FINAL TRANSCRIPT

Kinaxis Inc.

Fiscal 2015 Fourth Quarter and Year-End Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to Kinaxis Inc. Fiscal 2015 Fourth Quarter and Year-End 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 would like to remind everyone that this call is being recorded today, Wednesday, February 17, 2016.

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.

Thank you. Good afternoon, and thank you for joining us. Earlier today we issued our fiscal year 2015 fourth quarter and year-end financial results, a copy of which is available on our website, kinaxis.com. With me on this call is our CFO, Richard Monkman.

It's a pleasure to be hosting my first conference call with all of you. I'll address the key events from the quarter, and then Richard will review our financial results. I'll then close with a few comments, and we'll open up the line for Q&A.

It was a tremendous year for our RapidResponse platform and the business in general. We continue to deliver top line growth, 30 percent over fiscal 2014, and consistent bottom line results with strong adjusted EBITDA and profit.

This consistent combination of top line growth and strong bottom line performance is unique and sets us apart from the growing pool of cloud-based companies.

Growing profitable is the underlining tenant at Kinaxis. It's the prism through which we operate and make decisions, and it has served us extremely well.

In fact, it's one of the strongest ties as we transition from Doug's leadership to mine. And we will continue to practice it in order to extract the full potential of our RapidResponse platform as the preeminent supply chain management solution.

On that front, we are entering 2016 with very strong momentum. Our tight relationship with Accenture continues to fortify and mature.

The channel pipeline is growing, and we are actively collaborating on new sales campaigns with the Accenture team. We hold regular strategy sessions each quarter with the executive sponsors from both organizations.

We've established rigorous and common performance framework for reporting purposes. And Accenture professionals are taking advantage of our certification program to validate the depth, consistency, and quality of their RapidResponse expertise.

When you enter a partnership like this you're bound to learn valuable things from one another. Our collaboration with Accenture has been fascinating in that regard.

Accenture leads with a potent point of view that is broader than just software, which is a new approach for us. They connect and communicate with finance, marketing, sales, operations, and manufacturing. That allows them to lead sales from a perspective that is at the very highest level of an organization.

We continue to invest heavily in our partnership channel relationships with Accenture and others. I firmly believe that as we grow and mature with these global partners they will become an increasingly important component of our growth.

Another area of the business that is demonstrating tremendous momentum is our knowledge service investment. We believe this initiative will be a key driver for longer-term growth, as well as partner success.

A key element of this initiative is the certification program I mentioned earlier. While only recently launched this program, we have already certified tens of consultants, both independents and partner consultants, and the number is growing with every passing month.

Knowledge service is a key part of our land and expanse strategy. In addition to expanding the number of qualified deployment partners, it assists existing customers to further leverage their investment in RapidResponse within their organization. It also helps customers appreciate and expand value of RapidResponse through new applications.

We are also showing momentum in the calibre of talent we are attracting. Angel Mendez is a great example. He joined our Board earlier this year and is already contributing to our strategy and growth. Widely recognized, he brings an expertise and credibility in supply chain management, and an established network of peers in the sector that we believe will be valuable in the long term.

But what I am most excited about is his ability to translate innovation into real-world practice and maximize the value from it. His vast experience in highly volatile, fast moving, and global supply chain environments will not only contribute to our roadmap, but will help others gain the confidence and courage required to take the first step towards transformation.

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

Richard Monkman — Chief Financial Officer, Kinaxis Inc.

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

Revenue increased 29 percent and 30 percent in the fourth quarter and full year periods, respectively, to 24.2 million and 91.3 million. Revenue is driven predominantly by our base of subscription revenue, which increased by 22 percent and 28 percent in the fourth quarter and full year periods, respectively, to 17 million and 65.2 million.

We continue to see strong demand from the world's largest companies for our innovative supply chain management solutions. Our customer base is diversified across multiple market verticals. Our pipeline remains strong; we address complex challenges for large enterprises.

As we have discussed before, our sales cycles are often 9 months to 18 months. As such, even at this date we are actively working with prospective customers for 2017 funded transactions. However, once we acquire a new account we tend towards becoming part of their business fabric. Our retention remains high: over 100 percent net revenue dollar retention.

In addition, our long-term contracts provide for a high level of visibility into our forward 12 months of revenue. This model supports our ability to provide full year guidance with confidence.

