

FINAL TRANSCRIPT

Kinaxis Inc.

Fiscal 2016 Fourth Quarter Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2016 Fourth Quarter Conference Call. At this time, all participants are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions.

Before beginning its formal remarks, Kinaxis would like to remind listeners that today's discussion may contain forward-looking statements that reflect current views with respect to future events. Any such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected in these forward-looking statements. Kinaxis does not undertake to update any forward-looking statements, except as required.

I'd like to remind everyone that this call is being recorded today, Wednesday, March 1, 2017.

I will now 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 morning, and thank you for joining our call today. Last night we issued our fiscal year 2016 fourth quarter and year-end results, a copy of which is available on our website, kinaxis.com.

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

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2016 was another strong year for Kinaxis, marked with outstanding top-line performance ending with 27 percent revenue growth and a very healthy bottom-line performance, with adjusted EBITDA coming in at a solid 25 percent. Our performance is a testament to the increasing adoption of our revolutionary approach to solving complex supply chain planning problems.

More and more enterprises are being driven to transform and digitize their supply chains in order to become more agile and responsive in the face of increasing volatility in demand; less certainty, control, or visibility over capacity; and inventory.

Whether driven by competitive threat, margin erosion, or rapid expansion through acquisition, manufacturers are beginning to recognize that older generation, functionally siloed, and disconnected systems are failing now and getting in the way of their much-needed progress.

The requirement for latent-free and instantaneous end-to-end impact assessment in planning and simulation has become the new benchmark for best-in-class performance in supply chains. And Kinaxis is uniquely qualified to lead the way.

Global manufacturers are turning to RapidResponse, our cloud-based platform, to serve as the nucleus for their supply chain transformations. For them, we enable end-to-end concurrency in the planning at a speed and scale never thought possible before, and drive seamless simulations of collaboration between previously siloed teams where blind decisions used to be the norm.

We continue to receive strong adoption from existing and new customers alike, as evidenced by a 34 percent subscription growth in Q4 and 26 percent growth for the year.

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Just this past week we announced that AMD had selected RapidResponse to establish a concurrent view by replacing its legacy supply chain planning systems and create a highly resilient and responsive supply chain planning that will maximize on on-time delivery and minimize excess inventory.

We are looking forward to working closely with their team as we work through the deployment phase and are honoured to have been chosen to lead this change at their company.

As I have consistently communicated on previous calls, we are investing in the business for growth. In 2016, we opened up new data centres and support teams in South Korea, now fully operational, to serve Samsung and launch our entry into the broader South Korean market.

In 2016, we accelerated our investment in building a world-class Knowledge Services organization in order to support our growing number of employees, customers, and most importantly, partners, which is a key enabler of long-term sustainable growth.

Speaking of our partner initiative, let me provide you a bit of news. It's working. Several key wins in 2016 can be attributed to collaborative efforts made with our strategic partner alliances.

Most recently we were successful in closing a major account with active support from Accenture. This was truly a fantastic win, and strong validation for the value achieved by combining the strength of both teams and serves as a repeatable model for future engagements.

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Furthermore, I'm very pleased to see the most recent level of involvement of partners with major deployments in 2016. Their increasing involvement is a testament to their continued commitment to build their Kinaxis-based practice.

Our expanding partner network, coupled with our operational investments, provides us with sufficient scale to deploy new customers at a rate we could not otherwise manage independently. I remain very confident in our future, and we'll continue to invest in order to capture the strong demand that we are saying from the world's largest companies.

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

Richard Monkman — Chief Financial Officer, Kinaxis Inc.

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

Total revenue increased 25 percent and 27 percent in the fourth quarter and full year 2016, respectively, to 30.3 million and 116 million. Our revenue is driven predominantly by subscription revenue, which increased by 34 percent and 26 percent in the fourth quarter and full year periods to 22.7 million and 81.8 million.

Professional services remained a strong contributor as new customers deploy and existing accounts expand their applications. Professional services revenue increased by 5 percent and 32 percent in the fourth quarter and full year periods, respectively, to 7.4 million and 33.1 million.

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As we've discussed on prior calls, our sales cycles are often 9 to 18 months in length. However, once we acquire a new account, RapidResponse becomes an integrated piece of their business fabric. As a result, our client retention remained strong with more than 100 percent net revenue dollar retention. Our long-term subscription contracts provide us with a high level of visibility into our forward 12 months of revenue.

Our customer base is diversified across multiple market verticals, and our pipeline of new opportunities remains strong. This strong backlog supports our ability to provide full year guidance with confidence.

Gross profit increased by 19 percent and 22 percent for the fourth quarter and full year periods, respectively, to 20.8 million and 80.2 million. As a percentage of revenue, gross profit was 69 percent in Q4 2016 and fiscal 2016 compared to 72 percent in the prior-year periods.

As communicated on prior calls, this change is a reflection of the investments we've made to increase our data centre capabilities globally and our team in 2016 to support forecasted growth.

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

The increase in selling and marketing expenses reflects the level of new business closed in 2016, together with investments in our partner network and Knowledge Services. We will continue

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to make key investments, as we believe they enable our ability to profitably continue our consistent and sustainable long-term growth.

