FINAL TRANSCRIPT

Kinaxis Inc.

Fiscal Fourth Quarter 2014 and Full Year 2014 Results

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PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2014 Fourth 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, Wednesday, February 25th, 2015.

I will now turn the call over to Doug Colbeth, President and Chief Executive Officer of Kinaxis Inc. Please go ahead, Mr. Colbeth.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Good morning and thank you for joining us today. Yesterday afternoon we issued our fiscal year 2014 and fourth quarter financial results, a copy of which is available on our website, kinaxis.com. With me today is our CFO, Richard Monkman. I'll address some key events from the year and then Richard will review our financial results. I'll then close with a few comments on our growth strategies and then we'll open up the line for Q&A.

Looking at our annual results, 2014 was another successful year. Revenue came in strong, growing 15 percent over the prior year to $70.1 million. More importantly, our annual subscription revenue grew by 28 percent to $51.1 million. This resulted in a solid Adjusted Annual EBITDA of $16.1 million or 23 percent of revenue. This ongoing performance demonstrates the power of our software as a service operating model and our ability to continue to drive growth in our business.

Looking toward 2015, we remain very confident that we will continue to grow our annual subscription revenue in excess of 25 percent, and expect to achieve Adjusted EBITDA in excess of 20 percent of total revenue. Furthermore, as we continue to build success with our partners, including their capability to deliver implementation services, we anticipate professional services revenue will grow between 10 and 15 percent in 2015.

With that, I'd like to pass the line to Richard to discuss the financial results for our fourth quarter in greater detail.

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

Thank you, Doug, and good morning. I would like to take a moment to remind our listeners that all figures reported on today's call are in US dollars under IFRS.

Revenue in the fourth quarter increased 15 percent to $18.8 million over Q4 2013. The increase was driven by subscription revenues that expanded by over 27 percent to $13.9 million. This was due to the addition of new customer contracts secured over the past year in addition to expansion within our customer base. As projected, professional services revenues declined by 7 percent to $4.7 million from $5.1 million in the same period last year. As professional services projects are engaged on a time and material basis, revenue may vary from quarter to quarter. In the corresponding period for 2013, the Company was generating a significant professional services revenue from a major staff augmentation project that concluded in Q4 2013.

Adjusted EBITDA was $3.8 million or 20 percent of revenue in Q4 2014, compared to $4.5 million or 27 percent of revenue in the same period last year. This change was the result of higher sales and marketing and research and development expenses.

Net profit for the quarter was $600,000 or $0.02 per basic share—undiluted share in Q4 2014, compared to a net loss of $800,000 or $0.05 per basic undiluted share for the same period in 2013. The increase in profit was primarily driven by a lower fair value non-cash adjustment on the redeemable preferred shares which were converted to common shares at the time of our initial public offering in June 2014.

Gross profit was $13.4 million in the fourth quarter compared to $11.7 million for the same period in 2013. As a percentage of revenue, gross profit percentage was 71 percent in the fourth quarter versus 72 percent in the prior comparative period. This change was the result of an increase in the cost of revenue driven by a higher level of investment.

Sales and marketing was $5.3 million compared to $3.5 million for the fourth quarter. The increase was primarily due to higher new customer acquisition expenses which, as per our policy, are fully expensed at the commencement of the revenue arrangement. In addition, marketing program costs reflected new investments and an expanded customer conference in Q4 2014.

Gross R&D expenses increased to $3.9 million from $3 million in the prior year quarter. This change was driven by an increase in headcount we made to support ongoing programs designed to further develop our rapid response offering for new and existing customers.

G&A expenses increased to $2.1 million from $1.8 million for the fourth quarter 2013. This was the result of an increase in accounting and audit and legal fees related to the Company's conversion from US GAAP to IFRS.

Deferred revenue increased by 52 percent to $37.5 million at year end 2014 versus year end 2013. The increase in deferred revenue reflects the increased level of prepaid subscription revenue from the addition of new customer contracts and expansions. Deferred revenue will continue to increase significantly in the near term based on business activity. In particular, in December 2014, we closed a multiyear subscription agreement that provided for a single payment of initial term subscription fees. The subscription fee for this initial term was approximately $20 million and was invoiced and received in the first quarter of 2015. This will result in an increase in current and non-current deferred revenue balances.