Professional services remains a strong contributor as new customers deploy and existing customers expand their applications. Professional services revenue increased by 49 percent and 41 percent in the fourth quarter and full periods, respectively, to 7 million and 25 million.

While the clear majority of our total revenue is recurring, subscription revenue, it is important to keep in mind that professional services are a key part of subscription enablement. Further, these efforts drive customer satisfaction and retention.

Gross profit increased by 30 percent and 33 percent for the fourth quarter and full year periods, respectively, to 17.4 million and 65.5 million. Our gross profit remains strong at 72 percent in both periods. This is higher than the corresponding periods last year.

Adjusted EBITDA increased 88 percent and 86 percent for the fourth quarter and full year periods, respectively, to 7.1 million and 30 million. These improvements were a result of revenue growth outpacing cost, which were further supported by favourable impact of foreign exchange rates. Approximately 35 percent of our expenses are in Canadian dollars.

Net profit was 1.3 million, or $0.05 per basic and diluted share for the fourth quarter and 12.7 million, or $0.53 per basic and $0.50 per diluted share for the full year period.

Our income tax expense and effective rate increased in the quarter due to the strong results, as well as FX changes. While our results are reported in US dollars, the parent company is Canadian. Given the extent of our US dollar cash balance and strength of our balance sheet, we realized significant taxable FX gains in our Canadian parent.

We will continue to hold the majority of our balances in US dollars, which may result in future gains or losses depending upon the future performance of the Canadian dollar.

Cash generated by operating activities was 8.5 million and 45.2 million for the fourth quarter and full year periods, respectfully, an increase from 1.3 million and 6.3 million in the corresponding periods last year. The full year period improvement includes the prepayment of a multiyear subscription of approximately $20 million that I referenced in prior calls.

We expect to continue to invest in the business throughout 2016 as we build scale and surpass 100 million in revenue. We expect sales and marketing expense to grow in line with the business and to be in a range of approximately 23 to 25 percent of total revenue. We further expect net research and development expenses to be in the range of 19 to 22 percent of total revenue.

We believe these investments are appropriate to position us for long-term growth. They directly impact the initiatives that John referenced as growth drivers, specifically channel partners and knowledge services, as we scale the business through customer success. We believe that investors recognize that we have built a business that delivers top line growth with consistent long-term profitability and cash flow.

While the capital markets may be turbulent, our confidence in business fundamentals remain steadfast. We work with very large enterprises addressing their critical business challenges, and we support them in driving savings while strengthening their relationship with customers.

We have a long track record of delivering positive cash flow and solid bottom line performance dating back to 2008. While no sector or business is immune to economic cycles, the maturity of our model, the diversity of our revenue base, and the strength of our innovative product provides us with sustained confidence.

In today’s release we established our full year 2016 financial guidance. Based on the existing contract backlog and the strength of our sales funnel, we expect annual revenue for fiscal 2016 to be in the range of 107 million to 110 million.

Subscription revenue will continue to be the key growth driver. We expect annual subscription revenue to grow between 20 and 22 percent.

We would like to further clarify that this growth guidance does factor in an expected loss of approximately 2 million in 2016 run rate revenue from a long-term customer that has undergone a significant change in business, and whose contract we do not expect to renew. This contract expires on June 30, 2016, and was fully paid for.

The visibility of our long-term revenue continues to provide support to invest with confidence and future growth. While we have highlighted a number of key investments, we intend to maintain our strong margins. We expect annual adjusted EBITDA to be in the range of 24 to 28 percent of total revenue in fiscal ’16.

With that, I turn it back over to John.

John Sicard

Thanks, Richard. As you have heard, it has been a great 2015. We have a robust pipeline of prospects that we’re working to bring on board.

Three weeks ago, Gartner published their second edition of the Magic Quadrant for Supply Chain Planning System of Record. For the second time we were placed in the leadership position.

Kinaxis was thrilled to be recognized as further accelerating our position in this well-regarded report. Gartner’s recognition is an exceptional and objective reference tool for Kinaxis.

Senior executives in both IT and business consider these recommendations when selecting software vendors. And we are pleased they will find us in the pole position, which is furthest for execution and vision within the leadership quadrant.

Before turning it over for questions I would like to thank Doug Colbeth, our Chairman, for his continued his support and past contributions. Doug continues to lead our partnership channel initiative with Accenture and others.