Reflecting onetime expenses, such as the expensing of sales commissions, as well as ongoing key infrastructure investments, such as data centres, customer support, and Knowledge Services teams, adjusted EBITDA declined 10 percent and 5 percent for the fourth and full year periods, respectively, to 6.4 million and 28.5 million.

Profit was 1.7 million, or \$0.07 for basic and diluted share for the fourth quarter, and 10.7 million, or \$0.44 for basic and \$0.41 for diluted share for the full year period. The change in net profit was primarily driven by our higher sales and investments compared to prior-year period.

Cash generated by operating activities was a strong 17.1 million for the fourth quarter and 31.1 million for the full year period, demonstrating the strength of our business model.

Looking forward to 2017, our expectations are that full year sales and marketing expenses will be in the range of 24 to 27 percent of revenue. We also expect net R&D expenses to be in the range of 17 to 19 percent of revenue.

This level of investment is appropriate to enable long-term growth. These investments directly support our growth initiatives, specifically channel partners and Knowledge Services used to (phon) scale the business through customer success.

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In today's release we established our 2017 full year guidance. Based on the existing subscription contract backlog and the strength of our sales funnel, we expect annual revenue guidance for fiscal 2017 to be in the range of 140 million to 144 million.

Subscription revenue will continue to be the key growth driver. We expect 2017 subscription revenue to grow between 25 and 27 percent over 2016.

The visibility of our long-term revenue continues to provide support to invest in future growth. Based on our investments and near-term customer opportunities, we currently expect full year adjusted EBITDA as a percentage of total revenue to be in the range of 24 to 26 percent.

Through RapidResponse we provide very large enterprises with tools to solve their critical business challenges. We support them in driving savings while strengthening their relationship with their customers.

While no sector or business is immune to economic cycles, the maturity of our model, the diversity of our revenue base, and the strength of our innovative product provides us with sustained confidence.

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

John Sicard

As you've heard from Richard, we made outstanding progress in 2016 and are very well-positioned to continue our strong growth through 2017 and beyond. In so many ways, we are just getting started.

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True to our pedigree, our development organization is hard at work innovating well beyond our current reach and collaborating with key customers in the areas of real-time IoT—Internet of Things—sensor data integration, as well as leveraging our always-on, always-thinking engine for adaptive machine learning.

We are continuing our investments with global alliances, recently announcing a new partnership agreement with Bain and Company, a top global management consulting firm which, among other things, advises its clients on how to use their supply chains strategically. Through this partnership, Bain will integrate the power of RapidResponse into their end-to-end review of their clients' entire supply chain ecosystem. This will allow them to perform deep analysis and implement what-if scenarios to measure the impact of change.

Bain, as a recognized global management firm, has an understandably different approach than Accenture, Deloitte, and other system integrators in helping global enterprises transform their supply chains. Through the Bain partnership we will gain access to an expanded C-suite audience who will have already witnessed the power of RapidResponse and understood its potential to revolutionize their business.

These corporations are open to implementing breakthrough approaches to streamlining their operations. Their supply chains are a natural next step so they can achieve significant cost savings and make faster, better, more informed decisions.

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Each of these strategic relationships enables us to tap into their broad client base, global reach, and sector focus to grow faster than we could otherwise do on our own.

I look forward to reporting back to you on the success of our strategic partner relationships as they continue to mature, grow, and bear fruit.

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

Ladies and gentlemen, in order to ask a question, press *, then the number 1 on your telephone keypad.

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

Thanos Moschopoulos — BMO Capital Markets

Hi. Good morning. John, with respect to the large Accenture win that you highlighted can you disclose what vertical that was in and what quarter that deal was signed? And then generally speaking, where are you seeing the most traction with Accenture and Deloitte from a vertical

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perspective? Are there any new verticals they're pulling you into? Or to date has it been mostly focused on your existing verticals of strength?

John Sicard

Thanks for the question, Thanos. So yes, the large win occurred in Q4. And I can tell you it was in the life sciences vertical, something that we had been working on for quite some time, and we're absolutely thrilled about it. As I said previously, I think it is a model for how we will work together with them and other partners in the future.

As far as new verticals go and our work with Deloitte and others, we are seeing some uptake in other new verticals where a year ago perhaps we weren't seeing as much. For example, the CPG area for us is starting to heat up. I can declare CPG now to be our formally sixth vertical. We're definitely engaged in that vertical.

And also we're seeing an uptake in automotive as well. We're definitely seeing those two over the last 12 months heat up.

Thanos Moschopoulos

And then geographically I know you've been working on building your presence in Europe and Asia. Starting to see some more traction in those regions as well?

John Sicard

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Absolutely. As Richard noted, we've continued our investments in South Korea and built on the foundation of our Samsung win there. And the operational team that we're putting in place we are definitely seeing pipeline growth in Asia Pacific as a whole, including Japan.

It's not just South Korea; we're seeing an uptake in Japan as well.

Thanos Moschopoulos

Okay. And then finally you're guiding for a slower growth in professional services revenue this year relative to subscription revenue. Should our takeaway from that be that the partners are maturing and should be able to take on more of the implementation work in 2017?

Richard Monkman

Absolutely. I mean we are very, very pleased to see the expanded involvement of the partners and their leadership, basically, in deploying. The other thing, Thanos, is that with subscription revenue, as you know, we have over 80 percent forward visibility. With professional services it is a shorter cycle, just given the deployment cycle.

