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FINAL TRANSCRIPT

Kinaxis Inc.

Fiscal 2018 First Quarter Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Incorporated Fiscal 2018 First 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.

I'd like to remind everyone that this call is being recorded today, Thursday, May 3, 2018.

I will now turn the call over to Rick Wadsworth, Vice President of Investor Relations at Kinaxis Incorporated.

Please go ahead, Mr. Wadsworth.

Rick Wadsworth — Vice President of Investor Relations, Kinaxis Inc.

Thanks, Operator. Good morning, and welcome to the Kinaxis earnings call. Today we will be discussing our results that we issued after the market close last night.

With me on the call are John Sicard, our President and Chief Executive Officer, and Richard Monkman, our Chief Financial Officer.

Before we get started, I want to emphasize that some of the information discussed on this call is based on information as of today, May 3, 2018, and contains forward-looking statements that involve risk and uncertainty. Actual results may differ materially from those set forth in such statements.

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For a discussion of these risks and uncertainties, you should review the forward-looking statements disclosure in the earnings press release, as well as in Kinaxis' SEDAR filings.

During this call, we will discuss IFRS and non-IFRS financial measures. A reconciliation between the two is available in our earnings press release, in our MD&A, both of which can be found in the Investor Relations section of our website, kinaxis.com, and on SEDAR.

Participants are advised that the webcast is live and is also being recorded for playback purposes. An archive of the webcast will be made available on the Investor Relations section of our website. Neither this call, nor the webcast archive may be rerecorded or otherwise reproduced or distributed without prior written permission from Kinaxis.

To begin our call, John will discuss the highlights of our first quarter and our recent developments, followed by Richard, who will review our financials for the quarter. Finally, John will make some closing statements before opening up the line for questions.

I'll now turn the call over to John.

John Sicard — President and Chief Executive Officer, Kinaxis Inc.

Good morning, and thank you for joining us today. Q1 represented another quarter of strong execution by Kinaxis, as we grew subscription services revenue by 24 percent and delivered EBITDA of 26 percent of revenue prior to the adoption of new accounting standards, which Richard will talk through momentarily.

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Under these new standards, our total subscription revenue was 30.5 million and adjusted EBITDA was 12.5 million, or 34 percent of revenue.

Since our last call, we have continued to show great progress in traditional markets like the high tech and electronics vertical with our win at Power Integrations. As a leading innovator in the development and production of semiconductor technologies, Power Integrations selected RapidResponse and its unique ability to provide end-to-end supply chain visibility. They recognized the need to manage their supply chain from a global perspective on a unified platform through tight integration and alignment of all the planning functions.

Even more encouraging than this success is our progress in markets that we have been targeting most recently. As we indicated on our last investor call, early in the first quarter we added another automotive leader to our growing list of marquee brands that includes Toyota, Nissan, Ford, and others. We are very pleased that our momentum in this market has continued, and hope to be able to name our new customer soon.

Recently, we also announced more headway in the consumer packaged goods space with Pulmuone, South Korea's largest fresh food company and the world's leading tofu manufacturer. Pulmuone is particular sensitive to product freshness, and the packaged foods business overall is very sensitive to rapid changes in consumer preferences. So creating a nimble supply chain that has end-to-end visibility and responsive real-time management capabilities is key to their success. We look forward to working together with this exciting new customer.

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As we mentioned last call, we are addressing the increasing opportunities in Europe through significant expansion in the region. I am pleased to say that we have already completed our planned hiring for the European sales team, and we are well positioned to take advantage of the momentum and the opportunities in that geography.

Our success in this fertile region continues with yet another win in the pharmaceutical group based in Europe, and hope to be in a position to announce them publicly soon.

Europe is not only our focus for growth. Recently, we announced firm plans to launch two new data centres in Japan, one in Osaka and another in Tokyo, to support our growing base of business there. We've begun operations, and I expect they will be fully operational in the third quarter.

These data centres will help us support large-scale customers in Japan, including Toyota, Nissan, ASICS, Santen, and Olympus.

