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Kinaxis Inc.

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2016 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 would like to remind everyone that this call is being recorded today, Thursday, August 4, 2016.

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

John Sicard — Chief Executive Officer, Kinaxis Inc.

Thank you. Good morning, and thank you for joining us today. Last night we issued our second quarter results for fiscal year 2016, a copy of which is available on our website, kinaxis.com. With me on today's call is our CFO, Richard Monkman.

In Q2 2016, Kinaxis continued to deliver solid top-line growth, 21 percent over Q2 2015, together with strong adjusted EBITDA, profit, and cash performance. We believe that the consistency in which we are able to deliver on high growth and high profit sets us apart from other software as a service companies stuck delivering one or the other.

Fuelling our success are both new-named account wins, as well as subscription expansions from our base of growing customers. At Kinaxis we call this our land-and-expand strategy.

Our team has a proven track record of landing large new customer accounts and demonstrating the significant value of RapidResponse, which results in opportunities to expand the scope of our relationship with them over time.

RapidResponse was designed to address the needs of large global organizations with complex, disparate supply chains. Our clients face constant and growing volatility in demand for their products and supply for raw materials, in manufacturing capacity, or in all of these related elements simultaneously.

Their data is often spread across multiple ERP systems and various subcontract manufacturers, which hinders their ability and their visibility to supply chain risk.

Responding quickly and accurately to the changing conditions of their business is critical. Through RapidResponse they gain the ability to unify data from their disparate systems of record, providing a complete and accurate representation of the state of the supply chain: one version of the truth, as we call it.

Just this past week we announced a new customer win with Samsung Electronics. They are an extraordinarily innovative global conglomerate with more than 319,000 employees spread across 84 countries, who are constantly seeking ways to create efficiencies in their global supply chain.

Kinaxis is honoured and thrilled to have earned the trust and confidence of Samsung Electronics. This new partnership will add to our strengthening position in the Asia Pacific market and drive investments for additional data centre capacity for this rapidly growing region.

Our strategic partner initiatives have continued to mature, which we believe to be a key element in achieving an inflection point in our growth. Over time, we expect our partner relationships will augment our direct sales team and ultimately enhance the flow of new-name customer wins.

We continue to see signs of acknowledgement that the old ways of planning have come and are now gone. Our pipeline continues to gain strength as the world's largest companies seek new and effective ways to absorb their modern-day supply chain planning challenges.

Before turning the call over to Richard, I'd like to take a moment to formally welcome Jill Denham to our Board of Directors. Jill has served on the boards of CIBC Retail Markets, the Ontario Teachers' Pension Plan, and currently is a board member of the National Bank of Canada, and chair of the Board for Morneau Shepell. Jill brings significant financial experience to the Kinaxis Board, which will be valuable as we navigate the next phase of our growth.

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

Richard Monkman — Chief Financial Officer, Kinaxis Incorporated

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

Q2 revenue increased 21 percent to 28.7 million over Q2 2015. Total revenue growth is driven by our base of subscription revenue, which increased by 22 percent on a comparative basis.

As discussed on prior calls, our sales cycles are often 9 to 18 months in length; however, once we acquire a new account we become an integrated piece of their business fabric. As a result, our client retention remains strong with over 100 percent net revenue dollar retention.

Our long-term contracts provide a high level of visibility into our forward 12 months of revenue. Our customer base is diversified across multiple market verticals, and our pipeline of opportunities remains strong.

This model supports our ability to provide full year guidance with confidence.

Professional services revenue continued to support our overall revenue growth. This revenue is driven by new customers initiating deployments, as well as existing customers expanding their deployments of RapidResponse.

In the second quarter, our professional services revenue increased 1.4 million to 8.5 million as compared to the same period in 2015.

In the second quarter of 2016, gross profit increased by 15 percent to 20 million. As percentage of revenue, gross profit was 70 percent in Q2 of 2016. This was slightly lower than the 73 percent in Q2 of 2015, and the investments we have made this year to scale our global professional services and operations team, as well as the deployment and leveraging of third-party providers to support this business growth, resulted in that change.