But it's a combination of the activity that's growing and the partners taking a greater lead.

Thanos Moschopoulos

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

John Sicard

Thanks.

Operator

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

Robert Young — Canaccord Genuity

Good morning. Thanks. I'll just continue that last line of questioning. Should we expect the mix of revenue between new customers and existing customers to shift if the channel is taking on a little more of the professional services burden? And also, I mean in 2016 you swallowed a couple of large customers and may not expect that to continue in 2017. So should we expect that trend closer to 50–50?

John Sicard

So I'm sort of hearing two questions there. So let me try to answer that, Rob, and then you can clarify. But first off, just with the strength of some of the marquee names in particular that we've closed, and we've noted that on the last few years now that mix—we're famous for our land-expand type of model—and that mix, though, has shifted more heavily towards new-name customers.

And so now we're reporting that it's a 65 percent of our expansion from subscription revenue comes from new names and 35 percent comes from that land-expand. Partners are typically involved with new-name customers. So we've developed a very long relationship; in many cases well over 10 years with our existing customers.

So when they do an expansion it tends to be with our professional services team, but on a new-name customer basis the partners are playing ... That's where they're playing a greater role. And

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so what we signalled in today's guidance is absolutely a higher growth rate and a higher content increase in the subscription revenue over professional services and a very, very strong total revenue growth.

Robert Young

Okay. Great. That's exactly what I was hoping you would answer. Second question might be just clarification on the Accenture win you highlighted. Was that one that was officially on the joint venture? Or is it one that might have had a genesis before that?

Richard Monkman

We work very closely. They were instrumental in working to close this arrangement. We're not in a position—our policy is not to discuss specific customers or specific transactions.

I just think this was and what John was alluding to what we're excited about is that this was clearly a case where the sum equalled more than the—the total amount of the whole was greater than the sum of the parts in that they brought a number of capabilities that very complemented the Kinaxis one. So it was a great joint win.

Robert Young

Okay. And is there—like can you say that that joint win is galvanizing inside of Accenture? Does that change anything in the way that they approach the Kinaxis relationship?

John Sicard

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Rob, I think like I said, it really does serve as a foundational approach to how we'll go to market in the future. Obviously, we've been working with Deloitte for some time now on multiple deals, and this one is the first to cross the finish line.

We're obviously both extremely pleased with it. It's a very major win. It's getting a lot of attention within Accenture, and I could say that it's a momentum driver, if you will, with our joint team.

Robert Young

Okay. And last question for me would be about the pipeline. In the past you've said that the pipeline had matured, and I've taken that to mean that there are a number of large opportunities at the—close to completion. And so now you've had a couple big wins in the back half of 2016. Is there still mature opportunities in the pipeline?

John Sicard

Absolutely. Absolutely. I would say I would categorize the pipeline as being shaped a little differently, if you will. Like as I said, we're seeing definitely larger opportunities in the automotive space and the CPG space, and we're also seeing an uptick in Asia Pacific, both Japan and South Korea, as we had imagined and as we had expected based on our investments and based on our success in those regions.

So we're extremely confident with the current state of the pipeline, as we were last year.

Robert Young

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Great. Okay. Thanks a lot. I'll pass the line.

Operator

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

Richard Tse — National Bank Financial

Yes. Thank you. Just wanted to clarify some of your comments on professional services. So for the quarter the pullback on that line item in terms of revenue, was that because the partners were doing some of that work? Or was that some just pullback generally in your business alone?

Richard Monkman

Yeah. So, Richard, I wouldn't characterize it as pullback. It was still clearly a growth. I mean was it as stronger growth as it was in the prior quarters? No. But don't forget we deal with very, very large enterprises, and it's not uncommon for large enterprises to basically reduce operations the last two weeks of the year. So essentially you've got a shorter period, and our focus is primarily on time and material type of basis.

But having said that, absolutely there were a number of transactions that were closed and so while Kinaxis will be involved with an assurance element because it's very important, as you know, we look to all our customers being referenceable, the leadership in terms of the deployment is taken over. And that's a testament to—I know it's repeating the message—but we take this very, very long-term view. We've been working for a long time with not only our strategic partners, but also the execution partners.

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And they've developed the skills that's being accelerated through our Knowledge Services and the certification program. And so I think what you're seeing now is all these pieces coming together and really building that foundation. And so that's why we're excited. And once again, as we've indicated before, our first and foremost growth is subscription revenue. We're going to still drive top-bottom line and top-top line, but it really is focused on accelerating the growth in subscription revenue.

Richard Tse

Okay. That's helpful. Thanks. With respect to the operating costs, can you give us a sense of how those are going to be distributed through the year? How that will scale? It seems like you've had a bit of a push to build up these data centres. Is that going to sort of come off here a little bit now that it seems like these are all sort of set up and you're pretty much where you want to be? Or how's that going to play out?

Richard Monkman

Well, again, because we take this conservative view of just expensing period costs—we don't try to sort of smooth things over—period costs fall. In terms of expense profile, there are certain quarters such as Q4 typically is higher because there's a higher number—at least in sales and marketing—higher number of conferences. It's not uncommon for the sales team to be in overachievement (phon), so those expenses are higher.

