

## **FINAL TRANSCRIPT**

**Kinaxis Inc.**

**Fiscal 2017 Second Quarter Conference Call**

**Event Date/Time: August 8, 2017 — 5:30 p.m. E.T.**

**Length: 58 minutes**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## CORPORATE PARTICIPANTS

**John Sicard**

*Kinaxis Inc. — Chief Executive Officer*

**Richard Monkman**

*Kinaxis Inc. — Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Thanos Moschopoulos**

*BMO Capital Markets — Analyst*

**Robert Young**

*Canaccord Genuity — Analyst*

**Richard Tse**

*National Bank Financial — Analyst*

**Paul Treiber**

*RBC Capital Markets — Analyst*

**Daniel Chan**

*TD Securities — Analyst*

**Todd Coupland**

*CIBC — Analyst*

**Deepak Kaushal**

*GMP Securities — Analyst*

**Nick Agostino**

*Laurentian Bank Securities — Analyst*

**Suthan Sukumar**

*Eight Capital — Analyst*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2017 Second 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, Tuesday, August 8, 2017.

I would now like to 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 afternoon, and thank you for joining us. Today we issued our second quarter results for fiscal year 2017, a copy of which is available for you to download on our website, kinaxis.com.

With me today is our CFO, Richard Monkman.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



As we reported in our press release, a large Asia-based customer with whom we've been working for over a year, is in breach of his contract obligations. As a result, we did not recognize revenue from this company and have removed future revenue for this account from the subscription revenue guidance. Richard will discuss the financial explications of this change during his commentary.

As demonstrated by our financial results, our business remains very solid, even after reflecting this challenge. Our second quarter subscription revenues grew 21 percent over the prior-year period, and we delivered very strong 29 percent adjusted EBITDA, as well as very strong cash generation. This growth has been supported by our growing network of global partners, who have opened the door to a much broader and captive audience of potential customers.

As in the first quarter, I commented on how the majority of new deals were influenced by our partners. I am happy to report that this trend has continued through Q2. Our investments in Knowledge Services and the uptake of partner certifications are paying off well ahead of schedule and well ahead of our expectations. Partners in North America, Europe, and Japan have all contributed to our success, including our recent deal announcement with Nissan Motor Company. This rapid partner progress has also led to a dramatic increase in their role in deploying new customer projects and as a direct result, they are gaining the related professional services revenues for those projects.

While this is the level of partner engagement we have been driving towards, the pace with which they have been able to take on new deployments has been higher than we had originally

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



expected. With this level of direct partner involvement and the resulting professional services revenues they secure, we have revised our full year revenue guidance accordingly. We maintain a long-term view of growth and strongly believe this near-term success of our partners will strengthen and support Kinaxis for many years to come. We believe it is only appropriate that as they continue to build their Kinaxis practices, they benefit from these new sources of revenue.

This increase in the relative percentage of subscription to total revenue is well aligned with the model we have consistently presented to you since our IPO. In the long term, the benefits to scaling the business through our strategic partnerships will far outweigh the impacts today. I view these developments as a strong validation that we are on the right path with our partner strategy.

The growing partner network and its proven ability to identify and support new customer opportunities, faster than we could otherwise do on our own, is just one element of our growth plans. We are investing in technology ahead of growth, providing us with the scale we need to take on larger customer engagements. In particular, we're investing in the scale and depth of our applications and their ability to leverage developments in machine learning and IoT.

In my opinion, when it comes to machine learning, there are far more academically interesting articles to read than there are practical-use cases. True to our pedigree, we are taking measured steps towards the development of industry-validated value propositions, starting with something I call the self-healing supply chain. These initiatives together form a long-term strategy

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



that we believe allow us to grow profitably as we continue towards the next inflection point in our business.

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 afternoon. As a reminder, all figures reported on today's call are in US dollars under IFRS.

Q2 revenue increased 14 percent to 32.9 million over Q2 2016. Total revenue growth was driven by our expanding base of subscription revenue, which increased 21 percent in the second quarter to 24.2 million.

As John noted, as of the second quarter, we are no longer recognizing subscription revenue for one customer who is in breach of their contract obligations. If the contract was in good standing, we would have been in a position to recognize approximately 1 million of additional subscription revenue in the second quarter.

Professional services revenue in the second quarter, a decline of 2 percent on a comparative basis to 8.4 million. As previously noted, our partners continue to play an increasingly important role in the deployments of RapidResponse for new customers and are, therefore, gaining this professional services revenue.