I would like to take this opportunity to remind our listeners that our practice is to fully expense all operating costs in the applicable period in which they occur. This includes new customer deal acquisition costs which are fully expensed upon the commencement of the customer revenue arrangement.

In Q2 of 2016, selling and marketing expense reflects these charges with one agreement in particular accounting for a significant portion of this expense.

In addition, our investment in Knowledge Services, which commenced in 2005, is now fully operational with a significantly higher expense base.

As a result of these and other operating investments, adjusted EBITDA declined from an unusually high 39 percent in Q2 of 2015 to 25 percent in Q2 2016.

Net profit was 3.2 million, or $0.13 per basic and diluted share in Q2 2016 and 5.2 million, or $0.20 per diluted share in 2015. The change in net profit compared to Q2 2015 was driven by higher sales and marketing costs, as previously discussed.

We continue to generate significant cash from our operating activities, recording 6.5 million in the second quarter, which demonstrates the robustness of our business model. Given our growth prospects, we expect to continue to invest in the business through 2016 as we build scale and surpass 100 million in revenue.

For the full year, our expectations are that sales and marketing expense will be in the range of 24 to 26 percent of revenue. We also expect net R&D expense to be in the range of 19 to 21 percent.

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

We believe that investors recognize that we have built a business that delivers top-line growth and consistent long-term profitability and positive cash flow. We enable very large enterprises to address their critical business challenges. We support them in driving savings while strengthening their relationships with their customers.

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

In light of our Q2 results and the forward visibility we have in our business, as noted in our press release, we have revised our full year 2016 guidance. We have updated our revenue guidance for fiscal 2016 to be in the range of 112 million to 115 million.

Given the strong subscription revenue growth thus far, we have updated our explanations for the full year growth of subscription revenues to be between 22 and 24 percent. We expect annual adjusted EBITDA as a percentage of total revenue to remain in the range of 25 to 29 percent on this revenue level.

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

John Sicard

As you've heard from Richard, we've made great progress on our goals for growth in 2016. We are constantly improving RapidResponse in order to drive new and market-leading functionality.

We're committed to delivering best-in-class innovative technology to global enterprises, allowing them to revolutionize their supply chain operations and drive their own best-in-class business performance.

We recently unveiled RapidResponse 2016.2, delivering even greater levels of in-memory computing speed and scale, along with over 80 new features and enhancements. With this new release we're thrilled to introduce adaptive collaboration, the industry's first true end-to-end supply chain planning collaboration platform where everyone within a supply chain is tightly linked together for effective and efficient collaboration.

For the first time, everyone has simultaneous and consistent visibility to all the data that matters most for business performance, as it should be, for perfect end-to-end alignment. Our customers know the true meaning of one version of the truth.

Adaptive collaboration builds on the preexisting capabilities in RapidResponse, bringing together planners and decision makers to identify supply chain risks and opportunities, to collaborate on and evaluate what-if scenarios, and drive confidence and alignment towards hitting business performance goals.

In addition to adaptive collaboration, significant enhancements have been made to enrich and scale our Knowledge Services model. This includes enterprise learning programs that allow our customers to build centres of excellence and a skilled business user community, as well as an expanded role-based knowledge portfolio with training paths, certification, and more advanced content.

Since we launched our certification program last quarter, over 220 people have taken the challenging exams and have been accredited with formal RapidResponse certification. And that number grows with every passing month.

With each new iteration and advancement of the platform, RapidResponse gains more scale, more speed, and more flexibility for the benefit of our customers and our partners.

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

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

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, please press *, 1 on your telephone keypad.

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

Thanos Moschopoulos — BMO Capital Markets

John, can you provide us with an update on the Deloitte and Accenture partnerships? And specifically, can you comment on how the onboarding of those partners is proceeding, how the pipeline from those partnerships has been evolving, and how the types of opportunities that they're bringing to the table might differ from the opportunities that you were previously seeing on your own?

John Sicard

Thanks, Thanos. So as you know, the Accenture relationship is just coming up on its one-year anniversary. And I would say the Accenture relationship is certainly more mature at this point than the Deloitte relationship.