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But quite frankly in Q1 payroll taxes will kick in, and so those costs tend to be a little bit higher with regards to the R&D farm and some of the other parts of the organization. But we focus on the full year, and so that's why this guidance is there. So I think you will see a little bit of fluctuation, but our eye really is on that longer-term model, and we'll continue to provide feedback and guidance as we move through the year.

Richard Tse

Okay. And just one last one for me; just curious to see your perspective on the competitive environment now. Clearly you guys have had some pretty major wins against some sizable incumbents. Maybe sort of give us a view from your perspective any of your competitor response or whether you guys are continuing to gain ground here? Maybe just some commentary on that, please? Thanks.

John Sicard

Sure. Thanks, Richard. So I would say we're—this notion of concurrency, this notion of a uniform platform for seamless simulation and adaptive collaboration, if you will, is gaining traction. There was an article recently posted by SCM World on the topic of concurrency, and it's really starting to take hold.

As it relates to how concurrency is achieved, I can say we really have not found any competitive threats from a product perspective. Many of the competitive environments are still I'll call them a collection of disparate systems that are attempting to integrate with one another as

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opposed to one cohesive platform. And so I think we're seeing some momentum in the marketplace as it relates to what this breakthrough is and where the revolution is happening.

And the customer ... The recent customer wins, some of the largest organizations in the world that are now implemented and experiencing what it means to achieve the breakthrough it's really serving us well from a pipelines perspective.

Richard Tse

That's great. Thanks.

John Sicard

Thanks.

Operator

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

Paul Treiber — RBC Capital Markets

Oh, thanks very much. Just hoping to dig a little more into sales and marketing spending; could you speak to the number of total employees in sales and marketing and how that's grown year over year? And then also the number of quota-carrying sales reps and how that's grown year over year?

Richard Monkman

Paul, those are highly competitive. I'll just say that we have grown the sales team, both in terms of the quota-carrying individuals as well the overall organization. Just a brief reminder, though,

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that unlike some of the smaller sort of sales types of operations, our “quota-carrying people” are really quarterbacks that lead these campaigns through a 9- to 18-month sales cycle.

But we have expanded that group, especially in light of the funnel and the success we’ve had, and we are continuing to expand that team as we move through 2017. And that is the part of the indication that we said we’re still having a very strong investment in sales and marketing. And then it’s just, as you know, I mean it’s been sort of the same message for a few quarters now that the onetime expense of the sales commissions, the customer acquisitions cost, is our model. And so that is also factored into the guidance that we provided today.

So absolutely we’re going to continue to grow. We’re going to continue to build the team as we seek out these and close these new opportunities.

Paul Treiber

Fair point. Just not getting into specifics, so is it reasonable to think that the growth in variable compensation for the year has been faster than the growth in the number of sales employees?

Richard Monkman

Yes. There was a—I will say there was a significant, as indicated in our prior calls, but was a very significant increase in the variable compensation. I mean this is a success-based organization, and that reflects the success of the sales team.

Paul Treiber

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Okay. Good to hear. Just one more one for you, Richard before I just want to ask one to John just in regards to tax, expectations for tax in 2017 and beyond?

Richard Monkman

I would look to see taxes still in the 35 to upper mid-30 range. One of the issues is in Canada the stock compensation is not a deductible expense, and so that's what drives that.

Paul Treiber

So we should be using 35 percent as an effective tax rate?

Richard Monkman

I would say mid-30. I mean it's going to change quarter over quarter, depending upon FX. As you know, all our numbers are in USD. The parent company is a Canadian company and filing Canadian tax returns, so there is some variability with regards to FX, as well as the timing of the stock comp.

But we don't actually provide guidance, but as you've seen from the trend, it has been in the mid-30 range.

Paul Treiber

Okay. And for John, just from the competitive landscape, two of your competitors, E2open and Steelwedge merging together, do you see—how do you see that impacting the competitive environment in the near term?

John Sicard

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So as it relates to, as I stated earlier, the competitive landscape and as it relates to what our customers are looking for, and as I mentioned, the notion of concurrent planning. In order to achieve that you need to have one contiguous environment.

And we've seen E2open specifically, we've witnessed them essentially acquiring and rolling up various companies, and so essentially disparate systems; they're collecting some disparate systems there.

What we find is that our prospects, anyway, they're working with us on a single platform. And their goal is concurrent planning. They want zero latencies in their decision making, which means they want no staging and aging of data from one system to the other. They want simulation and scale. They want simulation that's end-to-end with no latency.

And as a result, as I said, we're not really seeing some competitive threat from a product position whatsoever. So RapidResponse, really, in fact when we deploy it at our customers, we're replacing the collection of disparate systems that are currently in place. I'd say so far we're seeing our competitors just have a different model altogether than we do.

Paul Treiber

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

Operator

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

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**Nick Agostino** — Laurentian Bank Securities

Yes. Good morning. I guess two questions on my part. First, given the fact that your channel partners are getting more involved in the professional services side in 2017, how should we be looking at, how should we be modelling the seasonality around the professional services revenues?

Richard Monkman

Good question, Nick. The—with regards to seasonality, it varies a little bit. I can only comment on a historic basis, but you'll see sometimes, as I mentioned earlier just because of the—sometimes there's closure (phon) last two weeks a little lighter in Q4; sometimes you still have that effect in Q3.