Gross profit increased by 14 percent in the second quarter to 22.9 million. Gross margin at 70 percent was consistent with the prior-year period. We've continued to invest in the business in

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



line with total revenue growth rates. We continue to make these investments, as we believe they enable our long-term ability to profitably maintain consistent and sustainable growth.

Adjusted EBITDA in Q2 was strong at 29 percent of total revenue and increased to 9.6 million, 2.3 million above Q2 2016. This increase in adjusted EBITDA was the result of Kinaxis scaling its revenue growth at a higher rate than its cost.

Net profit was 5.6 million or \$0.22 per basic and \$0.21 per diluted share. The increase in profit was driven primarily by an increase in subscription revenue, partially offset by our investments in additional data centre capacity, research and development, and an increase in shared-based payments. Cash generated by operating activities was a strong 7.5 million in the second quarter.

Given our growth prospects, we continue to invest in line with business growth for 2017. For the full year, our expectations are that sales and marketing expense will grow to support the business and be in the range of 22 to 24 percent of total revenue. We also expect net research and development expense to be in the range of 17 to 19 percent of total revenue. These investments directly impact our long-term growth initiatives; specifically, channel partnerships and Knowledge Service, as we scale the business through customer success.

We believe that investors recognize the value of long-term business growth coupled with sustained profitability and strong cash flow. Our revised guidance reflects both the impact on subscription revenue of the specific customer situation discussed earlier, as well as the anticipated

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



level of professional services revenue resulting from the expected continued trend of higher participation by partners.

Reflecting the combined influence of these two factors, we are revising our full year 2017 guidance as follows: total revenue guidance for fiscal 2017 is expected to be in the range of 131 million to 133 million. The midpoint represents a 14 percent growth over fiscal 2016 revenue.

Our long-term focus is sustained subscription revenue growth. We expect to continue this trend in 2017. Our revised annual subscription revenue growth is projected to be in the range of 21 to 23 percent. We now expect annual adjusted EBITDA to be in the range of 26 to 28 percent of total revenue.

With that, I turn it back over to John.

### **John Sicard**

Thanks, Richard. As I touched upon at the beginning of our call, our partners are playing an important role in securing new contract wins, and I fully expect that trend to continue. With the success of the program, we have entered into active discussions with new potential partners who want to offer their global clients RapidResponse's leading-edge concurrent planning capabilities.

Though we're excited about the level of inbound interest that we've seen, we remain adamant that we will only enter into projects with partners who are committed to building an internal RapidResponse practice. This involves a significant investment of both time and funds in training their consultants to ensure the program is successful. While we are selective in which partners we choose

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



to work with, we're committed to build out our overall ecosystem. We expect that over the next few months, we'll be announcing new agreements with partners that, over time, will help us to expand our reach and broaden the addressable markets that we can serve.

At Kinaxis, we're driven by the desire to revolutionize 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.

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 \*, then the number 1 on your telephone keypad. In order to allow time for everyone to ask a question today, please limit yourself to three questions per person.

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

### Thanos Moschopoulos — BMO Capital Markets

Hi. Good afternoon. Starting off with the Asian customer, just to clarify. I'd assume that the contract breach is related to delayed payment. Can you confirm whether that's the case? And if so, has the customer stated their intention with respect to whether or not they intend to pay you?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Richard Monkman**

Thanos, it's Richard. There are a number of issues in the contract, as you're aware, and there are a number of obligations from both parties. Kinaxis has delivered on its obligations, and the obligations of this customer have not been fulfilled. And yes, one of them is related to payment, but that's—we don't discuss specific customer situations, and I think that's the colour that we can provide to you at this time.

**Thanos Moschopoulos**

So to clarify, there is a possibility that the customer could resolve the breach and the contract would continue? Just obviously there's some uncertainty on that front? But would there be a possibility of the customer continuing the contract?

**Richard Monkman**

There—I mean there is—we have, at this point in time, decided to appropriately reflect the customer's situation, our best of the situation. We are—we've had recent communication with the customer. I don't want to, at this point in time, really get into any conjecture with regards to where that would lead. But we feel that this level of disclosure is appropriate and going to help the market best understand the current situation.

**Thanos Moschopoulos**

Okay. Were there any accounting adjustments in the quarter related to this, as far as balance sheet items or expense items that would've been adjusted?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Richard Monkman**

Well, yes, in that regard, as we noted. On a conservative basis, we have only recognized revenue to the extent of cash received and as such, we did not recognize revenue in the quarter. It would also therefore have a corresponding impact on deferred revenue, receivables, and other balance sheet items.