Over the past 22 years with Kinaxis I have had the pleasure of experiencing its evolution and growth and collaborating on strategies that have led us to where we are today. Through having held key roles in just about every area of the Company and also having had the pleasure of working directly with many of our largest customers and partners over the years I've gained a unique understanding of both the challenges and opportunities surrounding our business. More importantly, I'm surrounded by an exceptionally talented team driven by a hunger for continuous innovation.

In many ways I feel as though the bigger journey is just getting started. We confidently look forward to 2016 and the years to come.

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

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

Q&A

Operator

At this time, I'd like to remind everyone in order to ask a question, it is *, followed by the number 1 on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

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

Thanos Moschopoulos — BMO Capital Markets

Hi. Good afternoon. John, there's been some commentary from a number of enterprise software companies recently regarding the slowing macro environment. And I guess I maybe know the answer to this from looking at your guidance, but what would you say as far as what you're seeing in your pipeline and whether or not customers are expressing any caution in that regard?

John Sicard

Well, thanks, Thanos, for that question. We're actually not seeing any slowdown in the pipeline. On the contrary the pipeline is very, very healthy. And recent macroeconomic conditions hasn't negatively impacted the sales funnel whatsoever.

Thanos Moschopoulos

That's great to hear. And maybe could you give us some colour as far as how the pipeline's evolved since we last spoke, given the context of the recent Gartner report; given that it's been a few more weeks now with the Accenture relationship underway?

John Sicard

Sure. Well, certainly the partnership strategy, as I stated, is maturing and is definitely strengthening. And that is manifesting itself through I'll call it an augmentation of the pipeline that is being led by the partner initiative, which is exactly what we had anticipated happening as that initiative matures and as the relationship with them strengthens.

So I would say from the last time we spoke the pipeline is stronger than it was. And I think that's well reflected in the guidance that you just heard.

Thanos Moschopoulos

Great. Then maybe one for Richard; you gave us, I guess, your target range for sales and marketing for the year. But how should we think about seasonality and the sales and marketing line heading to Q1? Given conferences and given sales commissions would you expect that possibly to be lower than Q4 levels? Or should be it higher?

Richard Monkman

I think, Thanos, as you know, we take a—we're quite conservative with regards to expense management. Everything is taken as a period cost, but our business cycle does have certain trends.

So I think you'll see those trend continue. Specifically, on sales and marketing fourth quarter does tend to be higher than the other quarters.

As you noted our conference, in particular our customer conference Kinexions, as well as some other partner conferences that we're sponsoring are—just continue to grow in stature and size. And then it's not uncommon for the sales teams to be in an accelerated position in Q4.

So I think, Thanos, the trends that you've seen in the last two years will continue.

Thanos Moschopoulos

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

Operator

As a reminder, to ensure all the analysts have an opportunity to ask questions, please limit yourself to two or three questions, and if you wish any further questions you may reenter the queue by entering *, 1.

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

Robert Young — Canaccord Genuity

Hi. Good evening. Wanted to ask about the pro services guidance; it looks as though it's quite a bit higher. I think the last time you'd given sort of a quarterly guidance it was 5.5 million plus or minus 20 percent, so this seems quite a bit higher. I was wondering if you could talk about some of the seasonality. Is it still expected to be Q2, Q4 strength? And then what is driving the higher pro services? And maybe some colour around the capacity that you have for growth there.

Richard Monkman

Well, just starting in reverse, we have significant capacity for growth. As you know, Rob, we always have focused professional services as a subscription-enablement business. But of late we've continued to expand the capabilities of our partners. And we have trained a number of partners and continue to train additional partners. So we're very, very comfortable with regards to the capacity.

What we're seeing is the growth continuing with regards to new deployments, as well as expansion of existing footprints with customers. Your seasonality, again, you should expect to see similar trends.

We deal with very, very large corporations and longer-term projects. It's not uncommon for projects to be nine months to a year. But inevitably what will happen is in the start of Q1 there'll just be a little bit of uptake time as people—as new businesses finalize budgets, bring people back. We avail ourselves of training. We in fact this quarter had a very significant partner training conference in the beginning.

So you will see a little lighter revenue typically in Q1, but this is predominantly a time and material business. And so you will see fluctuations, as you have in the past. We are guiding to that overall revenue increase and then as I noted the mix. So yes, we did over achieve—well, we actually were at the high end of our ’15 guidance or overachieved, respectfully, depending upon the component. And I think we’ll see the strength of the professional services business continue in ’16.