I think the message, though, that we want to leave with you, though, is the very strong subscription revenue growth and that increasing percentage. So that's a trend that we are absolutely working to continue. And so that our goal would be in the out-years to continue to accelerate subscription at a higher rate because we don't want to scale our professional services organization to the point whereby it's commensurate with our revenue—subscription revenue growth; we want really the partners to do that.

We believe that ultimately there's going to be a point of inflection that it's going to be really best serviced through the partner community. And so our focus is that long-term, sustainable, quarter-after-quarter increase in subscription revenue growth.

Nick Agostino

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Okay. And then secondly, you talked earlier about some of the sector contributions, CPG and automotive, but in your MD&A you guys call out financial services, and I think you've done that for the last two quarters. I can't recall seeing any win or hearing much about that sector. Can you maybe talk about how you guys are going into that market? Is it something you're penetrating on a direct basis? Is it through a channel partner? And maybe sort of how you guys see your role within that market? And I'll leave it at that. Thanks.

Richard Monkman

Well, our focus really is is, I mean, while it's one product that supports multiple verticals, Nick, our focus and really where at least on a trailing basis the growth has been is with regards to on the high-tech and life sciences. And I will—that trend continues and the high-tech is still sort of just under 40 percent of our revenue and life sciences just under 30 percent.

The other sectors are growing. We absolutely have applications that support other verticals. But as John mentioned, our focus right now is to really hone in on the six core verticals that we've outlined.

Nick Agostino

Okay. Great. Thank you.

Operator

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

Paul Steep — Scotia Capital

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Thanks. John, could you talk a little bit, at the Investor Day I think you alluded to at the end the notion that you'd like to see RapidResponse sort of utilize a force.com model and build out the products. Could you talk about the position of the platform to more broadly expand the addressable markets? And maybe where you're at in terms of getting some of these packaged solutions you alluded in your comments to IoT and machine learning? Thanks.

John Sicard

Absolutely. So one thing that is I would call it a competitive weapon that we use is that we have exactly one product; one thing gets compiled about 200 times a day at Kinaxis. And that singular product is being leveraged in automotive; aerospace and defence; life sciences; industrial equipment; CPG, all of these various verticals their supply chains are distinctly different. These are completely different verticals with distinctly different supply chains.

We're able to satisfy the planning requirements across all these verticals because already RapidResponse is what I call mass run time configurable. There's zero custom coding that occurs in the field; there are no programmers, if you will, in professional services that are out programming unique solutions for a Samsung or other customers that we may have.

And so we've always had this kind of platform approach to building RapidResponse because we know when we enter a brand-new vertical like CPG we cannot enter that vertical with a brand-new product; it has to be leveraged with the existing product. It's a fundamental construct, if you will, of our R&D shop.

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And so when we look at building out new verticals or building out new applications altogether, if we attempted to do it organically it would take longer than if we would ignite a partner ecosystem to build on our behalf. And that was the commentary I was making around force.com. Now I wasn't at Salesforce when they were making these decisions, but if it were me anyway I would be imagining that I wouldn't necessarily want to pick the adjacent spaces that we would fit in or pick the adjacent verticals, whether it's oil and gas; or specialty chemical; or food and beverage; or cut and sew; or forestry. I mean there's so many different verticals.

So we are I'll call it perpetually innovating in the area of platform for RapidResponse and building for configurability from the ground up as opposed to building customized solutions.

As it relates to IoT, it's definitely a very interesting and I'd say it's front-of-mind opportunity for us. We have a working model in place today where RapidResponse is reading sensor information from our customer's customer, and using that information to plan at a rate they could never do before. I mean we're basically reading the depletion of inventory in real-time using IoT.

It's a very practical and very powerful use of IoT. And when I talk about things like this I always talk about them in terms of Earth Time as opposed to scientific interest. These are absolutely practical and functional, and they fit perfectly in the notion of concurrent planning; the notion of collapsing all latency in decision-making and information flow. So we're hyper-excited about that.

On the machine learning front, we have several customers that have expressed interest in, again, very practical built-in Earth-Time uses for machine learning and using RapidResponse. One of

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the things that's, again, very unique about our product is there's no—it doesn't run in batch mode. It's a continuously thinking engine. It works like a brain. It's constantly recomputing and rebalancing supply and demand end-to-end, and it also doesn't forget things.

So the notion that we could go back in time and measure trends as supply chains are actually executing is a big leverage point for machine learning. Think of it as measuring as-designed versus as-demonstrated. These are very core and germane to what our customers are looking for us to achieve.

Paul Steep

Great. And just one little follow-up for Richard. Richard, could you talk about what assumption would require you—like right now based on the guidance of 24 to 27, that would to me imply that the major investments from '16 were done for the partner organization and Knowledge Services. What do you think the board would need to see to further accelerate and use some of the cash you're building on the balance sheet to push even harder into building a growth platform? Thank you.

Richard Monkman

Well, Paul, first the board and management are aligned with regards to appropriate investment. And by appropriate it means we take a number of initiatives; we apply rigour; we track them closely; we are not shy. So I will say that that 24 to 26 percent EBITDA guidance is based upon this very meaningful, sustained, and in fact increasing level of investment in sales and marketing and in product because John talked about some of the unique characteristics of the product.