**Thanos Moschopoulos**

Okay. And then finally, guidance implies that professional services revenue will be relatively flat in 2017 versus 2016. As we look out ahead, should we think about PS revenue remaining stable at these levels? Or over time, as the partner channel ramps, could we see year-over-year declines longer term?

**John Sicard**

Yeah, Thanos, it's—as we've stated in the past, we do believe that a good healthy mix that we're driving towards is—call it an 80/20 between subscription and professional services. And we looked at the partner ecosystem and our partner investments and the Knowledge Services investments as motive to drive towards that ultimate level. So at least the way we're looking at the business over the—call it the mid-term—we would be driving towards that kind of a mix.

Even the larger projects that our partners are leading, we are still engaged. We have a—call it a solution assurance program—that all of our partners must adhere to. So it's not a situation of where partners run off on their own without supervision or involvement of our solution architects,

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



and so we're still very much engaged with every new customer win. We're just—as I noted—seeing a much more rapid pace at which they can take on the leadership role and have us take on the—call it the solution assurance role.

**Thanos Moschopoulos**

Great. Thanks. I'll pass the line.

**Operator**

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

**Robert Young — Canaccord Genuity**

Hi. Can you hear me okay?

**John Sicard**

Sure can, Rob.

**Robert Young**

Great. Okay. On the customer in breach. Are they still using the software? Had it gotten to the point—I mean it's over a year—had you deployed the software and were they using it? And if so, are they continuing to use it? Or have you blocked access, given it's software as a service accessed through the Internet?

**Richard Monkman**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



We are pleased to say that we provided a working solution for this customer. We continue to meet our obligations under the contract. And again, we can't comment really any further with regards to individual customer arrangements, Rob.

**Robert Young**

Okay. And then I assume this is one year paid up-front, and so if it was over a year then this issue, as far as the revenue impact, it would have just started at the renewal. So could you give us any additional colour on when the issue started to come to light? Like when did it become clear that the customer was going to be in default? Is it just now? Or was this something that would've come—you'd been aware for a little while now?

**Richard Monkman**

With regards to payment, our model is—and you are correct—our model are generally annual payments in advance. The appropriate accounting is also, if there is a concern with regards to collectability, to not recognize revenue in excess of receipts in that type of situation. We did provide, just in our earlier comments, that the impact in the quarter, it was about \$1 million with regards to the subscription revenue for the quarter, and it is reflected in our guidance moving forward. We've had recent discussions, and this is the situation that we—the reporting that we have—as we think the best communication to the market. And again, Rob, that's the extent of the characterization that we can provide at this time.

**Robert Young**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. And then I guess the last of my three questions would be the—like you said 1 million impact in Q2 to subscription revenue—I think was what you said before? And so would this be—

**Richard Monkman**

Yes. Correct.

**Robert Young**

An annualized sort of—and would it be an annualized 4 million subscription impact? Or would the timing of this sort of—would it actually be higher on an annual basis? Then I'll pass the line.

**Richard Monkman**

Yeah. So, Rob, the characterization and the disclosure we're giving is it was—the impact was a quarter in the—sorry, it was 1 million in the quarter. And I'm sorry, but it has been reflected in the subscription guidance. But you can see that even with this challenge, we have very, very strong subscription revenue growth. We do have very, very strong long-term contracts, as you know, and John has commented on the strength of the funnel and the growth of the partners.

So our view remains very much focused on the long term. We understand that individuals need to—or have a desire to focus on what does it mean for the quarter—even for the year. But our focus is very much, how do we continue to build this business? How do we continue to work with customers? How do we continue to build a strong employee base and a community of partners? And so this is—we view this as a long-term—

**Robert Young**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay.

**Richard Monkman**

Growth business.

**Robert Young**

I was just trying to get a sense of—like the midpoint in the guidance has dropped about 10 million. So if I think of it, is it about 4 million from the default, and then about 6 million from professional services? Is that kind of roughly the way to think of it?

**Richard Monkman**

So, Rob, the best guidance we can provide, we have provided, so I've given a characterization for the quarter. We've talked about the subscription revenue range. We have talked about how—and you've seen how actually it is down slightly—the professional services level. We have shared with everyone, our—quite frankly—our excitement that this pace of acceleration is picking up. And not to steal any thunder from John, but again, the majority of new business that we closed in the quarter was partner-influenced, and we have this growing network of qualified partners that are taking up and playing a significantly increasing role in that—qualified role—in those deployments, and as such, are gaining the revenue.

**Robert Young**

Okay. Thanks.

**Operator**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



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

**Richard Tse — National Bank Financial**

Yes. Thank you. I understand there's sensitivities around the contract, but what are they claiming that you're not doing to sort of withhold payments? It'd just—it'd be useful to get a bit of colour in terms of that perspective here.