Robert Young

And the underlying drivers of that, is that like the opportunities are getting bigger? Are the customers getting larger; are they getting more complex? Or is it just the volume of new business that’s coming through?

Richard Monkman

It’s actually a little bit of everything there, Rob, in that we are getting—we are expanding our footprint into larger, larger deals. The nice thing working with companies—or strategic partners such as Accenture is you do have I love that one of our Board members calls it at bats. You’re given a great opportunity at bat and some very, very large deals. And so it is the size of the deal, it’s obviously the greater number of deals, and it’s a combination of those factors.

Robert Young

Okay. That’s great. And then on the Accenture joint initiative I think you said that the sales cycle was around 9 to 18 months in the monologue. Are you seeing any impact from that shortening of the sales cycle with Accenture coming on? And maybe are you seeing change in win rate or a change in the size of opportunities that Accenture’s bringing to the mix? Then I’ll pass the line.

John Sicard

Okay. Great. Thanks, Rob. So in terms of change of mix is definitely Accenture has a very, very broad footprint all over the planet. So we're definitely seeing opportunities outside of our norm, let's just say.

I would say in terms of size of opportunity there are definitely some in the queue that I would classify as enormous. And then there are some that are very atypical for us.

We have not seen a reduction in the sales cycle, call it the lead time or the total lead time for the sale. It still seems to be within the 9- to 18-month time frame. These are quite complex transformations, and as I mentioned with RapidResponse these are companies that are choosing a partner that we become part of their business fabric.

So we haven't seen a shortening of that sales cycle at this point.

Robert Young

Okay. Thanks a lot.

John Sicard

Thanks, Robert.

Robert Young

I'll pass the line.

Operator

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

Richard Tse — Cormark Securities

Yes. Thanks. Just to follow up on that Accenture question, have you baked in any contribution into your guidance from Accenture this year?

Richard Monkman

Yes. We have, Richard, in terms of we are very tightly coupled with not only Accenture, but other partners as well. And so the pipeline is reflective of all sources of activity, whether they're direct deals or partner-influenced deals.

Richard Tse

Okay. And, John, just wondering if you can maybe comment on the competitive environment a little bit, particularly SAP S/4?

John Sicard

Well, it's—as I mentioned, the Magic Quadrant was released not too many weeks ago, and we're obviously very pleased with our position. And at the same time we're pleased with having distanced ourselves from the typical competitors that we will have seen prior to that Magic Quadrant.

So as it relates to SAP S/4, many of the prospects that we're talking to have yet to adopt it. So we're definitely not running into it, let's just say. It's premature. We're obviously very aware, but again I'd want to reiterate while we compete with SAP on the supply chain side of the equation we also have an SAP-certified adaptor. We connect in with the SAP ERP systems in order to provide the value that we bring. And we're going to continue to do that.

So at this point it has not provided any—I'll say SAP S/4 has not provided any friction for us.

Richard Tse

Okay. And just one last one here in terms of your cash balance; it's growing nicely. What are your sort of plans for that? Is M&A in the cards? Maybe you could give us a bit of colour on that? Thanks.

Richard Monkman

Sure. So we do have the benefit of continuing to expand our cash balance with the strength of this model, and as noted we're basically touching the US 100 million mark. We will continue to evaluate opportunities for acquisition. These would be extremely targeted acquisitions. They would be, one, to complement our organic growth, so really would be focused more on ancillary R&D. We have not seen an opportunity that's sort of met our test, so that's why we have not announced.

But I will tell you that our customers take confidence from the strength of our balance sheet because we have, as you know, Richard, extremely long-term relationships with customers. And they want to know that we have the wherewithal to continue on and especially in this turbulent time.

So I think what I'm pleased to see is that is resonating with not only investors, but customers alike in terms of the long-term visibility, the track record of strong bottom line performance, and growing cash balances.

So I know that's not a direct answer. It's just that we are going to hold the course at this juncture, and we're fortunate to have the powder dry should we see an opportunity that makes sense.

Richard Tse

That's great. Thank you.

Operator

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

Paul Treiber — RBC Capital Markets

Thanks very much. Just wanted to follow up on Richard's question on cash; how should we be thinking about cash conversion going into 2016? And really what I'm getting at is your expectations for cash taxes and CapEx.