The pipeline continues to be what I would classify as strong and mature. Of those 220 individuals that I mentioned as having certification, many of those were direct Accenture staff members. And we have been working with Accenture prior to this joint initiative as well. As you may know, we've been working closely with them for just about three years, and we indeed have closed business with Accenture prior to the JI.

In terms of Accenture's pipeline, if you will, or the pipeline that we're working with them on, all I can comment on is that there are two classifications, if you will. One, I would classify as being transformation-type projects, so very large companies that are looking to transform their supply chain. And they also have some opportunities related to managed services. So these are projects where Accenture is looking to take on the supply chain planning responsibility for their customers.

As it relates to Deloitte, as you know, very early days. That press release came out last quarter. The team is definitely forming. They have a very mature supply chain practice, very mature supply chain practice, and I'm happy to say, at least as I see it, when I look at the Accenture pipeline versus the Deloitte pipeline, there isn't a tremendous amount of overlap. And that's good news for us.

Thanos Moschopoulos

That's great. And in terms of the verticals you're seeing with both those partners, are they largely consistent with your existing verticals? Or are they also bringing into new verticals as well?

John Sicard

Largely in the verticals that we're already in; in fact, they know that in order to achieve rapid success they have to build on success that we already have. So there's, as you know, risk in entering a vertical for the very first time, even for us, let alone having it led by a partner.

So at this stage the pipeline is really driven in verticals that were already mature.

Thanos Moschopoulos

Great. And then how would you comment on the overall market growth? And what I mean by that is that it's clear that a lot of your growth is being driven by a growing customer awareness of Kinaxis and your solutions. But in additional to that, has there been any sort of inflection point in the market whereby customers are becoming more aware of the need to fundamentally improve their supply chain processes? Or is more of a steady market against which you're taking a growing amount of share?

John Sicard

Yeah. So, Thanos, we're always looking for what we call that inflection point moment, and I don't know that it's necessarily a moment. I've sort of come to realize that it's going to be a slow and steady rise.

What I do believe—and I made this statement earlier on the call—that we're definitely seeing an acknowledgement from new prospects that a new way is needed. There's not a situation where we're being asked to compete against the old way. And that's a little different, I have to say.

When I look back 18 to 24 months ago, it was a lot more common to be stepping into a prospect where they'd say, well, we want to compare you to some legacy ERP-type of a model. That was just super-common. And now they're saying, okay, I love what you're saying. You need to prove it to me because like all breakthroughs, like all unique approaches that sound too good to be true, somebody needs to really see it to believe it.

So we are definitely seeing signs of prospects that are eager to learn what we mean by this new method versus the legacy approach.

Thanos Moschopoulos

That's great. And one last one for Richard; in terms of your R&D guidance of 19 to 21 percent, is that for gross R&D spend or for net R&D spend?

Richard Monkman

For net.

Thanos Moschopoulos

For net. Okay. Thanks. I'll pass the line. Congrats on the quarter.

John Sicard

Thank you.

Operator

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

Robert Young — Canaccord Genuity

Hi. Good morning. I was hoping that you could talk about a piece that you mentioned in the last quarter, but not this quarter. You said that you'd seen an—unsolicited inbound enquiries from different parts of the world step up. And so I wanted to see if you could talk about that unaided lead generation and the profile of Kinaxis? And as a market are you seeing people coming to Kinaxis without you coaxing them in the door? And how do you expect that to change your pipe?

John Sicard

Yeah. So the answer is that trend seems to continue along the trajectory, which we're happy about. We often talk about the number of times our doorbell rings unsolicited is really a sign of inflection. So we're definitely seeing more of that activity as awareness of Kinaxis grows.

I think much of that awareness is coming from existing accounts and, call it, the one person talking to another person effect, right? There's communities that definitely speak to each other about what they're doing, and certainly the Gartner Magic Quadrant is helping as well. I mean it's very difficult for somebody to ignore how we're positioned on the Gartner MQ, so they're at very least intrigued to find out what places them so far above the rest of the fray.

So I would say that that trend is still maintaining strong, Rob.