**Richard Monkman**

So, Richard, first, I wouldn't characterize this as withholding payments. We've characterized it because we feel that it's a—there's a number of elements, and we've talked about in breach of their contract obligations, and that is the extent of the disclosure. We have appropriately reflected this in our results and guidance. And I can understand the desire to try to do this, get a little more detail. You do know—and I know you've talked to a number of our customers—you do know our strong track record with customers, and that's really all we can comment on at this time.

**Richard Tse**

Okay. I guess looking forward, are there any other contracts potentially at risk to a similar breach?

**John Sicard**

Richard, no. No.

**Richard Tse**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Okay. I appreciate that. And I guess on the positive side here, and the pipeline is, as you said, very active. Can you give us a bit of perspective in terms of the size of that funnel, given the active partner channel today versus what it would have been last year?

**John Sicard**

Yeah. It's always fascinating to see how partners influence the markets as we gain traction with them. We're particularly excited to see, in fact, the uptake in Asia. Our recent announcement with Nissan. We've broken into the life sciences space in Japan with Santen. We have some great progress in Europe with European-based partners. We are well on track to having a fully functional and—call it production-hardened data centre in Europe—before the end of this calendar year. So we're definitely seeing great progress in the areas outside of North America. And it's not by any stretch to suggest North America is softening; it's quite the contrary. We're seeing some significant uptake in Asia and in Europe.

The other thing I might add as some colour is for the first time—and this changes every quarter—but for the first time, we have seen life sciences as a percentage of revenue for the Company outpace our previous—call it beachhead of high-tech electronics. We have talked quite a bit about life sciences as an emerging space, driving towards excellence in supply chain planning and concurrent planning. So not just with this recent win with Santen but others in that space, we're definitely gaining traction.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



The other area I would—I mentioned this, I'm sure in the last earnings call—is the area of CPG. We announced that this is now a formal space for us. We continue to make investments in R&D on our analytics engine side, to meet the market needs there. And I can say that, that pipeline—the CPG-specific pipeline—I would call exceptionally healthy.

**Richard Tse**

Okay. Great. That's great. Thank you.

**John Sicard**

Thank you.

**Operator**

Your next question comes from the line of Paul Treiber with RBC. Your line is open.

**Paul Treiber — RBC Capital Markets**

Thanks very much. Could you—I was hoping—could you elaborate a bit on the win with Nissan, just in regards to—was there any revenue this quarter from the deal? The potential size of it in scope? And maybe some background on it—how long you've been working on it? And how involved are the partners in that deal?

**John Sicard**

Well, that was definitely a partner-influenced deal. This was definitely one of those situations where we might not have made it as far as we had, without the influence of this large partner. And again, as usual, we can't specify or discuss the specific use cases that we are targeting

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



with them, or any of the financial elements associated with them. I will say on previous earnings calls, I've talked about our invigoration, if you will, and our focus on the Asia-Pacific market, and this—inside of—I'd say inside of the last 12 months has manifested itself. I can tell you that revenue for Nissan was recognized in this current quarter.

**Paul Treiber**

Okay. Thank you. Just in regards to the outlook, more so on the operating expense side. With sales and marketing, it seems like you're getting leverage there. Is that attributable to partners? Are partners also—are you able to make better use of your sales and marketing spending as a result of partners?

**Richard Monkman**

Well, yes, we are. We are getting leverage, but it's not only through the partners. We are also increasing our footprint on the sales side of things, and so we have now an increased number of sales professionals distributed throughout the world. And we are working jointly with our team and the partners. We can get leverage that way, and so that's a trend that we anticipate continuing, Paul.

**Paul Treiber**

Just two follow-ups on that. Just on the European—your go-to-market strategy in Europe. How are you expanding the direct sales there? And then just in regards to the large Asian customer, are there any clawbacks or potential clawbacks related to commissions or any sort of other sales and marketing spending related to that deal that you could potentially get back? Thanks very much.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Richard Monkman**

Yep. Sure. So just with regards to—we are a global company and we work with global enterprises. And it's interesting that the nature of the deals—and John can comment further—is fairly uniform. I mean there are obviously cultural contexts and different theatres, but the way we team with the partners, the way we move in and then demonstrate proof of concept and then deploy, is quite common throughout the world.

From a compensation—sales compensation, I know you know that we take a very conservative view, and that we currently fully expense sales compensation and the customer acquisition cost upon the commencement of the revenue. And so if a transaction occurred in a prior year, that was expensed at that point in time. And we're not going to get into discussions regarding sort of some of the administrative elements of plans, clawbacks, and so on. So again, we take this conservative view; costs are recognized and stated that way.