Cash generated by operating activities was $16.3 million for the year ended December 31st, 2014, as compared to $19.6 million in the same period of 2013. The decrease in operating cash flow was primarily due to the Part 6.1 tax of $4 million paid in the first quarter of 2014, and interest paid on the term loan of half a million dollars during 2014. This Part 6.1 tax payment is included in our deferred tax assets and is recoverable against future tax liabilities.

Cash and cash equivalents totalled $56.7 million as at December 31st, 2014, as compared to $13.8 million as at December 31st, 2013. The increase is primarily due to the proceeds from our initial public offering net of repayment of the $30 million term loan from which we had drawn in December 2013 and March 2014. We expect cash to increase significantly in the near term as we receive payment for billings on new customer contracts.

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

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Thank you, Richard. We're very excited about our growth envelope for 2015, and as I mentioned earlier in the call, that is driven by our unique operating model and our proven track record of strong growth. Why are we so confident in our fundamentals? We have a stable, growing revenue and customer base. Annually, we see greater than 100 percent net revenue dollar retention from existing customers. This means we're not only maintaining our subscription revenue base but growing it. Equally important, our revenue is visible. At the beginning of each year, over 80 percent of our projected total annual subscription revenue is already booked. The remainder of projected subscription revenue is derived from customer renewals and expansions as well as through new contract wins. Finally, our revenue is longer term as our customer contracts have lengths typically in a range of two to five years.

Our ability to generate consistent growth is based on a number of initiatives. First, we continue to see a significant growth arising through our land and expand philosophy. While recently incremental subscription expansion has been weighted towards new customer acquisition, approximately 40 percent of our historic subscription revenue growth comes from our existing customer base. We strategically built RapidResponse to be able to grow and expand with our customers. Our unique single database platform allows our customers to activate and subscribe to additional users, sites and applications without disruption to their service or requirements to upgrade. We drive significant value in large enterprise customers over time which in turn drives higher revenues for Kinaxis.

We will continue to leverage our cloud-based architecture and the single platform model, expand into new vertical markets and new applications and analytics to drive sustained revenue growth. Further, we invest to expand RapidResponse with greater scale and capabilities to support the needs of our expanding customer base.

To summarize, we're very excited about our growth outlook for 2015. We have a well-established and growing customer base which allows us to deliver solid financial results. We continue to invest in our technology in order to drive revenue growth and innovation.

I want to thank you all for taking the time to join us on this call, and with that I'll turn the line over to the Operator for Q&A.

Q & A

Operator

At this time, I would like to remind everyone, in order to ask a question, press star, then the number one, on your telephone keypad. We ask that you please limit yourself to three questions. Your first question is from the line of Thanos from BMO Capital Markets. Your line is open.

Thanos Moschopoulos – Analyst, BMO Capital Markets

Good morning. Doug, can you provide us with a bit of an update on the partner channel? Given your guidance and PS revenue, it would seem that you expect the partners to play more of a role in that regard. What are you seeing from a pipeline perspective, and also in terms of the partners' maturity and being able to deliver on these limitation works (phon)?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, there's some good progress there, Thanos. In the particular recent quarter, we had a couple of customer wins where the partners will actually be leading those deployments. Kinaxis will be part of those deployments but we're playing a role really in the area of delivery assurance, so that's a positive sign that we're getting partners trained in order to conduct deployments. We also had a situation in the quarter where a partner actually completely sold RapidResponse to a new customer, so that's very encouraging to us.

We continue to get demand for partners to get trained on RapidResponse. It's not uncommon when you close a very large sale that a large system integrator will approach us to become trained on our product because there's an ecosystem of other services that these partners can provide, even if they don't actually do the deployment.

I will tell you that our long-term goal is to have professional services revenues be approximately 20 percent of our total revenues. So we are doing various things inside the Company to facilitate partners doing deployments. We feel that's critical to the long-term growth of the customers. Well, to Kinaxis.

Thanos Moschopoulos – Analyst, BMO Capital Markets

Okay. Would you ever want PS revenues to go even lower down than that? Like 15 percent, 10 percent, or do you feel that it's I guess an important need to have some of that hands-on relationship with the customer during implementation phase?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, you know, Thanos, if we were selling a lighter weight SaaS application like probably the majority of SaaS vendors out there sell what we consider lighter weight, less complex types of SaaS applications, I would say yes, but I think when you look out two or three years from now, I think 80/20 is going to be the mix.