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

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.

Readers will notice additional disclosures and commentary in our Q1 financial statements and MD&A. This is due to the adoption of new IFRS standards effective January 2018. Many companies are reporting under these new standards for the first time.

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The relevant new standards for Kinaxis are, first, IFRS 15, which provides new guidance regarding the timing of revenue, treatment of customer acquisition costs, and disclosure of contract backlog; second, IFRS 16, which deals with leases.

Our business model, focused on long-term subscription arrangements and cash generation, remains unchanged. While these standards must be applied retroactively, which in Kinaxis' case increased prior-period earnings and our opening retained earnings by 23.8 million after tax, we are not restating those prior periods. We are, however, providing a framework to explain the changes, as well as provide additional disclosures to help readers better understand our progress on an apples-to-apples basis. Detailed analysis is provided in the financial statements and the MD&A.

Let me take a few minutes to highlight some of the key changes. First, regarding the timing of revenue. While the vast majority of our subscription arrangements are on-demand or cloud-based, we do support some customers through on-premise or customer-hosted subscription arrangements. Under IFRS 15, we are continuing to ratably recognize the subscription revenue for cloud arrangements over the full term of the agreement. We are also not changing the revenue reporting for professional services or the legacy maintenance and support services.

However, for the on-premise subscription arrangements, IFRS requires us to look beyond the subscription payment terms, which are generally annual prepayment, and allocate the total revenue stream to two elements.

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The first element is related to the right to use RapidResponse over the subscription contract term. This is now recognized as one amount on the first month of a subscription term arrangement. This is recognized as subscription term licence. The remainder of the revenue is attributable to maintenance and support and is recognized over the entire contract term.

For example, if we signed or renewed an on-premise agreement in 2016 for a three-year term, we have retroactively recognized the subscription term licence revenue for the full three-year term in 2016 now reflected in our opening retained earnings. And would continue to ratably recognize the remainder attributed to ongoing maintenance and support and subscription services revenue until the end of the term.

The total accelerated recognition for this on-premise software component was just under 21 million as at January 1, 2018. In Q1 of 2018, we recognized 4.5 million of subscription term licence related to ongoing premise agreements renewing in Q1.

Another change under IFRS 15 is that we are now required to capitalize customer acquisition cost and amortize them, in our case, generally over a six-year period. Prior to adopting IFRS 15, we fully expensed customer acquisition costs upon the commencement of the related contract arrangement.

The new IFRS treatment of customer acquisition costs resulted in Kinaxis capitalizing 11.5 million of cost that we had previously expensed in prior periods. As these costs relate to customers

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acquired prior to 2018, the weighted average remaining life of these costs is approximately three and one-third years.

As we have not restated 2017's results for IFRS 15 and 16, which going forward I'm going to call the Standards, I'm going to reference the supplemental IFRS Standard information when discussing comparative performance. Prior to IFRS Standards, total revenue in the first quarter increased 10 percent to 35.9 million. This total is driven predominantly by our strong base of subscription revenue, which increased 24 percent to 29.5 million due to contracts secured with new customers, as well as the expansion of existing customer subscriptions.

Under IFRS 15, total revenue was 36.9 million and total subscription revenue, including both subscription services and subscription term licences, was 30.5 million.

As we've discussed on previous calls, our partners continue to assume a greater role in customer deployment activity. Professional services revenue will also vary quarter to quarter due to the size, timing, and scheduling of customer engagements.

Consequently, professional services revenue declined by 28 percent to 6.1 million from the same period in 2017. Prior to adoption of IFRS Standards, gross profit grew 16 percent to 25.7 million and gross profit margin grew to 72 percent from 68 percent. This performance reflects the higher growth rate of revenue relative to related cost of that revenue.

Under the IFRS Standards, gross profit for the first quarter of 2018 was 26.7 million, or 72 percent of revenue. Prior to the adoption of IFRS Standards, profit for the first quarter of 2018 was

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3.2 million, or $0.13 per basic share and $0.12 per diluted share, which is approximately equivalent to the same period in 2017.