**Paul Treiber**

Okay. Thank you.

**Operator**

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

**Daniel Chan — TD Securities**

Hi, guys. Just want to make sure that the situation with the Asian customer, that's not due to any kind of competitive displacement or anything like that?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Richard Monkman**

Dan, it's—as we've noted—it's related to not fulfilling contract obligations.

**Daniel Chan**

Okay.

**Richard Monkman**

It's as simple as that.

**Daniel Chan**

Okay. And then I wanted to get some clarification on the guidance and some of the things you're seeing. So I get similar numbers to what Rob was getting. Your guidance seems to be down 10 million, with subscription down 4 million and pro serv down 6 million. But if we look at the quarter—this current quarter's impacted it about \$1 million. So that would imply another 3 million or so of impact from this one customer.

When you sign on your partners, you're saying they're taking more professional service revenue. But then you would assume that there would be subscription revenue attached to that, so kind of curious why we're seeing both those numbers come down with higher partner contribution. Wouldn't we see some sort of offset on subscription revenue line as your partners accelerate here?

**Richard Monkman**

Well so, Dan, that—first I want to just reiterate that we are talking about forward guidance. I mean we are still growing subscription revenues 21 to 23 percent, so that is guiding to increasing

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



subscription in the second half of the year. Arrangements, as you know—the level of subscription revenue depends upon timing. So for instance a deal that is closed in December, we're only going to recognize, at best, one-twelfth of the annualized revenue, but it sets up that subscription revenue for 2018 and going forward.

So it's not—we're still guiding to a very, very strong and profitable growth. The guidance, yes, at a midpoint, it is down about 10 million, and there is a factor that's related to both the subscription and this situation we've discussed. And the professional services revenue plays a key role. But the subscription arrangements start immediately, and then the deployment is generally time and material, at least for the Kinaxis arrangements. So I think you need to take a forward view and not sort of just a straight what's happened in the rearview mirror.

**Daniel Chan**

Okay. And then your margin guidance is up again this quarter, so just maybe get some colour on that. Is it mostly driven by the change in mix?

**Richard Monkman**

It's a number of factors, Dan. It is—we've tightened it now—our sales and marketing. The thing about this model that we have—while we start the year with 80 percent forward visibility, just because of the mathematics I explained on subscription revenue—as we move forward in the year, we can with confidence tighten that range. Similarly, from an expense perspective, when we model it, we can provide greater clarity and so yes, we have increased our guidance for EBITDA performance.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And it's also, with the noted investments that we're making, including the expansion of the sales team, expansion of the R&D team, and also having our data centre in Europe fully operational at the end of the year.

**Daniel Chan**

Great. Thank you.

**Operator**

Your next question comes from Todd Coupland with CIBC. Your line is open.

**Todd Coupland — CIBC**

Yeah. Good evening, everyone. One of the things we've seen for the last few quarters—couple quarters anyway—is sub growth above 30 percent. I know this has been a goal of the Company and you've talked qualitatively about a few things that should help you get back to that. Is that something that is a goal within the next year or so? Or are we a couple years away as you transition from the professional services base?

**Richard Monkman**

Yes. So, we are very bullish on the—and focused on long-term growth. We do only provide 2017 guidance, Todd, but the nice thing is that this model provides, especially with the partner participation, leverage on a number of points, on total revenue growth as well as expansion of margins. Aspirationally, absolutely, we are focused on growing Kinaxis in a sustainable way, a profitable way.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



And we believe again and know it's a common comment here but it is, we believe that the best way to scale the organization, to capture new business, and to execute upon that business is via the partners. And we remain excited, and we will be providing guidance as we normally do for '18 at the beginning of '18.

### **John Sicard**

I might just add, Todd, to that commentary that while we're definitely seeing all of these positive effects of our partner program—and this has come up in previous questions—is this notion that well, will partners somehow diminish the overall sales cycle? And as you know, RapidResponse, it becomes mission critical for our customers. It becomes part of their business fabric and as a result, the projects and the lead times in getting deals to close really haven't changed much, even with their influence.

We're definitely involved in more opportunities and some take shorter; some, quite frankly, depending on the size of the company, can take substantively longer. So it's not necessarily something that is easily forecasted for us. But as Richard said, aspirationally, and our targets obviously, and leveraging partners, is ultimately to set an army, if you will, of salespeople on our behalf.