Robert Young

And how do you handle those? Do you ignore them? Do you punt them over to your partners Accenture, Deloitte, or others? Or do you just, if they're not in your targeted verticals or geographies, do you just handle them internally?

John Sicard

Yeah. So it really depends on who is calling. As you know, we're hyper-cautious about our growth. It's one of our, I call it, mechanisms for sustainability and sustaining high growth and high profit. So everybody that rings our doorbell isn't necessarily a great prospect for Kinaxis, right? It depends on the market they're in; it depends on the business problems that they're presenting.

There's certainly a lot of people interested in what we do. And in some cases, we know that we have prospects that are already engaged with a partner. And if that's true, we want to engage with the partner. That is a key growth mechanism for us. By no means are we—would we be undercutting a partner that's already engaged.

So like I said, it depends on who's ringing the doorbell.

Robert Young

Okay. And then I want to talk about average deal size. The top 10 customer share of revenue that you've reported over the last couple years it's gone up steadily. I think it started out in the high 30s. It's now in the very high 40s. And so that seems to be a sign that the average deal size is increasing. And I was wondering if you could talk about concentration risk? And then too, what's causing that average deal size to grow? Is that the willingness to start with more applications? Is it the attach rate increasing? Or are you placing emphasis on bigger deals, i.e. in your previous comment you were saying that some are not—some of the opportunities are not great for Kinaxis. Are you focusing on the larger deals? And...

Richard Monkman

Rob, so just let me first address the concentration. So one of the nice things then is the top 10 customers represent now approximately about 48 percent of our total revenue. That's subscription, as well as deployment. And I think as you appreciate, customers go through sort of a natural period where we'll start the subscription arrangement immediately, and then they'll be going through a deployment cycle, often nine months to a year. And so they'll have both elements of revenue. In some cases customers will then start immediately expanding, and that trend will continue. So it's total revenue, not just subscription revenue.

The other thing is that with the strength in the other verticals, we continue to see the trend whereby high tech, while it represents the largest market vertical, is now less than 40 percent of our revenue; life sciences is just under 30 percent. And so we have a very nice balance across the different verticals. So we're also not dependent upon any one vertical.

With regards to the average deal size, what we've been doing is continuing to expand RapidResponse, expanding its capabilities, expanding its reach, expanding its scalability, and then working with partners more. And with the Gartner recognition, we find ourselves just working with larger and larger enterprises. And that naturally brings a larger initial footprint, if you will, with the capabilities of further expanding.

So, yes, you are seeing an expansion in average certainly in the key accounts revenue, but we'll also—we can—as we've said before, we can sign a customer at 4 million or 5 million a year. We can also sign a customer at 500,000, 600,000 a year, but we are seeing continued strength in the—with the key enterprises.

Robert Young

All right. Great. Last question for me, just could you update us on where you think CapEx will be for 2016 in the near term, just in context with that comment, the Asian data centre investment?

Richard Monkman

Yeah. So we've always had a provision for it because we, again, with the sales cycle, and again that front-log that we have, we'd already had provisioned that, and in fact, had talked previously about a 8 million to 10 million CapEx range. I'll tighten that now to in the area of 9 million to 10 million this year for our CapEx. And that would include expansion of not only new data centres, but also expansion of existing facilities for customer growth, as well as R&D growth.

Robert Young

Okay. Well, last, last, last question here is just about the sales cycle. You said that it was 9 to 18 months. Are you seeing any compression in that relative to the last time you updated us? And I'll pass the line.

Richard Monkman

We have seen some deals at the low end of that range. I think it's still a good range, Rob, because you have to understand that because we go so deep with the organization and they know that they're going to be working with us for an extended period of time. These are longer deal cycles, so they'll also go through that proof of concept where we actually show them how we can provide value, and then a negotiation cycle.

And it's generally an extended discussion just on the negotiations side. So we are seeing some deals happening at a higher pace, but we do not want to indicate at this point in time that we're going to be outside that sort of normalized range.

Robert Young

Another way to ask it might be when you do see a shorter sales cycle what causes that? And…

Richard Monkman

Well, I think it's just a matter of I think Thanos touched on market awareness, and we're seeing greater market awareness. We're seeing a greater aptitude of the partners. We're seeing actually other interested parties and the partners, so I think the higher the profile, the more number of deals you close, it's just sort of a natural tendency to accelerate as people are more aware and more in the vernacular.