Richard Monkman

In terms of CapEx, I would anticipate CapEx to be in the 8 million to 10 million range. One of the key parts of our business is ensuring that we have state-of-the-art facilities and data centres. As we expand our geographic footprint it would be natural to expect to see the location of data centres outside of North America. And especially with regards to the Patriot Act there are more and more non-US companies that are seeking to ensure that the data centres are outside the US. So that's a natural investment for us.

And I think you could take guidance from the EBITDA range that we provided. It's not a direct correlation, but it is starting to align with our overall cash growth. Customers do—as you know, the centre model is annual prepay, but cash balances will continue to grow.

We will from a cash—as I noted, from a tax perspective we are experiencing some cash taxes now in Canada at a provincial level for 2015, and based on projections more than likely cash taxes at a both provincial and federal level in '16.

Paul Treiber

And then just on the addressable market, I think that you mentioned in the past that you're looking at an addressable market of about 5,000 target customers. Accenture obviously helps your sales reach. What other changes are you thinking about in 2016 and beyond from a go-to-market point of view to reach a broader group of end customers?

Richard Monkman

Yeah. So just to clarify, we actually with regards to TEMELs (phon), we look at it from two perspectives. So one in our investor material we reference the Gartner model where it's a CAGR growth of about 20 percent. Our growth is higher. That is categorized as their view of SaaS on the supply chain.

And what we've noted on our call previously is that we look as this is basically a simulation platform for supply chain and other opportunities. We actually have identified about 4,000 large enterprises. We then reduce that down to about 1,400 in terms of active companies that we believe will have campaigns, and then we work with that.

So from our addressable market perspective it's sort of the macro 4,000, targeted 1,400, but it's really a very small subset of that in active campaigns.

With regards to the partners, it's very much that sort of the add-back (phon) comment whereby being a public company has significantly helped increase our profile. And so market recognition has been strong. The Gartner not only the Supply Chain of Record, but also the S&OP, Sales and Operations Planning Quadrant, where we are also in leadership perspective has helped.

The profile of our partners have brought on extra opportunities and partners now assisting us on that regard. And so it's hit a number of factors there. In fact, I think John will probably want to elaborate on some of his earlier comments with regards to what's developing on the partner side.

John Sicard

Yeah. Thanks, Richard. In fact, as you know, we are extremely cautious as it relates to entering new markets. It's definitely one of the reasons I believe we were able to grow with such strong profit.

As it relates to growing the market segments for us, however, we have already spoken with our partners about long-range growth vectors, and entering new markets is definitely one of those vectors. Companies the size of Accenture they play in every market known.

And so as we mature with them they will identify with us new markets that we are currently not in. And rather than us entering a new market alone, we will be entering those new markets with the strength of Accenture behind us.

Paul Treiber

Okay. Good to understand. I'll pass the line now. Thanks a lot.

Richard Monkman

Thanks, Paul.

John Sicard

Thanks, Paul.

Operator

Again, as a reminder, if you wish to ask a question, it is *, followed by the number 1 on your telephone keypad.

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

Kris Thompson — National Bank

Hey, John and Richard. On the customer count can you give us an update where you are today? And what are you reflecting in your 2016 guidance?

Richard Monkman

We were very pleased with the results of ’15, and I think that’s reflected in the performance and what we delivered in overall revenue. Our deals are lumpy, and so we don’t really focus so much, Kris, on the timing.

It’s not uncommon actually now for deals to slip into the next quarter. I will share with you that the bookings were comparable to the very strong bookings that we had in ’14, and that they are absolutely reflected in that initial guidance that we’re providing for 2016.

Kris Thompson

Okay. And, Richard, if we look at pro services, at the beginning of last year the guidance was 10 to 15 percent growth. You came in at 40 percent for the year. Can you just maybe address what changed there? And are you seeing longer duration implementations before you can convert some of these to new customers for ’16 that might be pushing into 2017?

Richard Monkman

Sure, Kris. A few factors came into play there. So what was happening, and more so in ’13, was a bit of an anomaly whereby we were actually seeing a lower level of professional services just due to the timing of some arrangements. What happened then, we also started moving towards larger deals. And so that was really reflected in this change because Q1 of ’14, as you may recall, was in line with the run rate. And so we really had the big step-up in Q2 of 2015.

We also have brought in new leadership in—around that period of time, David Kelly, who’s had much deeper enterprise experience than some of the rest of our team. And at that point in time we also had extensive pickup with regards to partner-influenced activity, which also pulled in larger arrangements.