### **Todd Coupland**

And if I—just one follow-up on that. I mean we've talked about this sort of moving up in a gradual way, which it had been. With the larger emphasis on partners, do you still see that gradually coming in? Or is there a step function? How are you thinking about that?

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »

**Richard Monkman**

So Todd, I think you know us well enough now that we approach things with a certain discipline and focus. We had started with a smaller set of strategic partners. We wanted to make sure that we tested this model and refined it appropriately. We are now expanding that and have indicated that we'll be announcing additional partners. And so it is picking up—using John's word—pace, not only with regards to existing partners but the number of partners. And so we are going to continue to refine this as we move forward, and so it absolutely is, again, the basis that we see to drive growth.

**Todd Coupland**

Okay. That's helpful. And then the last question. It's more of an observation from me. I mean I suppose this is self-evident but I'll just say it. A lot of questions on the Asian customer issues. It's difficult for us to look through that with limited visibility to competitive questions, what actually is the problem, et cetera. So I'm sure you understand that, and you've made the comments that you had, but I'll just state that for the record. Thanks very much.

**Operator**

Again, if you would like to ask a question, press \*, then number 1 on your telephone keypad.

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

**Deepak Kaushal — GMP Securities**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Hi, guys. Thanks for taking my questions. The first one—and sorry to have to do this but I'm going to have to beat the dead horse on this customer contract. So in the past, you've talked about being very selective with your customers, and you've talked about long proof-of-concept periods. It's certainly not the first example where we have heard of Kinaxis and certain customers are not ideal customers, parting ways in the past for a variety of reasons. So maybe more of a general—generalize this—is this a surprise? Was this situation a surprise? Or is this something you've experienced in the past? Is this a new experience for management team related to a new region in the world or a new type of model?

**Richard Monkman**

Yes. So actually, I would—I don't think the characterization of customers parting in the past is correct. As you know, we have over 100 percent net revenue retention. We have very much and continue to execute on a land-expand. Yes, some customers, due to their changing business, maybe have not renewed but I don't think that—I just, for the listeners on the call— wouldn't characterize it as parting ways.

This is not a theatre issue and it is customer-specific. It's focused on the—we'll say it's just focused on contract obligations. We have fulfilled our obligations. We have been working with this customer just as we do, in terms of the sales cycle and deployment. And we are in a situation now where it is appropriate that both parties fulfill their respective obligations. That is an important element of working together and having that long-term relationship and executing upon, not only the

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



land-and-expand but also the capabilities and functionality and the ROI that you have with RapidResponse. It's just unfortunate that this is related to those contract obligations not being fulfilled.

And we fully understand, and with respect to Todd's comment, fully understand that you'd like to get a little more colour, but it's important for us to focus on the strength of our existing customers, and we have to respect the confidential nature of these types of situations. And we—and I need to reinforce that look at the strength and the robustness of the business model that, even taking this view that we have reflected in the statements, it is very strong revenue growth, and subscription in particular, and very strong cash and bottom-line driving. Again, our view remains long-term focus but I would hope that you and the other analysts appreciate the resiliency of the Kinaxis model, and I would hope, the straightforward nature of our communication.

### **Deepak Kaushal**

Thank you. I appreciate that and thanks for allowing me that question. Hopefully that horse is now beat dead. Moving on. By our math, over the last five years, we kind of estimate you've been adding about nine net new customers per year. Could you give us a sense of what your customer count is today versus a year ago? And if the new systems integrator's partners allow you to accelerate the pace of onboarding new customers annually?

### **Richard Monkman**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, I think by one business measure, where we've now shared that approximately two-thirds of our incremental subscription revenue is coming from new name customers and the one-third from a land-expand component, so this is the expansion of existing customers. And then just by the growth in the revenue, it should be clear that the pace and the size of these deals are growing.

We focus more on that forward visibility and the overall backlog. We can sign a customer contract at 4 million or 5 million a year, or we can sign a contract for 400,000 or 500,000. So we don't focus on the number of accounts and in fact, we also have this capability of once we're in, to further expand. So when we're doing the—when we're in the sales cycle—we actually look at not just the initial arrangement, we look to see ultimately where we can arrive with the customer as we continue to expand the footprint some.

We've also disclosed, and this is—it's what we say approximately is over 100 customers—but we're saying approximately 100 customers because part of the message there is that we want to stress that we've identified about 2,000 prospective customers, and we believe we're working really with early adopters. We believe that there is a lot of long-term potential, and our goal is very much to try to, directly and in concert with our partners, to continue to expand into that market. And what's happening is a confluence of events that increase our outlook and these confluences are, as John touched on, more and more machine learning, the Internet of Things, IoT, increasing complexity of supply chains, increasing sophistication of customers as they have pain in their supply chains of

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



accelerating that. So we believe all these elements will help us continue to execute with a broader base of customers.