But what we do is quite revolutionary. And as John touched on earlier, it's in stark contrast to the highly customized on-premise arrangements working with individual applications in different databases where we bring it all together. And so people do want to see how that works. They want to actually test drive.

And so that's sort of where we are, but we are hoping to see an acceleration, but we don't want to state that it's happening at this time.

Operator

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

Paul Treiber — RBC Capital Markets

Thanks very much and good morning. I was hoping, could you elaborate further on Samsung? Could you just perhaps provide some background on the win; how they came to you and maybe who you're competing against? And what's amend (phon) to the opportunity beyond the existing agreement?

John Sicard

Sure, Paul. So as you know, we can't really comment on any specific company in terms of what we're doing for them.

I can say that the Samsung opportunity was competitive. I won't say with whom, but it was a competitive win, as they usually are. Obviously, we're thrilled. I mean as I said, Samsung is just massively innovative, a massively innovative company; represents an enormously diverse supply chain. And so we're obviously thrilled to have earned their trust.

Job one is really going to be to deliver value. We're really hyper-focused on that to deliver value for them. And as you know, we have a land-and-expand model. This is not unlike any other model that we have with other customers, so this is what we'll be focused on as it relates to Samsung.

Paul Treiber

And in terms of the deployment, how much is contingent on the data centre in Asia? Do you need to ramp that up before you can fully deploy?

John Sicard

Well, we're—the data centre is going to be in Asia. Their environment is in Asia, just for proximity and reducing latency and things of that nature. I'd say it's just the natural course of growth for us.

We scale our data centre operations as new customers come online. And as you know, we have great visibility—we've talked about this—we have really great visibility in our, call it, forward 12 months of business. But we also have very strong visibility in exactly what our pipeline is and the maturity of the pipeline and where people are in the stage of the sales cycle, so we're very well-prepared, if you will. So we don't see the data centre operation as any constraint whatsoever on achieving Samsung success.

Richard Monkman

Yeah. We have the capacity. In fact, we've executed on that capacity. And so—and as John said, with that we have the capability of billing in advance, and in fact, this is a well-hardened business model that we have. So it's not an issue whatsoever.

Paul Treiber

And then just more broadly on the investments. I mean you've been going through a fairly large investment cycle in 2016. How much of the build-out or the investments are effectively in place and complete? What needs to be done in the remainder of the year? What do you want to ramp up in the remainder of the year? And then what are other priorities over the longer term, say, next two or three years?

Richard Monkman

Sure, Paul. Good question. So just with regards to—I'm going split them between sort of operating expense and CapEx—so from an operating perspective, as you know, again, everything is fully expensed. So whether it is the dramatic ramp-up in Knowledge Services, as well as our customer success organization this year, all those costs are behind us. We take them as period cost.

Similarly, the investment with the partners, and that ranges from our dedicated team, their dedicated team, the training, those costs are, again, being fully expensed, so they're the run rate. I talked earlier on the call about 100 percent write—you know, expense of the deal acquisition cost. So we don't have any of that amortization of customer costs in front of us.

So those investments are continuing, or they're very much ramped up at this point in time. And as the business grows, depending upon their nature, they'll continue to ramp.

The CapEx side of things there have already been investments made in the data centre expansion. And in that guidance that I provided a few minutes ago, the 9 million to 10 million for the full year, that reflects the necessary expansion that will carry us not only through this year, but also build for growth in the next year.

So we're, one, very much focused on that longer-term growth. I mean part of the sales cycle I'll turn around and just maybe on Rob's comment about we are actively working on campaigns that are 2017 customer wins.

So we're very much just—we have that longer-term view, and we're going to continue to take that level of expansion.

Paul Treiber

All right. Thank you. I'll pass the line.