Thanos Moschopoulos – Analyst, BMO Capital Markets

Then on the megadeal, is there any colour you can provide as far as whether that was a new customer or an existing customer, and does the deal size reflect the number of applications they bought or the size of the customer, or perhaps both?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, I can add a little colour to that. It is a new customer and it's a large entity, obviously, and there were multiple applications involved, and so typically in a sales campaign like that, the campaigns are longer because you're selling to multiple constituencies at the same time. What's most encouraging to me is we were assisted on this by a very large system integration partner and we think that's important in order to not only have that partner help us win new business, but it also drives their partners—I'm sorry, their competitors towards us. The sale also provides significant long-term upside. They—it's fenced by users, manufacturing sites, distribution sites, so there's a lot of levers involved in the transaction and we would expect over the long term to have this customer even grow well beyond what we're looking at right now.

Thanos Moschopoulos – Analyst, BMO Capital Markets

That's great. Just the last one for me: are you seeing other deals of similar magnitude in the pipeline, or maybe are you seeing deal sizes get larger, or is the average deal size in the pipeline sort of consistent with the range we've talked about in the past?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, it's pretty consistent with the past, Thanos. You know, this was a rather extraordinary transaction and what happened, sometimes multiple groups in a company will coalesce; the IT department will coalesce those campaigns and something will evolve from a smaller transaction to a larger initial transaction. As you know, typically we start with one group and we go into what we call a land and expand mode. So I would say this falls more on the exception side and there's no short-term funnel that shows this type of transaction.

Thanos Moschopoulos – Analyst, BMO Capital Markets

Okay. Thanks for the colour, Doug. I'll pass the line.

Operator

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

Robert Young – Analyst, Canaccord Genuity

Hi. Good morning.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Good morning.

Robert Young – Analyst, Canaccord Genuity

Is there anything that you can tell us about that megadeal in terms of what's the duration of that contract? You said average is two to five years, so either this is a very large or beyond the average size or it's a very long-duration contract. I was wondering if you could help us figure that out, and if you can give us any colour on what vertical or what geography it's coming from, that would be also helpful.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, the term, Rob, was five years but through agreement with the customer—and this is typical for us—we're very careful not to disclose the customer until the first phase of a deployment is completed, so we don't even disclose the vertical. But at some point in the future you all will know who it is and it is a name that you'll recognize.

Robert Young – Analyst, Canaccord Genuity

Maybe I can just—one additional question there. Is it a newer vertical for you or is it one of the verticals that you've been more associated with in the past?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Oh, if it was a brand new vertical, we would disclose that; it's an existing vertical.

Robert Young – Analyst, Canaccord Genuity

Okay, and I noticed there was some headwind in the—in Japan and Europe in the quarter and I was wondering is there anything that's driving that? Is that lumpiness in pro services or is it currency driven? Is there anything to read into there?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

I don't think there's anything to read into it, Rob. It is a combination of a currency, so there is a weakness—a weaker currency, but also, again, that is our total revenue and so when the initial stage of deployment, the professional service revenue is higher and then will soften over that six to nine-month deployment, and so that's just really the status of the account at that point in time, so.

Robert Young – Analyst, Canaccord Genuity

Okay.

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

Lower PS revenue.

Robert Young – Analyst, Canaccord Genuity

Okay, and then I guess my third question, if you could just—if you could update the customer count. How many customers did you win in the quarter and maybe if you lost any, and what's the current number that you're serving now? Thanks a lot. Have fun.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

What I can say, Rob, is we closed the year with 15 customers above our expectations and we're approaching a hundred.

Operator

The next question is from the line of Scott Penner from TD Securities. Your line is open.

Scott Penner – Analyst, TD Securities

Thank you. Just maybe first question is on capital deployment, given that you're about to get a pretty large cash infusion in Q1. Does this change how you guys think about prioritizing in terms of acquisitions and investing in organic growth?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

It has not changed our mind, Scott. We continue to be focused on organic growth. We are open to select acquisition opportunities but we do have a very stringent criteria. These would be more of a tuck-in nature. They would need to be companies that would be SaaS-ified (phon) and would be very near-term accretive. So, our focus really is to continue to invest in additional sales and marketing activity. Picking up on the theme that Doug mentioned earlier with regards to partnerships, we are establishing Kinaxis University and investing heavily there, as well as investing in the—continue to invest in the product to support expansion in new verticals and applications.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