### **Deepak Kaushal**

Okay. Thank you. Thank you. That's very helpful. And if you would allow me my third question? Maybe we can focus now on some new verticals? We heard some evidence of entry into the financial services vertical. Curious as to what might be the application or use of RapidResponse in a non-manufacturing type of vertical like that?

### **John Sicard**

Well, you might have heard me talk a lot about what I described as our prime value proposition, and it's solving this simple equation, whether it's volatile demand or supply, for something that is constrained. And we have mastered that in the area of supply chain, perhaps the most complex planning theatre in the world. The number of associated business practices that occurs out of the supply chain is just—is nothing short of staggering.

So we have this single, unified planning engine that concurrently plans from the highest level of demand—call it a shift in demand in the theatre—all the way down to the nuts and bolts and labels and stickers, and any—right down to the lowest level of manufacturing. And when we think about that—and I've made this point before about RapidResponse as a platform—that ultimately, in the long term—I won't call this short term. But in the long term, similar to what Salesforce.com did with

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Force.com, you can envision a RapidResponse platform that would allow others—third parties—to invent and innovate planning solutions that are modelled based on that very simple equation.

So again, we can't talk specifically about unique customers and unique customer value propositions, but I think it's important to note that our underlying philosophy and our underlying technology is ultimately designed around a ubiquitous formula. The other thing I would add—and this definitely is, I believe, a huge leverage for Kinaxis—is that we have exactly one piece of software. I mean while we serve aerospace and defence, automotive, CPG, the pharma space, high-tech electronics, everyone's using the same object code. And this is coming from a market that was used to having very unique products for every unique market segment.

So there's something to be said about just that simple fact, that with one product, RapidResponse, we're able to solve this ubiquitous supply chain problem across so many market segments. And people will often ask me, so what's your next market vertical? And I answer the same way, there's going to be one. That's a certainty. Today it's CPG, okay? But we believe that there are thousands of customers out there, outside of the market segments that we serve today, that all share in a common supply chain planning challenge, and that's volatility of supply or demand for something that is constrained. Long-winded but it's a passionate topic of mine.

### **Deepak Kaushal**

Thank you. Thank you and I appreciate the time again. Thanks again.

### **John Sicard**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Thanks.

**Operator**

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

Your line is open.

**Nick Agostino** — Laurentian Bank Securities

Yes. Good evening. I guess just to go back to—I think you've already alluded to no change in the sales cycle right now with your system integrators. The fact that you indicated on the MD&A that the deployment activity from your SI is probably faster, or it happened in an earlier time than what you anticipated. Can we read into the fact that you're starting to tighten your sales and marketing expenditures as, possibly, you guys are anticipating an acceleration of the sales cycle, as a result of more activity from your Sis?

**John Sicard**

Well, first let me categorize something for you. It's not uncommon for our customers to undergo a phased approach to their deployment, and there's a phase one. And that phase might start with a geography. It might start with a product line. It might start with a certain area of business pain that they're dealing with. And often, what is most common is we'll lead that one with partner in tow. Phase two, same customers. It's not a new customer, but that same customer may pick up phase two with a partner who's leading, not us.

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



So it's not—you've got to think about professional services uptake with partners as not necessarily being strictly from new named accounts. In some cases, it's they're picking up phase two, phase three, phase four of existing accounts that we have won with them. So that's one thing I will say. I'll let Richard comment on the financial element of your question.

**Richard Monkman**

Yeah. So from a financial perspective, what we wanted to signal is that there is this ongoing activity which is very positive. Again, we've stated that the majority of our new customer arrangements continue to be, in the majority, partner influenced. And they—we say partner influence because as John noted, in some cases, it could start off as a team effort. It could start off as we do phase one.

But there are now more and more situations whereby the partner, with our element of assurance in it, are taking a lead right out of the gate. And that is a testament to the Knowledge Services, to the certification, the training, to the broader interest of—quite frankly, a recognition by Gartner has assisted. These large Sis and other partners are seeing us with their accounts, and so it's a confluence of events again. And we're just excited to see—this was what we anticipated. We've just—are pleasantly surprised to see the uptake.

And yes, it does have—you could view it as a short-term negative impact on revenue—the glass half empty, if you will. We look at it as, this is great. Our partners are gaining an ROI of their

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



investment. They're increasing their knowledge base. They are seeing that it's a great thing to be partnered with Kinaxis, and let's see what comes of it next year and 2019 and 2020.