Profit was also in line with 2017, primarily given our investments in headcount and business expansion. Under IFRS Standards, profit was 4.6 million, or $0.18 per basic share and $0.17 per diluted share.

Prior to the effect of the IFRS Standards, adjusted EBITDA for the first quarter of 2018 grew 8 percent to 9.2 million, or 26 percent of revenue. The increased depreciation primarily attributed to our increased data centre investments and higher stock-based compensation resulted in this higher adjusted EBITDA performance. Under IFRS Standards, adjusted EBITDA was 12.5 million, or 34 percent of revenue.

Demonstrating the ongoing robustness of our business model, cash generated by operating activities was 10.5 million for the first quarter, up 3 percent over the prior period.

We also adopted IFRS 16 effective January 1, 2018, which specifies how to recognize, measure, present, and disclose leases. As a result, Kinaxis has recognized an asset with corresponding short- and long-term liabilities relating to our major leases.

On January 1, 2018, we recognized 10.8 million in right-of-use assets and corresponding lease obligations for outstanding leases, primarily related to our office premises and data centre facilities with terms greater than one year. At March 31, 2018, the balance of right-of-use assets was

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11.9 million net of additions and accumulated depreciation. The balance of the related lease obligations net of deemed finance costs was 11.8 million, of which $2.6 million is a current liability.

The assets and liabilities increased compared to January 1st due to the additional data centre leases entered into during the quarter.

The nature of our long-term contracts provides us with a high level of visibility into future contracted subscription revenue. Effective this quarter, we are disclosing the minimum contract commitments.

As at March 31, 2018, the total backlog of subscription service commitments was 192.6 million. Seventy-point-two million of this commitment will be recognized in the remaining three quarters of 2018, with 71.5 million in fiscal 2019 and the remaining 50.9 million for fiscal 2020 and thereafter.

This backlog, together with a strong pipeline of new and customer expansion opportunities, supports our ability to provide full year guidance. We are reaffirming the pre-Standards 2018 guidance we provided approximately two months ago.

That is, we expect annual revenue for fiscal 2018 to be in the range of 158 million and 163 million. We expect subscription revenue will continue to be the key growth driver, and we expect it to grow between 23 and 26 percent compared to 2017.

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We still expect the sales and marketing expense will be in the range of 24 to 27 percent of revenue, and that research and development expense will be in the range of 17 to 19 percent of revenue.

We still expect adjusted EBITDA as a percentage of total revenue to be in the range of 23 to 26 percent for 2018.

We are now also providing guidance reflecting the adoption of the IFRS Standards. As previously discussed and disclosed, the adoption of the IFRS Standards results in fully recognizing the subscription term licence component of on-premise arrangements for the full term upon the commencement of the arrangement. This, as I noted earlier, was nearly 21 million now retroactively recognized.

The amount of the recognition of subscription term licence in any period will fluctuate depending upon the number of arrangements, their size, and the length of the term of any renewal or new arrangement.

Regarding customer acquisition costs, we will be including the amortization of 11.5 million capitalized from prior periods. We will also no longer be fully expensing additional customer acquisition costs in 2018, but rather capitalizing these and then commencing amortization.

We have considered the timing of this revenue recognition and amortization in our post-IFRS Standard guidance. With the adoption of the IFRS Standards, we expect total revenue for fiscal 2018 to be in the range of 150 million and 154 million, with subscription services revenue to be in the

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range of 109 million and 111 million, and subscription term licence revenue to be between 7 million and 8 million for the year.

We further expect that approximately one-half of the remaining subscription term licence revenue for fiscal 2018 will be recognized in the second quarter.

Following adoption of the IFRS Standards, we expect sales and marketing expense will be in the range of 24 to 27 percent of revenue, and that net research and development expense will be in the range of 19 and 21 percent of revenue. We expect annual adjusted EBITDA to be in the range of 24 to 27 percent of revenue for 2018.