You know, let me add to that a little bit, Scott, so—and I'll take you inside some of our partner discussions. You know, what we have is a platform upon which others can build what we call solutions or applications. So we are investing with partners to enable them to even build their own IP on top of our platform. We feel that type of investment—and that's one of the reasons you see, you know, we're very strong believers in investing in R&D and part of that investment in R&D is to enable our partners to build their own IP. Now, that hasn't happened to date because we're just in the discussions, so when you look at the big partnerships, you know, up until now, they have been where we're selling the software and they're in there selling their various types of consulting services like change management, integrated—data integration services, process re-engineering, strategic consulting and so forth. However, what I'm very keen on and what I spend my time on, a lot of my time right now is I believe a lot of these or a lot of our product should be inside business services or some people call them BPO services where the customer gets a total solution which is provided by the large system integrator like an Accenture, and so that's where we really think we can leverage our platform and we think that's, you know—like I said, it's forced us to have a very stringent criteria for tuck-ins because we can add value to our platform and we want a universe of people doing it, not just Kinaxis.

Scott Penner – Analyst, TD Securities

That's very helpful. Just one last question, actually, and that is just on the product release, the 2014.4 that is now out. Just what—if we can backtrack a second and just review for a second what is the—any sort of disruption, if there is any, for people upgrading to that release, and then is it still sort of the cadence that you expect through kind of two major releases and two minor-ish releases per year?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, the cadence is really not changed. It's just like you stated and what we do with a new release like the 14.4 release, that release is very much focused on what we call scalability and we created a very innovative, what we call data type, called the Vector data type, which really allows customers to scale and this is important for customers that are dealing with enormous amounts of historical data; other what I call business planning applications, ones that even would go beyond supply chain. So the way that works is we speak directly with our customers and customer support and we schedule these upgrades and it's not like, you know, we give a maintenance window notice to every customer and then it's done at 2:00 in the morning. We schedule these with our customers because of the enormous levels of data that they have and the enormous number of sometimes solutions that they have. There's kind of a normal cascade that happens and we support customers back, actually, two releases, so it's really proceeding along as other major releases have been rolled out.

Scott Penner – Analyst, TD Securities

Okay. I appreciate it. Thank you.

Operator

The next question is from the line of Richard Tse from Cormark Securities. Your line is open.

Richard Tse – Analyst, Cormark Securities

Thanks. Doug, you know, on the big win in the quarter, could you disclose who the incumbent vendor was and perhaps the main reason for switching to you?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, let me—this was a sales campaign that involved many vendors and it would be names like SAP and Oracle. I will tell you that much like we've been saying to you folks for nine to 12 months, quite often they try the other vendors' products and they fail, and we come in when they've been forced back to having hundreds of spreadsheets that are disparate. It doesn't stop our competitors from coming in selling futures and saying that, "You know, we're building something new in a dungeon in Germany," for example. It doesn't stop them from coming back and competing with us, but, you know, this is very common for us to get involved in campaigns after they've had failures with incumbent ERP vendors. This one was unique in that it was both Oracle and SAP.

Richard Tse – Analyst, Cormark Securities

Then with respect to the land and expand strategy, can you give us perhaps an update or a sense of the penetration rates with your existing customers from that standpoint? Are you kind of like a quarter there, a third there with the existing base?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

Well just in terms of—Richard, why don't I address it from new revenue perspective? So traditionally we've been equally weighted between new name customer revenue and expansion from existing customers, however, in the last while that's shifted to be a 60/40 mix with 60 percent of our new revenue coming from new name customers and 40 percent of new revenue coming from expansions from existing customers, and we're very comfortable with that ratio and we see that sustaining.

Richard Tse – Analyst, Cormark Securities

Okay, and just one last question. How should we look at the cost structure here going forward into the year? Maybe give us—I don't know how broadly you can talk about it but a sense of what we can expect those costs to scale to?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

Yes, so, you know, our focus really is on annual guidance and first and foremost, the 25 percent or higher subscription revenue growth that we've also identified again because of the partnership, 10 percent to 15 percent of professional services revenue growth, we're comfortable holding to the historic level of 70 percent gross profit, and with—even with this increased level of investment in the partners and in the product, we see consistent EBITDA—just EBITDA performance above 20 percent.

Now again, you know, professional services revenue will vary by quarter depending upon the stage and timing of the engagement and also depending upon the timing of expenses—for instance the large customer conference is fully expensed in Q4—EBITDA will vary but on an annual basis 25 percent plus subscription revenue growth, greater than 20 percent EBITDA performance.