**Nick Agostino**

Okay. So ultimately, we can say that is an indication that your partners are just taking a more active lead role—key word being lead?

**Richard Monkman**

Absolutely. Yup.

**Nick Agostino**

Okay. Okay. That was it. Thank you.

**John Sicard**

Thank you.

**Operator**

Your next question comes from the line of Suthan Sukumar with Eight Capital. Your line is open. Suthan Sukumar, your line is open.

**Suthan Sukumar — Eight Capital**

Thank you. Good evening, guys.

**John Sicard**

Good evening.

**Suthan Sukumar**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



You talked about a growing list of potential partners. Can you speak to some of the progress you've been making on expanding your third-party certification programs? And any trends on uptake from that expanding partner ecosystem?

**John Sicard**

Well, as I noted earlier, we are quite selective. We have more people ringing our doorbell than we let into the house, let's just say. And it's very important for us that our partners take this seriously. We don't want to—we don't want to spend our utiles of energy on somebody who isn't serious. And the certification program—in fact the entire birth of the Knowledge Services program at the beginning—was entirely motivated by preparing partners to lead in deployments, and obviously to assist in sales.

We are continuously investing in that certification program. Think of it as going from a level one, level two, level three master, where you become architect level, if you will. And at the speed at which we're producing these certifications, we're getting our partners to participate and attempt to get the accreditation. I will tell you these exams are not easy to pass. I hear from Sarah that it's no better than 70 percent will pass exams that they take, and that's on purpose. They're not supposed to be a walk in the park, and so these are tough exams that require training and often, they have to be tested more than once.

So I think what happens with our partners and in general is you start to get a bit of a groundswell. It starts slow. You might have a partner with a large group and only two people certified

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



and eventually, you get a bit of a groundswell where an entire team of certified individuals can start onto a particular project. Today, we have three levels of certification, but the team isn't going to stop there.

### **Suthan Sukumar**

Okay. Great. Thank you. And just kind of shifting gears a bit here. In the past, you've talked about how some of your R&D focus has been on the machine learning segment. Could you speak to some of the more recent progress you've been making on this front? And whether your efforts have been strictly focused internally, or if there's been involvement from partners or select customers on this front?

### **John Sicard**

Thanks for that question. In fact, it's a topic that's very near and dear to me. I think as I stand, I've read countless articles that are quite fantastical. And when I speak to customers—and I really go to customers first. Even as a scientist, I'm really intrigued by the technology, but I am more intrigued with the value propositions that a practitioner would gain by leveraging such techniques.

And so I have been speaking with high-level executives—practitioners of our customer base—around machine learning and AI. In fact, instead of artificial intelligence, I call it automated intelligence. In many ways, our customers are saying look, the supply chain is a machine. It's a machine. We designed that machine—humans design it. It's very complex. It would be great if there

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



was some software, written by programmers, that could continuously monitor the health of that machine. Monitor the vibrations—where is it vibrating? Think of it like a machine.

And if you discover why it's vibrating, can you self-heal? Can you adjust my design? Can you automate that intelligence? A human might be able to do it, but when you're talking about tens of thousands of variables that are moving at extremely high velocity, this is where machine learning—a preemptive design adjustment—becomes valuable and what our customers want to pay for. And so this is where we've focused our attention.

There are a lot of platforms out there that are all the rage. My opinion—and this is just my opinion—that many of them are not steeped in value propositions. They're science. And we have taken a value proposition, inward approach to our investments of machine learning. So that's what I can share with you at the moment.

**Suthan Sukumar**

Okay. Great. Thank you for that. Yeah. I guess that's it for me, guys. Thanks for taking my questions. Have a good evening.

**John Sicard**

Thank you.

**Operator**

There are no further questions at this time. I will now turn the call back over to John Sicard.

**John Sicard**

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »



Well, thank you for participating on today's call. We appreciate your questions, as well as your ongoing interest in and supporting Kinaxis. We look forward to speaking to you again in November, when we report our Q3 2017 results.

Thanks again.

**Operator**

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

\*\*\*\*\*

"Though CNW Group has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. CNW Group will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que CNW Telbec ait fait tous les efforts possibles pour produire cet audioscript, la société ne peut affirmer ou garantir qu'il ne contient aucune erreur. CNW Telbec ne peut être tenue responsable de pertes ou profits, responsabilités ou dommages causés par ou découlant directement, indirectement, accidentellement ou corrélativement à l'utilisation de ce texte ou toute erreur qu'il contiendrait. »