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We're going to continue to leverage those. So we've got open communication with the board. They understand and support the investment plan. If there are some additional, unique opportunities to invest, that's something obviously we'd review with the board and we would reflect in forward guidance.

But right now, based upon a combination of that 80 percent-plus forward visibility of revenue, the level of investment that we have, we're very, very confident expressing these guidance ranges.

Paul Steep

Great. Thank you.

Operator

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

Gus Papageorgiou — Macquarie

Thanks. Richard, question for you and then, John, one for you as well. Just on the taxes again, you seem to have—there seems to be a spike in Q4 in the tax rate. Would you expect a similar trend for next year? And then, John, just on the addition of Bain it would seem to me that Bain has the potential of being a much more productive partner—or a more productive partner than your existing channel partners, simply because they're more of a strategic consultant, so when you have a problem you call in Bain.

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And so I think the path of least resistance for RapidResponse is to find companies that have supply chain problems, and that's usually when it's just easier to adapt. So I'm wondering what's your perspective on that? Do you think Bain can bring in customers at a faster rate than what you saw with Accenture or Deloitte? Thanks.

John Sicard

Thanks, Gus. Bain is—first I would say it's a relatively fresh relationship and we're getting to know each other quite well here, but it is a fresh relationship. And you're right. The interactions we'll have with Bain are distinctly different than we would have with the larger SI partners that we have.

Their point of view is to leverage RapidResponse with their customers to understand current-stake risk of their customers and future-stake potential by modernizing and adapting the notions of concurrency in their planning practices.

It is I would say too early to tell. We're obviously very excited to be working with Bain. They're exceptional—they have an exceptional intellect in this area, and as you've noted, when you have a problem you call Bain is very true.

So we're excited with the opportunity, but I would say it's a little early to tell whether they will yield faster success, if you will, than we have with our existing partner ecosystem.

Richard Monkman

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And with regards to the income tax rate, as I mentioned earlier, stock comp is nondeductible so that really quarter over quarter it depends upon the ratio of, first, the profit before—and again, we take things as a period expense—and then its ratio of the stock comp, as well as the FX.

And so they will vary quarter to quarter. So I don't think you should read into too many things to that. Last year there was—as noted in the MD&A—a large increase just because of the inclusion of the cash and the financial resources and the performance of the Canadian dollar.

Gus Papageorgiou

So you're—okay. So just because we've seen spikes in Q4 in the last three years—

Richard Monkman

Yeah.

Gus Papageorgiou

—we shouldn't necessarily look for that in 2017?

Richard Monkman

Well, again, we don't provide guidance. I mean mechanically what's happening is in Q4 what we've seen is a very strong performance in sales and marketing. And so what's happening is you've got that increase in relative expense, but then you're running on stock comp.

And so stock comp as a percentage of—the stock comp expenses as a percentage of the net income is higher, and so mathematically that's going to lead to higher tax rates. So if you were to

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assume that in Q4 of '17 we again had very, very strong sales performance and so, therefore, a higher sales expense, mechanically, yes, you're going to have that higher tax rate.

Gus Papageorgiou

Okay. Great. Thanks for answering my questions.

John Sicard

Thanks, Gus.

Operator

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

Deepak Kaushal — GMP Securities

Hi. Good morning, guys. Thanks for fitting me in here. I just have one follow-up question, if I may. You talked about the land and grab—land-and-expand model. It sounds like you're landing a lot more. How has the pace of expansion changed over the last couple years? And has there been an influence from the systems integrators on your ability to, say, double your revenue with your customers—existing customers faster?

Richard Monkman

Yeah. So what's nice is you've seen the strong performance; I mean just quarter over quarter a 34 percent subscription revenue growth increase in the same quarter. Absolutely, the land-expand is growing, both are growing, and so dollar-wise both are increasing.

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But, Deepak, what we're seeing is and what we've now communicated is just with the nature of those very large lands, if you will, the ratio is moving from the sort of 60–40 model we had. Just by the way, we started the IPO at 50–50. We moved to 60–40. We're now saying 65–35. So yes, there's momentum with regards. It's going to vary quarter over quarter.

We had—we announced in Q3 that the sales expense was high not only due to the win of a very large new-name customer, but also because of the expansion of—a very large expansion from existing customer. Partners, again, are really focused more on new-name customers. I mean that's what excites them and that's where the joint focus is.

But absolutely you're going to see both the land and the expand our expectation is increasing, but I think we're quite comfortable this trend of a higher content coming from new-name customers is going to continue.

Deepak Kaushal

Okay. Thank you. But just to be precise, more specifically once you've won a new customer and they've had the—been using your products for a year, what's your pace of expansion with that customer? Are you maintaining a steady pace? Or are you looking to accelerate the pace of expansion with your customers? I know you like to control the returns through your customers and the pace of adoption. Any comments you can give on that front would be helpful. Thanks.

Richard Monkman

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Sure. It varies. It varies from account to account. I think what you—when you were mentioning in passing sort of the doubling of new customers, what we have shared is we call it sort of the cohort analysis whereby if we were to, say, take a look at the book of business that we're successful of securing from customers in 2012 and looked at them as an aggregate in 2015, that three years we've had this ability often to double the revenue. But that varies when you look at the individual customers within that cohort.