Operator

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

Gus Papageorgiou — Macquarie

Question. Richard, just sorry, could you just confirm your top-selling customers in the quarter were they 48 percent of revenue? Is that correct? And then secondly on Samsung, could you discuss about the timing of when that contract will hit your P&L? Do you expect something this quarter? Or will it defer into Q4? Or will we see anything at all this year? Is it mostly coming into next year? A sense of timing would be great.

And then finally, you talk about your two verticals, life sciences and technology, that account for roughly 70 percent of sales. I imagine with Samsung that'll probably—that might bump up that ratio north of 70 percent. Or do you expect that the advancement in your other target verticals will grow fast enough so that ratio kind of stays at that 70 percent level? I wonder if you could just discuss that? Thanks.

Richard Monkman

Sure. So good questions, Gus. Thanks. So yes, I will confirm that total revenue, so, again, this is the subscription revenue stream, as well as professional services revenue stream combined, the top 10 customers were 48 percent on a year-to-date basis of revenue.

Then with regards to Samsung, again, we do not comment on customer specifics, but in the announcement we did indicate that that arrangement was closed and it was recently closed, so near the end of the—it was in the quarter. And as our practice, we start subscription revenue immediately at the beginning of the arrangement. So there is revenue, proportionate pro rata revenue in the quarter.

And then with regards to the two verticals, what I actually said was that high tech is now under 70 percent, life sciences is just under 30 percent, so I wouldn't necessarily add that together and say it's approximately 70 percent. So there is a balance. And yes, when you have major accounts, the different verticals, that's going to alter that overall mix, but I think the message that we'd like to leave is that we are focused on a number of verticals.

John indicated that life sciences still also as a broader customer base continues to remain very strong. That we—and by the way, as we continue to develop some of our other verticals on the, for instance, on the automotive side of things, I think you're going to see a nice balance continue in the future.

Gus Papageorgiou

Great. Thank you very much.

Operator

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

Paul Steep — Scotia Capital

Good morning.

John Sicard

Hi, Paul

Paul Steep

John, I guess the first question for you would be related to sort of operational. You highlighted the fact that you obviously brought on some partner resources to help you do implementations. Can you talk maybe a little bit about the philosophy and the strategy? I don't know if that's a change—I don't remember it from the past—but is that a change in how you're going to go to market here on in in terms of including an outside partner on major projects?

John Sicard

Yeah. Thanks, Paul. Yeah. So certainly it's not a change. It's—we have definitely had the partner ecosystem in our strategy, our growth strategy for a while now. It started well—earlier than the Accenture joint initiative. We see this as a key inflection point for us getting a partner ecosystem behind RapidResponse. We've seen what happens when—what happened to ServiceNow when they engaged a partner ecosystem.

That's where you can see some accelerated growth. And more importantly, we can't grow organically fast enough a services organization to take advantage of that inflection point. Companies like Accenture and Deloitte, they have armies of people that are at the ready with supply chain experience.

So our job is to accelerate their learning through our Knowledge Services organization and programs, and get them ready so when ultimately when we see this inflection point hit we'll have a partner ecosystem that's able to support the deployment.

So I would say, Paul, it's definitely not new. It is absolutely top of mind and a key strategic initiative for us. We spent a lot of time focused on Knowledge Services and preparing certification programs targeted at the partner ecosystem and essentially getting them ready to deploy.

Paul Steep

Great. Just two quick follow-ups; I guess the second one would be if we think about a typical large global multinational that you'd be doing business with, if we think about a deployment, is it fair to think about that as a global sort of multiyear, three-year type deployment to get to full utilization? Or is it sort of a phased approach where realistically we're talking about a year-and-a-half engagement? And then the second one to not leave Richard out, on the data centre we talked lots about CapEx. Could you just percentage-wise sort of ballpark how much of that goes towards maintenance CapEx, Richard, in terms of existing infrastructure? Thanks.

John Sicard

Thanks, Paul. So on your first question, first we work with our customers to make sure they don't "boil the ocean". So it's not a question of attempting to build all aspects or cover all aspects of the supply chain in one massive program. So multi—while it may be a multiyear journey, it is definitely a phased approach. And there typically we follow an agile services approach, so we do sprints. It's very common to see full deployment in a live state for a phase 1 implementation in less than a year, definitely less than a year, so it's very common.

