And then comment on that in terms of your available sales capacity, as you're thinking about it, to meet that pipeline opportunity; not necessarily this quarter, but I'm thinking into '17 and beyond.

John Sicard

Sure. We're certainly seeing a steady infusion of new, and as I stated, diverse opportunities entering the top of our funnel as we take things out of the bottom enclosed business. So it's a steady stream.

I'd say there's a healthy mix between what is coming from our direct sales team and what is coming from the partners where we're working in lockstep.

I categorized perhaps the thing that stands out the most, to me anyway, as it relates to the pipeline, is the diversity. We're definitely seeing new market verticals and new geographies, and that is a direct reflection of the work that we're doing with partners. They have a global footprint, and they're bringing some very, very interesting large opportunities to the table. So that's how I would categorize the pipeline.

In terms of sustaining our ability to deliver on that growth, our investments are all targeted, as Richard said, towards delivering on our success.

So we continue to grow our professional services team as well as, most importantly, our data centres in region to support the expansions. So we're well positioned, and our confidence is extremely high that we have the capacity to deliver on the pipeline in front of us.

Paul Steep

And I guess just to wrap it up for me, in terms of capacity to deploy and meeting those customer requirements, could you talk a little bit about the number of certified consultants now in the ecosystem and where you see that growing to?

John Sicard

Sure. As you recall, we launched our certification program a couple of quarters ago, and we saw a huge infusion of consultants, a very large community, if you will, from Accenture and Deloitte and other partners get certified, get the training and get tested and get their certification.

I can tell you that today we have more partner consultants working in lockstep on existing projects than ever before. And this is definitely the direct result of that certification program and just the maturity of our relationship with the partners.

As it relates to growing consultants, I would say that this last quarter, we saw fewer. And it's not because of lack of interest. It's really the candidates that were identified two quarters ago in Q1 and Q2 have all gone through that certification, and they're well deployed.

Today, we're focused more on Deloitte, obviously. Accenture has got a more mature footprint as it relates to consultancy and rapid response. But again I'd say, it's going quite well, and I'm happy to see the engagement that we're seeing from both partners.

Paul Steep

Great. Thanks, guys.

John Sicard

Great. Thanks, Paul.

Operator

Your next question comes from the line of Michael Urlocker from GMP Securities. Your line is open.

Michael Urlocker — GMP Securities

Thanks. Good morning. I wanted to promote a discussion about the customers here. And so if we look at the new European-based global customer, and I understand you're being a little bit cautious about identifying them. But could you describe, John, maybe what they're overall problem is; why they've come to Kinaxis; what they're looking to achieve through adopting Kinaxis?

John Sicard

Sure. And obviously, many of our customers don't allow us to promote who they are and what they're doing. So I'll provide you with some generalities.

Certainly those customers that join the Kinaxis revolution, if you will, are looking to dramatically accelerate supply chain performance. Many of them are coming from an old legacy, math-based, optimization type of an approach to managing their supply chain. Most of our customers come from a, call it a pedigree, where supply chain planning is done one chain link at a time. There is no concurrency. Ergo, you get a lot of latency in the planning cycle.

So this large European customer, like our others, are looking to dramatically shrink the cycle time to their entire planning cycle. And when we say dramatic, it's from days and weeks to hours and minutes. It’s a very dramatic collapse, if you will, of the overall cycle time.

Also what’s critical, above and beyond just the concurrency, concurrent planning provided by RapidResponse, is the ability to simulate. So when unexpected things occur, the speed at which you can detect the impact that has, across the entire supply chain, is where the new breakthrough is.

The notion of optimizing one chain link at a time, for them, is just not working. They need the speed and concurrency to provide them with the ample runway to course correct. Right? The speed at which you can course correct is now the new, call it the new breakthrough in supply chain planning.

So that’s how I would categorize ...

Michael Urlocker

Okay.

John Sicard

This new large customer.

Michael Urlocker

And with this customer, was there any one particular pain point that had emerged recently? Like a stockpile of excess inventory or a shortage of parts or some dynamic in their industry that’s changed recently that really caused them to come to you?