And with that, I turn the call back over to John.

John Sicard

Thanks, Richard. With all the accounting changes this quarter, it would be easy to miss the fact that our underlying business hasn't changed one bit. And that is perfectly reflected in our reaffirmation of the projected revenue and EBITDA guidance.

We sell RapidResponse on a subscription basis to the who's who of customers across six major market verticals, many of which we have only begun to penetrate. We are a high-growth SaaS company with all the predictability to our business that such a model entails.

We also distinguish ourselves amongst SaaS companies by being highly profitable and generating substantial cash quarter to quarter.

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To continue to win some important new customers most notably in our emerging markets, adding to marquee brands in the automotive sector and adding depth to our customer base in consumer packaged goods, life sciences, and high tech remaining very strong for us.

In fact, overall, I'm very pleased with the diversification of our revenue across all of our market segments.

We continue to execute on an investment strategy that will help the Company scale to the next level, and we are making excellent progress.

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, we will now conduct a question-and-answer session. If you would like to ask a question at this time, simply press *, followed by the number 1 on your telephone keypad.

Your first question today comes from the line of Richard Tse with National Bank Financial. Please go ahead.

Richard Tse — National Bank Financial

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Thank you. You guys have made a bunch of operational changes over the past few quarters. And it certainly seems like it's sort of helping in your pipeline. Are you pretty much where you want to be now going forward? Or should we expect some additional changes for the rest of the year here?

John Sicard

Morning, Richard, and thank you for that question. At this stage from a sales perspective, we are at plan in terms of our investment. And I can also say we in fact we're kind of ahead of plan in terms of our investment and what we intended to do, and that is certainly thanks to Paul Carreiro who came on board on the executive team late last year.

I don't anticipate any changes. At this point, we are in full execution mode and exercising the strategy that we set forth for the Company.

Richard Tse

Okay. Thanks. And then we've been hearing in the marketplace that some of your competitors are using fairly aggressive price tactics. How are you responding to that? And has it changed the way you bid on these deals in any way?

John Sicard

So yeah, of course when you can't compete with product you compete with price. And that's quite common in the market and certainly in the software market. And it isn't uncommon for a competitor to attempt to, what I call, poison the well and try to get the prices down and compete that way.

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Frankly, our customers are selecting RapidResponse because they're in pain. They're struggling with supply chain planning. And they're looking for an end-to-end concurrent planning solution which I believe can't be found anywhere else.

And so with a compromise in price comes a significant compromise in product. And it is not uncommon, frankly, for us to maintain our pricing model. As I like to say, we respect our shareholders, we respect the employees who produce the software, we know it works, and I don't anticipate it changing our model going forward.

Richard Tse

Okay. And just one last one for me; I'm not sure it's for you or Richard. But if you look at the reported numbers, let's say, on a pre-Standard basis zoning in on subscription services specifically, that was a pretty good number here this quarter; certainly a little bit better than our expectations. Why is it that you guys are not taking up your sort of pre-Standard guidance for the year in light of that?

Richard Monkman

Well, our standard is to provide just the annual guidance. I mean, we're feeling very strong. What we're dealing with, as John says, is quite unique. And sometimes deals may slip a month or two, and so what we're doing is while we're actively tracking them, our goal is to look at the longer term and closure of that deal. And so that bodes very well for the out-years. But as you can appreciate, if a deal would slip a month or two that can have some short-term impact.

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So we're very bullish on the year, but we're not changing things. And second of all, the guidance that we did provide was thoughtful and it was just within two months. So we'll continue to monitor our situations, and as appropriate, provide guidance at the end of our Q2.

Richard Tse

Okay. Great. Thank you.

Operator

Your next question comes from the line of Thanos Moschopoulos with BMO Capital Markets. Please go ahead.

Thanos Moschopoulos — BMO Capital Markets

Hi. Good morning. Richard, can you provide some guidance on the—or some colour at least on the anticipated impact that the new accounting standards might have on 2019 revenue and EBITDA? And I realize you're a ways away from providing us with 2019 guidance, but any colour as far as the potential magnitude of the impact or just the direction of the impact for 2019 would be helpful? Thanks.