Although, as you said, large corporations, global corporations with multiple product lines and multiple geographies it's quite natural and normal that we would be deploying them over multiple phases, which will ultimately take multiple years. And so that's the approach that we take.

So they definitely are seeing RapidResponse in a live state for either a functional area of their business or it is, call it, a subset of their product lines and geographies of their business in sub one-year time frames.

Richard Monkman

And if I may, just on before I talk about the CapEx, Paul, that what will happen is there are some arrangements where it's already contemplated on day one the expansion of the subscription to be commensurate with that, as John said, different phases. But it also then touches on [line expense] (40:57) of customers will have capability to continue to expand their footprint.

So maybe they start off with North America and then move to Western Europe for a different division of the company. So with that additional level of deployment will often come additional subscription revenue.

With regards to the data centre and the maintenance element, I’d look at it a little differently in that we are continually investing in the data centre for not only customers, but also we're doing some very interesting leading-edge R&D. So we want to make sure that the R&D team have the appropriate tools.

But the technology that we use just with RapidResponse is very leading-edge, and so there is ongoing refreshment that is reflected in the CapEx budget to continue to support our customers because they’ll continue to scale. So for instance, as they increase their footprint and that will often be expansion of the subscription revenue that they have the capabilities. These are also mission-critical applications, and so there's also disaster recovery planning capabilities that are factored in.

And so there is just implicit it’s just an ongoing refresh cycle that goes on. But we don't actually break that out, Paul.

Paul Treiber

Okay. Thanks, guys.

John Sicard

Thanks.

Operator

And again, if you would like to ask a question, please press *, 1 on your telephone keypad.

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

Michael Urlocker — GMP Securities

Good morning. Thank you. Hey, John, if I could just play it back to you in terms of what I understand about spending to grow the business. To use a rough view, it seems like the spending's been rising; that's part of, call it Kinaxis growing up and scaling to work with the larger partners, especially Accenture and Deloitte. Is that a reasonable way to look at it?

John Sicard

Yeah. Certainly we're focused and we've talked about it in previous earnings call our investment in the Knowledge Services area. We have scaled that up pretty quickly, and I would say today we're in a very mature state.

We have a core team; we have learning management software that is available to our partners; we have certification programs, both proctored; et cetera. So it's very, very mature at this state. And that's required a substantial investment on our part.

In terms of the rest of the investments that we're making in R&D, they're all factored into our guidance. We're hyper-focused on innovation, and as I stated earlier, with the 2016.2 release, which we're really thrilled about, there's some massive innovations in that release we're really looking forward to getting out to the customer base.

Michael Urlocker

Okay. And then if we think about you're now in an investment phase, is there a view that at some point, let's say a year or so later, the investment phase of spending tapers down?

Richard Monkman

So, Mike, we're one where we're continually investing. So just for instance—and I'll recap on the knowledge side of things—so we've initiated that Knowledge Services last year. Again, everything is taken as a period cost. We've now got a strong team in place, and as John said, it's in sort a more mature state. And so that's going to normalize, and so one would not expect that to rise at the same rate as our revenue growth, so…

Michael Urlocker

Okay.

Richard Monkman

There's going to be some leverage there. But it's a matter of we're now—we've announced two strategic initiatives, and so we're working with the partners. If we announce a third or a fourth, they'll be some increased costs there.

But again, there is—we're already seeing ROI on these types of investments. John talked about the ongoing expansion of not only the feature sets, but the scalability and just sort of the user experience, but one would expect that given the guidance that we've talked about for net R&D, that might not increase at the same rate as revenue growth. So you'll see some expansion there.

But I also want to state that we've not been shy, and we have a proven track record of where we say here's something coming down that we see will lead to greater growth—in this case in 2017 or 2018—we're not going to be shy. We're going to do the right thing and invest in that growth initiative, and again it is reflected in that overall guidance.

Michael Urlocker

Mm-hmm. Okay. And then I wonder if anecdotally or in terms of any observational data, John, what you would indicate as the best measures of progress you're making with Accenture and Deloitte?