John Sicard

Yeah. I think, like most of our customers, the speed at which they can respond to demand changes is where they're looking to improve.

Michael Urlocker

Mm-hmm.

John Sicard

Many of our customers would say hey, we're going to sell 100 percent of what we make. We just have to make sure we're allocating the supply just in time to take advantage and provide the best possible customer service that we can.

And so that's how I would categorize this particular opportunity. The speed at which they can detect the actual demand signal is critical, and it is driving the usage of RapidResponse, which provides them an acceleration on the speed at which they can correct based on actual demand patterns.

Michael Urlocker

And then if we look at the consumer packaged goods market, this is an area you're focusing on. You've got a lead customer. How far to completion do you think your product set is now and your processes for addressing that market?

John Sicard

Yeah. So we're pretty excited about the consumer packaged goods opportunity. We had several prospects at Connections in that space. We're well-positioned at this stage, we're very well-positioned to handle CPG. What's quite unique about their space is the volatility and demand and the sheer volume of data makes it very, very difficult to simulate without a product like RapidResponse. So we're full steam ahead in that market segment right now.

Michael Urlocker

So you're ready to go to market now?

John Sicard

Yes, we are.

Michael Urlocker

Awesome.

John Sicard

We are!

Michael Urlocker

Okay. Excellent. Thank you.

John Sicard

Not only are we ready, we are.

Michael Urlocker

Yeah. Great. Thank you.

John Sicard

Thanks, Paul.

Operator

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

Gus Papageorgiou — Macquarie Securities

Thanks. John, question for you. On the new major European customer, can you tell us if they're within your big two verticals, i.e. electronics and life sciences? And could you just characterize—you talked briefly about you're expanding outside of those two verticals, and it's going well. But could you maybe just give us a little more detail? Like which of the other verticals that you're targeting do you think is the most mature and the most likely to advance over the next year or so?

And then, Richard, for you, you said that you're going to make some investments in European data centres next year. Could you give us some rough timing? Like first half? Second half? Middle? Any kind of timing would be appreciated.

John Sicard

Sure. So this large European customer is in an existing vertical that we're already in and very strong. And so I think the significant element here for us is it's a very large global company in Europe. And for us, it's equally substantial is winning a very large global company in South Korea. And so this is, for us, fuelling our expansion in Europe. So I'll let Richard comment on the data centre expansion in that region.

Richard Monkman

Yeah. So there's really two elements to an investment in the data centre. There is the CapEx. So the CapEx being related to primarily because we go into an existing service provider's data centre, these are high availability, highly secure, high Internet crossover capabilities we rent a cage.

But our capital, with regards to the network and the server capacity, and those are amortized over a period of years, so they really don't have a large impact on the timing of the expense.

And then the other element, Gus, is related to the actual management of that data centre, which is a combination of local support as well as then global operations coordination. At this point, we anticipate being in the first half of the year, and that's sort of the broad range. And we will provide further guidance and colour during our next call.

Gus Papageorgiou

And is there any way you can quantify the CapEx required?

Richard Monkman

Again, the CapEx depends upon the size of the data centre. That's somewhat proprietary, and so I don't want to go into details. We do it in quite an efficient manner. And we will do it in a pattern of—actually we twin the centres. So there is the primary production as well as then the recovery centre. And we always will do these things in the—we anticipate always doing these things in a pairing.

Gus Papageorgiou

Okay. Great. Thank you.

Richard Monkman

But it will be within our CapEx envelope.

John Sicard

All right. Well, thanks, Gus.

Gus Papageorgiou

Thanks.

Richard Monkman

Thanks.

Operator

There are no further questions at this time. Mr. Sicard, I turn the call back over to you.

John Sicard

Thank you for participating in today's call. We appreciate your questions as well as your ongoing interest in and support of Kinaxis. We look forward to speaking to you again in February when we report our Q4 2016 results. Thank you. Good bye.

Operator

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

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