We are absolutely working continually with our customers. We want to help them not only realize the value, but to see that growth.

But we have a number of very sophisticated customers that at the point of assigning an arrangement will lock in already a growth. So as you know, we have a number of growth vectors, whether it's additional seats or users; additional sites; additional applications; it could be additional business lines or geographies. So some customers what they'll do, for instance, is they'll say, listen, we're going to launch this in these two business units over this period of time, and so they secure more favourable terms because of the buy volume and have already baked in growth.

Other customers are saying, listen, this is so revolutionary we want to really try it with one business unit, we want to have price protection to expand, and so then they'll do that at a different pace.

So these arrangements it's like humans: they vary from customer to customer.

Deepak Kaushal

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Oh, thank you. That's very helpful. I appreciate the colour. I will pass the line.

Operator

Your next question comes from Kevin Krishnaratne of Paradigm. Your line is open.

Kevin Krishnaratne — Paradigm

Hi. Good morning.

Richard Monkman

Good morning.

Kevin Krishnaratne

A follow-up question just on the Accenture win; are you able to comment on the revenue profile of that win? How does that compare to sort of your average ARPU from customers, I think, sitting around \$1 million range? Are you able to comment on that?

Richard Monkman

I'm sorry. Could you repeat that part again?

Kevin Krishnaratne

Sure. Are you just able to comment on the revenue profile that you're generating out of that big Accenture life sciences win in Q4? And just how does it compare to the average customer revenue?

Richard Monkman

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So we have a wide variance of customer arrangements. I mean we can sign a customer, say, for 400,000 or 500,000 a year; we could sign a customer at the \$4 million mark per year. We don't comment on individual agreements.

Typically partners at the strategic level are involved in larger types of transactions. I mean that's really often what they're doing is they're looking to support their brand owner in transforming their supply chain. So it just naturally aligns with a larger initial footprint, plus obviously growth opportunities thereafter.

So I'll just—I don't mean to ignore the question, but we're not in a position to answer it specifically. But I'll just say it was consistent with some of the other significant wins that we've been able to find in the life sciences. In fact, that's why we're so excited about the growth rate in life sciences, that we see other opportunities both direct as well as with partners.

Kevin Krishnaratne

Okay. Got it. I appreciate that. Maybe another quick question; can you comment on the revenue profile and maybe just the types or number of applications that you're seeing new customers taking on today versus say a year ago? And I guess what I'm getting at is an understanding of how as supply chains are getting more complex and the notion of concurrency, are you seeing more comfort in customers starting at a higher price point today than in the prior years? And then a follow-up to that, any acceleration in existing customers renewing quicker versus prior years as they see how important and how strategically important the supply chain planning is?

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**Richard Monkman**

So first let me from a reported perspective, you'll note that part of our diversity is such that the top 10 customers seem to be consistently in the sort of mid-40 percent range. So as we're growing revenue at these strong rates, the top 10 customers—now this is total revenue, so this also includes, depending upon where they are in the deployment cycle, so it could be a combination of deployment revenue and subscription revenue—but you're seeing that move in step with the growth of the overall business. So that would suggest that absolutely we're seeing more and more revenue generated from customers.

With regards to renewing quicker, we establish long-term relationships with customers. And so it's generally common the subscription agreement's two to five years. And so there's not—it's not set up necessarily to renew early, but absolutely to expand happens all the time. So this land- expand is there but customers—I think it gives us greater confidence of our continuing stickiness, but there's nothing that—it occasionally happens, but the dynamic is such that they're looking to expand as they see the return on their investment and to radiate throughout the organization.

John Sicard

Yeah. I might add to what Richard just stated there. In terms of the more common areas that we'll enter a project with, it's still traditionally been in the S&OP space. Concurrency—end-to-end concurrency starts at S&OP and goes all the way down through even subcontracting and raw material and subcontractors and the like. But the demand volatility and what our customers would

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call revenue at risk, orders at risk, on-time/in-full, those types of metrics that our customers are looking for is traditionally where we start.

And when you're starting a dramatically breakthrough approach to supply chain, we'll often guide our customers not to boil the ocean. Don't attempt a full out let's do everything at once because this is a dramatic improvement, if you will, to how they'll manage the supply chain.

So that land-and-expand model is somewhat baked into how the transformations, if you will, happen. But I would say still today the entry point is typically on the demand side, whether it's demand management, demand planning, or sales and operations planning.

Kevin Krishnaratne

Thanks. Maybe just one final follow-up there on customer concentration; just are you able to comment on the one customer that makes up 12 percent of your revenue just where are you in that contract? And kind of what's your comfort on that particular customer?

Richard Monkman

We have a great relationship with this customer; an expanding relationship with this customer. They are very innovative. We're just excited, as we are with our other accounts, to work with them.

Kevin Krishnaratne

Okay. Thanks very much.

Richard Monkman

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We feel very good about that relationship. All right.

Kevin Krishnaratne

Thank you.

Operator

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

Daniel Chan — TD Securities

Oh, hi. Thanks. Richard, does your revenue guidance include what you expect from channel partners as well? Or is that all what you see in your direct pipeline?

Richard Monkman

No. This is the consolidated revenue guidance, so this is absolutely it's firing on all cylinders revenue.