And so it’s I think just reflective of what we’re seeing. And what we’re communicating in this guidance is that we see that trend continuing in 2016.

Kris Thompson

Okay. Thanks, Richard. That's helpful. And just last one for me on the mix. What was the percentage from partners for 2015? And I know you said it's reflected in your 2016 guidance, but are you expecting that to grow?

Richard Monkman

We do expect the partner-influence component to grow. That is part of, as John noted, our long-term strategy. And we're going to continue to see ongoing partner activity.

Some of the joint initiative, as we've talked about in both the script, as well as John's clarification here, while it's highly desirous to see some of that activity specifically in 2016, at this point in time our expectation really would be just with that 18-month cycle really occurring in '17.

But there are other activities that we have with partners. And so yes, deals will continue to be partner influenced, and we anticipate that portion to grow.

Kris Thompson

And are you willing to provide what the exact mix was for 2015? I think it was something like 14 percent partnership last year, if I'm correct.

Richard Monkman

Yeah. So that's growing into the 20 percent, actually just in the 20 percent range, so...

Kris Thompson

Got it. Thanks a lot, guys.

Richard Monkman

Thanks, Kris.

Operator

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

Nick Agostino — Laurentian Bank

Yes. Good evening. I guess just two quick questions. First, when I look at your subscription growth on a sequential basis, I think in the past you guys have said that there's no seasonality in the business. But when I look at how that revenue has grown quarter over quarter it looks like it's more skewed to the first half of the year as opposed to the second half. Is that something we can expect to continue in 2016? And is the rationale for why that happens because your professional services number is stronger in the second half of the prior year; most of the onboarding happens in Q1, Q2, and then things maybe slow down as far as new customers onboarding? Is that the case? And if not, what is the colour there?

Richard Monkman

Yes. So the two key revenue elements, professional services, which is predominantly time and material, and as such that will be some seasonality with regards to where we are and the time of year, as well as there's also where we are in the deployment cycle. So, Nick, you will see some fluctuations in that.

However, subscription revenue, subscription revenue is really—it's looking at longer-term trends. And so these are long-term arrangements or longer-term arrangements, and they do not—it is just a straight—it's like rent. So it's a different revenue stream.

We take that revenue ratably over the contract as we expand. It's difficult to have expansions coterminous with that current term, and so we tend to view it as stairs. And so really each quarter you're going up another step as you continue to grow.

Now because of the business cycle the rise in those steps will be—it will vary quarter to quarter, depending upon the lumpiness of the deal closure. But you're still going to, and we're guiding towards, that continual rise in that subscription revenue.

So it's just really a matter of when the deals close. And there's a number of factors there. So yes, seasonality with—some seasonality influence on professional services, but subscription you will see those rise occurring.

I did highlight in my script that for the last two quarters of the year that we do anticipate that that long-term customer will not be in a position to renew. And as such we did factor in an approximate 2 million of adjustment in our guidance, but that would be in the Q3 and Q4.

Nick Agostino

Right. But historically speaking it almost sounds like when you do take steps they seem to be bigger steps in the first half of the year as opposed to the second half when it comes to the subscription numbers that have been recognized thus far. Just an observation.

Richard Monkman

Well, there is some tendency to have deals close later in the year, but we've also seen deals so far in this quarter that just crossed over the holidays. In our business we look for the long term. We're not quarter-over-quarterly influenced, so there's a certain discipline to working with customers; rigour on closing business.

So I wouldn't read too much into that, Nick. And again, if I may, just sort of the analogy of the stairs going forward.

Nick Agostino

Okay. And then just a second question. When it comes to I think in the past you guys have talked about increasing the growth investment too to support the new channel partners, what sort of—is there some sort of time line that you guys have from a business perspective? Is it two, three years of when you anticipate this increased growth investment? Or is it longer-term, shorter-term?

Richard Monkman

Well, I think you'll see a trend, again, where we've demonstrated our ability, and we're fortunate to have that long-term visibility of revenue to make these investments whereby we'll see the return in the out year, if you will. We have consistently signalled in the last six months that because some of the dynamics of the business we're accelerating the investments.

And again, it's really three key areas being the partnership, which we've talked extensively today, but also in our knowledge services practice. And that is ancillary and supportive of the partners, but it will also and has started to become a new revenue element on its own. And then just on the product and customer satisfaction.