Richard Tse – Analyst, Cormark Securities

Great. Thank you.

Operator

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

Paul Treiber – Analyst, RBC Capital Markets

Thanks very much. I just wanted to go back to your outlook for greater than 20 percent EBITDA margins. It doesn't imply a high level of spending than your medium term target for 25 percent. Could you just speak to where the incremental spending in the near term is focused on, and then how do you think longer term at a more high level in terms of balancing or the trade-off between growth and margins?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, I'll take that one, Paul. You know, I would call it partners, partners, partners. We're going to invest in partners and that shows up in multiple areas. Obviously there's a investment you make in sales. I mentioned enabling partners to add value on top of a product; that takes place in the R&D budget, and even in the customer support part of our business, you have to invest in order to support partners.

You know, we think for the long-term benefit of Kinaxis, it's worth it to invest in partners and that's a significant part of that decision, I guess, and we did give you a medium term I believe on the road show in the 25 percent range on the EBITDA. But to trade off 5 percent of that to invest in partners, you know, Kinaxis is still best-in-class in EBITDA for a SaaS company and we—from time to time, we see these investment opportunities that are extremely disciplined. We run a very, extremely disciplined business, but that's really where the investment is and why we're not guiding anyone to 25 percent EBITDA in the current year.

Paul Treiber – Analyst, RBC Capital Markets

Then thinking about the partners, in terms of the leverage that they may have on your growth in your model, I mean you've traditionally been—grown through direct sales. What's the magnitude or leverage that you think you can get out of partners over longer term?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Well, you know, we look at—you know, we're synergistic with the large SIs, in particular, as they deal with the largest companies in the world and we deal with the largest companies in the world, and I would not be surprised in a few years with a majority of our new bookings, and then subsequently the revenues, would be driven by partners.

We look at and we communicate with companies that have been extremely successful with partners. I'll mention a couple of names: ServiceNow, Workday, in particular. Those are two companies that we know; we have friends with those companies and we admire what they've done and I believe in order to take a company from a hundred million to a billion, which is what I spend my time thinking about, I believe you have to become part of these big, big companies; you need to become part of their channels and I would—I believe in order for us to get to a number like a billion rapidly, we'd have to have three or four of those people running very hard, incorporating our technology plus their own IP built on top of our product, and taking that into markets and application areas that we're not even in today.

So I think it can make a huge difference to Kinaxis due to the nature of our product and the nature of the markets that we serve.

Paul Treiber – Analyst, RBC Capital Markets

Okay, and then just lastly, I just wanted to focus on the competitive landscape. SAP announced the next generation of their ERP product as for HANA, and then also E2open is being acquired. Do you see any change in the environment after those two announcements?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Well, we've known about HANA for a long time. HANA was a lot more of an issue for us before it got released, and once it was released in the supply chain space, we seldom hear about it anymore. They claim they're going to have another coming out party for their supply chain applications and they say they've scheduled that coming out party for 2017. Don't ask me to explain that strategy. I just don't understand.

But anyway, so we don't see HANA in the supply chain space. I believe from time to time we see them in the sales and operations planning space, so you know, we may see competition from HANA as we expand into application areas outside of traditional supply chain applications, but I have really nothing to report on that side.

As far as E2open, there's a group of companies in what I call the beta layer space. You know, we don't think it's a good space. From an M&A standpoint, we obviously haven't done anything there. You know, our value has surpassed their value. I don't mean just on the stock market; I mean for the customer base and that's very important to us.

Where we might see competition is I told you we're going—you're going to see us expand like we did with S&OP. You're going to see other applications come out that you won't necessarily consider supply chain, although they leverage supply chain analytics or they are applications that should be tied to someone's supply chain. We may encounter some competition there from start-up companies that may be building planning application in the areas of finance as we expand our business. So, you know, we could certainly run into competition as we expand our product portfolio.

Paul Treiber – Analyst, RBC Capital Markets

Thank you. Good to understand. I'll pass the line.

Operator

The next question is from the line of Kris Thompson from National Bank. Your line is open.

Kris Thompson – Analyst, National Bank

Great, thanks. Doug, did I hear you correctly? You said you closed 15 new customers in 2014?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes.