Daniel Chan

Okay. And then on the AMD win, as you get integrated with more of the semiconductor industry does the incremental cost of deployments decrease since you're already integrated with many of the major fabs? And if so, does this dynamic apply to any other verticals?

Richard Monkman

I'm going to start, and then I'm going to turn it over to John. But again, Dan, I think you appreciate whether it's whichever vertical, RapidResponse is RapidResponse. We are data-agnostic, we support supply chain and other analytics, and so—and quite frankly, one customer in a different

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vertical may have—sorry, two customers in the same vertical may have different needs, different challenges in their supply chains that they’re utilizing RapidResponse to change.

We certainly have history and knowledge and can bring best practices to help drive time to value. And so yes, there’s a learning curve, but that’s quite frankly throughout the verticals.

But it’s not—we don’t have RapidResponse for semiconductors. It’s a very common—we believe that’s what a SaaS company needs to be is zero customization: highly configurable with zero customization.

John Sicard

And I’ll just to expand on what Richard said—and we may have mentioned this on previous calls or during the Investment (sic) [Investor] Day—but we innovate into new verticals typically with a bellwether account. And what we have learned is while the notions of volatility and supply or demand tend to be uniform and ubiquitous, the lexicon might be a little different.

For example, the automotive industry have what they call variant strings; they don’t have a bill of material, per se. Life sciences will talk about APIs, and those are not programming interfaces; they’re active ingredients.

So as we enter new verticals like semiconductor space, we end up with a team that is stronger, if you will, in that lexicon and the unique business challenges of that particular vertical. So for us as an example, as I mentioned CPG being the sixth formal vertical; it’s being built through innovative work we’re doing with the bellwether account, and that gives us both experience in that

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field, experience in the lexicon, and confidence that we understand in great detail what the business challenges are in that vertical.

Daniel Chan

Great. Thank you.

Operator

Your final question comes from Blair Abernethy of Industrial Alliance Securities. Your line is open.

Blair Abernethy — Industrial Alliance Securities

Hi. Thanks, guys. Just a quick question on the capital side. So, Richard, what are you looking at in terms of data centre investments in 2017 and beyond? Are you building within your footprint? Or if you think it's going to be more geographies?

Richard Monkman

It's a little bit of both, Blair. So we are—we're very excited with our recent accomplishments in Europe and are committed to those customers. And so our expectation is later this year we will establish a data centre in Europe.

We are definitely going to be continuing to expand our data centres. We anticipate at this juncture that CapEx will be in the 10 million to \$12 million range for the year. And that is reflective of the investment not only on the customer side, but also with regards to some of the innovative R&D investments that we're making.

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But that's our expectation is absolutely to build so that we can continue to support that growth in not only this year, but in the out-years.

Blair Abernethy

Okay. Great. And then on the product side, just to hone in on the M&A front. Are you putting more effort—would you see yourselves putting more effort into that in 2017 than in prior years? Or I was just wondering how active is your M&A program?

Richard Monkman

So first and foremost—and I'm sorry if it's highly repetitive—but it's growth; solid bottom-line performance; strong cash generation on a consistent basis. So we look at different ways to accomplish that. So it's a combination of securing business with new customers; expanding with customers; looking to move into new verticals; building the strength of our R&D products. So absolutely, M&A could—I'm saying could—have a contribution to that.

However, in our mind, M&A would need to be really accelerating our product capabilities—we're not a consolidator—and so it's going to support higher organic growth. And so we are presented with a number of opportunities of various sizes, but when you look at them there's companies that we really—we don't see a SaaS-ifiable in that what they're doing is they themselves may have been a product of roll-up. They may have separate verticals, different R&D teams, and in some cases already experienced some challenges, and so are not a good fit for us.

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We look from primarily on an analytic something that we could bolt on to RapidResponse. As we've talked about, it's one product across the different verticals so the analytics vary. So it has to be—it's a unique candidate in that it has those core analytics; that they are scalable. We see some products out in the marketplace that are very interesting, but really more on an SMB level; that they cannot really scale to situations where it's billions of records, constant refresh.

So we're going to continue to keep our minds open. We absolutely have the cash and the resources to do it. We have the team that's knowledgeable with regards to due diligence but, Blair, we just haven't identified that area.

So what we're doing is we're going to continue to focus on innovation directly and with our customers, and if a candidate presents itself that meets the appropriate criteria, then we'll execute.

John Sicard

And just to expand on what Richard said, we do have a very rigorous process in place. As Richard said, the doorbell rings and we have a very vigorous process with gates, but we know part of that process is to make sure we don't, as I call it, poison the soup.

We're building a very, very robust business, and as Richard said, we're not consolidators. We're looking for things that'll be accretive in terms of expanding organic growth first. And so we'll continue that process for sure. We'll continue to look at opportunities as they present themselves, and run them through that rigorous process.

Blair Abernethy

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That's great. Thanks, guys. Appreciate the colour.

Richard Monkman

Okay.

John Sicard

Thanks, Blair.

Operator

This concludes our question-and-answer session. I now return the call to Mr. Sicard.

John Sicard

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

We look forward to speaking to you again in May when we report on our Q1 2017 results.

Bye.

Operator

And this concludes today's conference call. You may now disconnect.

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