So those—and that's where I explained in the script some expectations for 2016 level of investment. I don't want to talk about guidance for 2017 because it's one of those things whereby if as we continue to expand, for instance, our relationship with other strategic partners, if it makes sense to further accelerate that you may see that percentage level of investment continue into 2017.

If we follow a different tact you may see a return to our sort of historic sales and marketing percentage. But at this point in time we really wanted to focus the guidance on 2016.

Nick Agostino

Okay. That was helpful. Thank you.

Operator

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

Robert Young

Hey. Just a quick follow-up on the Accenture contribution; I was curious, you said that you were using them to potentially identify and move into new verticals. You've said in the past that you were—that they were very interested in the ecosystem of consulting and other services that they can build around Kinaxis. And so I was wondering if you could talk about whether they're pulling Kinaxis into their supply chain strategy discussions? Like is this a piece that they're driving that's sort of at the tip of the spear when they're going to talk to their customers? Or is it still too early for that?

John Sicard

No, Rob. I mean it's definitely a conversation we're having. They sort of look at opportunities as either being supply chain transformations or managed services. And there are opportunities that fit both of those descriptions.

The relationships that we've formed with this joint initiative is the—it's basically the beginning of a Kinaxis practice. That's how they look at it, and that's how we're governing the relationship.

So we're seeing definitely both sides of that opportunity, and I'd say it's very healthy at this point with the pipeline.

Robert Young

Okay. And then another thing you've talked about in the past is the development of a platform that Accenture could potentially develop their own applications on top of. I was wondering just the development of that platform is that still something that's underway at Kinaxis? And then is Accenture looking at ways to build their own applications? And then I'll pass the line again.

John Sicard

Okay. Great. Thanks. That's a great question, and certainly I think one of the core key value propositions behind RapidResponse is that it is already what I describe as mass run-time configurable.

It's how we are able to support a broad number of market segments, whether it's life sciences, aerospace and defence, automotive, tech electronics (phon). All of the verticals that we support we're doing so with exactly one singular product.

So it's already very platform—it's a very platform-like development RapidResponse is. We are going to absolutely continue down that path. Partners like Accenture are eager to add their own IP essentially and build their own applications. Whether they're unique applications for their customers or brand-new applications that they have an expertise in and we do not, we are going to absolutely welcome that, and without question invest in the RapidResponse platform to make that very, very easy for them to do.

Again, the approach—our platform approach will be to continue what I call this mass run-time configurability, so it's not about writing code. It's about configuring the platform to build new applications.

Robert Young

And is Accenture working on specific opportunities now? Or is that still something in the future?

John Sicard

At this point all of the opportunities we're working with on Accenture are related to existing applications and existing functionality.

Robert Young

Okay. Thanks.

John Sicard

Thank you.

Operator

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

Richard Tse

Yeah. I have a question for John here. If you look at kind of the average penetration rate with your existing accounts relative to what could be a potential opportunity with that account, like where are you? Are you like 25 percent there, 50 percent there? Just give us a sense of what that could be.

John Sicard

That's a great question. In fact, we do think about that a lot. We definitely have what we describe as a land and expand kind of model. We're focused on finding very, very key business problems that a customer might have and solving it first.

It is not uncommon for the expansion of RapidResponse to double over a three-year period on average. Some are quicker than that and some take longer to double, but that's a relatively safe model to assume that inside of a three-year period we'd be doubling the footprint for a given account.

Richard Tse

Okay. And then a question for you, Richard. In terms of the monetary tax asset that you had this impact in the quarter, if we look into next year, I guess 2016 now, if that same impact were to happen it would a Q4 event? Or is that spread evenly over the year? I'm trying to just figure out for forecasting purposes.

Richard Monkman

Yes. So under IFRS we typically just true up, well, to the expected filing position tax entries in Q4. Richard, just this was a bit of an anomaly, given a combination of the very large monetary—cash and monetary assets that we had in non-Canadian dollars. And if the FX holds where it is I would anticipate another material adjustment. In fact, if the dollar strengthens it could result in a reversal.

Richard Tse

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

Richard Monkman

Great.

Operator

That is all the questions from research analysts we have at this time.

I turn the call back over to Mr. Sicard for his closing remarks.

John Sicard

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

We look forward to speaking with you again in May when we report on our Q1 2016 results. Good-bye.

Richard Monkman

Thanks so much.

Operator

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

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