Kris Thompson – Analyst, National Bank

That's, I think, significantly higher than your kind of historical run rate. Can you give us an idea of your target for 2015, and maybe just touch a little bit on your salesforce structure, what you've changed, the number of quota-carrying sales guys and maybe the geographies that you're focused on?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, all of the incremental sales investment has been in the area of partners; it's not been in direct sales. So when we look to, say, new geographies, we plan to leverage partners that are extremely large in those new geographies. So our partner sales group, which is part of our field operations—our partner sales team, we're expanding to manage relationships with those partners, and you'll even see over time that we'll have multiple people working with a single large partner. So that's where the incremental investment is on the sales side.

As far as guidance to—we don't provide specific annual guidance but I would be comfortable to say that we would expect, you know, at least 12 to 15 new customers, and as you know, we do all sorts of things to make these larger types of contracts, and we believe that the channel will start to contribute to the number of new customers as well. But at this point in time, at the end of February, I wouldn't want to give you a range greater than 12 to 15.

Kris Thompson – Analyst, National Bank

No, that's fair. So your quota-carrying, like the direct salesforce count, is that still like around nine guys, or?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, it's 10.

Kris Thompson – Analyst, National Bank

Okay, so you're happy there.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Very happy there. They have the capacity—they have capacity to do more business and I will tell you this: that capacity, they also often collaborate with the new partner relationships that we're developing. So, it's partners, partners, partners is the investment, and it's elephants, elephants, elephants.

Kris Thompson – Analyst, National Bank

Okay, great. Just to get back to the elephant, the megadeal announced, for Richard, that $20 million initial term; is that one year?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

No, it's a five-year agreement so it's a five-year—so while our agreements typically have annual prepayment, in this instance the customer elected to pay all five years as a single payment, so it's a five-year subscription agreement and fully prepaid.

Kris Thompson – Analyst, National Bank

Okay, got it. That's very helpful. While I have you, Richard, let's just talk a little bit about the EPS and the FX translation. So you reported $0.06 adjusted, that FX translation, you know, takes about $0.02 off of your earnings. Is there any income tax impact from that translation?

Richard Monkman – Chief Financial Officer and Vice President, Corporate Services, Kinaxis Inc.

The—yes, well the actual FX itself was related to certain tax attributes but they were the $4 million Part 6.1 tax that was prepaid so that's monetized as well as then we have a receivable from our last refundable SR&ED claim, and as our—as those are denominated in Canadian dollars, with the change in the currency there was the FX hit. But it will not have (inaudible).

Operator

Again, I'd like to remind everyone, in order to ask a question, press star, then the number one, on your telephone keypad.

Your next question is from the line of Nick Agostino from Laurentian Bank Securities. Your line is open.

Anthony Catino – Analyst, Laurentian Bank Securities

Hi. Anthony Catino here on behalf of Nick. I just had a question concerning some of your new pipeline opportunities and was wondering how much of your new business is coming from the more established verticals compared to some of your newer ones.

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes, Nick (phon), you know it's—it's an interesting question. I like to characterize it this way. We mentioned that life sciences has gone from basically a zero base level four or five years ago and it's now becoming a very active vertical for us. High-tech electronics from a booking standpoint is right there with life sciences. As you know, we started off the automotive with Ford Motor last year; that trails those two verticals. We did sign our first major CPG customer and our business model is to collaborate with that customer with an eye towards being able to take those solutions to other customers in that vertical and no new transactions in that vertical to report, you know, as of today. But the mix has not changed dramatically. Those have been the key verticals, and then of course aerospace is another vertical that we've been in for quite a while. It was the second vertical that we went into after high-tech electronics and that's more in what I call—aerospace is more in a steady state.

I will tell you—I'll reiterate to everybody, our bookings are extremely lumpy when you look at them at a quarterly basis and over a period of four quarters it really is a great way to measure Kinaxis. So it's really hard for me to allocate for you, you know, specific percentages to each vertical.

Anthony Catino – Analyst, Laurentian Bank Securities

Okay, thank you. That was helpful. I guess just to follow up on that, are you prospecting any other verticals or are you getting any inbound interest from any new ones?

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Yes. I have nothing to report but we will as soon as we have success in any of those verticals that we're looking at, you know, we'll report it. But, yes, we are interested in other verticals and we're investing to deliver what I call application value to those verticals.

Anthony Catino – Analyst, Laurentian Bank Securities

Okay, thank you. That was very helpful.

Operator

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

Douglas Colbeth – President, Chief Executive Officer and Chairman of the Board, Kinaxis Inc.

Well thank you very much everyone 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 again in May when we report our Q1 results.

Operator

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