John Sicard

Yeah. So what I look at is call it pipeline maturity. And there's—when I look at pipelines obviously there's suspects and there's prospects, and then there's maturity. And so both Accenture and Deloitte have a very robust, right, call it, robust sales pipeline management approach. It's a little different than that of Kinaxis.

We've developed ours over many, many years. But we have what I'd call a universal translator. So we can look at their pipeline activity and translate it into the language that we understand here at Kinaxis in terms of maturity.

So I try to be consistent as it relates to Accenture. We've been very pleased with progress on what I'd call the maturity of their pipeline and the strength of their pipeline. They have brought us into opportunities that I believe we would not have been in, period.

Michael Urlocker

Mm-hmm.

John Sicard

It would have been very, very, very difficult, if not possible at all, to penetrate without their direct involvement.

As it relates to Deloitte, obviously very early days and what I'm seeing from Deloitte is a tremendously mature and a tremendously—I just call them smart. These are very, very smart supply chain people. So I'm looking forward to working as closely with Deloitte as we have been with Accenture.

Essentially the best measure for me is looking at pipeline maturity and the speed at which they progress through each of their categories, each of their phases of the deal.

Michael Urlocker

So when you say maturity, just to expand on that, I think it would be indicated by processing through various gateways and the level of detailed engagement you're having with the customers that indicate a readiness and propensity…

John Sicard

Exactly.

Michael Urlocker

To act...

John Sicard

Exactly. I'll give you an example. A tangible example would be are we in a PoC? If we're doing a proof of concept with a prospect, that's a pretty mature state, right? Because that requires that prospect to have provided us with data, which means their IT organization is involved in working alongside our team to populate RapidResponse with their data.

That's a very mature state for us, and usually indicates we have a very high win rate when we're at that stage. So that's a very tangible example of a statement of maturity.

Michael Urlocker

Excellent. Thank you for elaborating on that. I appreciate it.

John Sicard

No worries, Mike.

Operator

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

Nick Agostino — Laurentian Bank Securities

Yes. Good morning. I guess just one quick question to follow up on the whole Accenture and Deloitte discussion. Just given the fact we're, I guess, approaching the one-year anniversary with Accenture, can you just talk a little bit about sort of what Accenture's been able to take off your plate in the last year when it comes to sales and deployments, if anything?

And then secondly, just to understand, are you guys building these relationships for the purpose of creating the talked-about inflexion point, so you kind of build in the army? Or is it more a case of trying to be responsive to what you anticipate to be an inflexion point?

And then the last part of that question is if it's the latter, how far down the curve is Accenture as far as being ready so that you don't have to provide any hand-holding whatsoever, both from a sales perspective and a deployment perspective? And that's it. Thank you.

John Sicard

Yeah. Great, Nick. So first to clarify, I mean we've been working with Accenture for over three years. The joint initiative, which is this formal arrangement that we have, is coming up on its anniversary. So we have closed business alongside them, they have worked alongside us on professional services engagements, and continue to do so this very day. They're definitely engaged.

Of those 220 certified individuals, as I said, many of those are Accenture consultants. So there's a very tight relationship not only on the sales front, but professional services as well where we're working in lockstep with them. And for us we sort of look at our partner initiative. It's a requirement because we can't scale fast enough.

We believe this inflection point is coming. We believe that the approach that we have to solving supply chain problems is revolutionary. It is the way to solve modern-day supply problems. And with that, as customers—as prospects engage with us we have to be ready to deploy. We cannot be in a situation where we're crushed by our own success.

And so this partner initiative is designed on purpose to ensure that we have the resources and the partnerships and the relationships to take that challenge of success on, if you will, head on. So that's really the rationale for the partner ecosystem. And as I said, today with Accenture we're working in lockstep with them on sales campaigns. And we have Accenture consultants working in lockstep with our own employees on professional services engagements today.

Nick Agostino

Okay. Thank you.

John Sicard

Thanks, Nick.

Operator

And we have no further questions at this time. I turn the call back over to the presenters.

John Sicard

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

We look forward to speaking with you again in November when we report on our Q3 2016 results.

Thanks, everyone. Good-bye.

Richard Monkman

Good-bye.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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