Richard Monkman

Well, Thanos, thank you for that question. And we're fortunate in that with this long-term visibility and with a long history of customers and in many cases the on-premise customers, we have a very, very long legacy. And in many cases these are customers that actually we can—were existing

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prior to 2005 and we converted to a subscription, and in many cases, converted to an on-demand subscription. Our practice is just to provide that annual guidance.

And it's important to understand, as I noted in my comments in the script, is that the impact of the timing of that subscription term licence component will vary depending upon the term. So for instance, if a renewal term was just one year, the total revenue of that subscription agreement would be taken in the full year. So you would just have that increase in the initial quarter of the term, and then it would soften itself out through the rest.

If the term was three years, well then you're going to have a higher level of subscription revenue with that acceleration up front, and then the revenue lower in the out-years. So what we need to do is gain further insight into the actual length of that term.

So we're very comfortable with the—and as I noted with a very strong backlog—with the continued growth of the business. But it's not appropriate at this point in time to provide guidance beyond 2018.

Thanos Moschopoulos

Fair enough. Can you clarify how large the term licence component typically tends to be as a percentage of total contract value?

Richard Monkman

Well, again, that will vary depending upon the term. If it's a one-year term, then the maintenance and support element is typically in line with industries, which is typically sort of in the

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18 to 22 percent range. Where it becomes mathematically interesting is when you try to allocate that over a three-year term. It's not linear in the sense that you have to associate the total value, and I'm sure people on the call right now need a lot of coffee to understand some of that math.

But ultimately what's happening is it's the same subscription revenue. The customers are still doing the annual prepayment over the three years. That cash is coming in over those three years. We just need to adjust the timing of that revenue, so.

And as we noted, the vast majority of our subscription arrangements are cloud-based. And so we are going to have this element. I've quantified that we expect that to be 7 million to 8 million this year, of which 4.5 million has already been recognized.

So it's going to vary, Thanos.

Thanos Moschopoulos

And then finally as we look at your contract acquisition costs for modelling purposes, can you provide colour as to how large those tend to be as a percentage of total contract value?

Richard Monkman

Well, again, they'll vary depending upon the nature of the arrangement and whether—and to the way in which a partner is involved and the partner deals. And so we are going to be continuing to disclose the total customer acquisition costs, but again, they will vary on a number of factors.

Where I think it's best is to take a look at the guidance that we provided with regards to sales and marketing. So the continuation of our pre-IFRS Standard, we noted the 24 to 27 percent, so

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that reflects a combination of the significant ramp in our sales personnel globally and particular in Europe, as well as the expected customer acquisition cost on a traditional basis where we fully expense. The guidance that we provided post-IFRS Standards is also in the 24 to 27 percent range, but that picks up the amortization of this 11.5 million, which we had to recapitalize, as well as then don't forget it does impact going forward that we won't be taking the full expense and then amortizing that new amount.

So it is, again, a bit of a timing difference. Certainly that 11.5 is a noncash charge, but I think it's best to provide that range of sales and marketing expenses guidance.

Thanos Moschopoulos

All right. Thanks. I'll pass the line.

Operator

Your next question comes from the line of Stephanie Price with CIBC. Please go ahead.

Stephanie Price — CIBC

Good morning. Just following up on the IFRS questions, can you talk about the 34 percent IFRS margin in the quarter and the onetime adjustments that could be in there?

Richard Monkman

Sure, Stephanie. Good question. So again, with 4.5 million of subscription term licence that, as you can appreciate, essentially drops to the bottom line, drops right down to EBITDA. So that was really the key delta between the 26 percent on the prior accounting basis adjusted EBITDA

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performance and the new. So again, with the timing of subscription term licence amounts, that will vary.

Clearly, cash flow remained the same for the quarter under both methods. So just, again, because of the timing of these adjustments, you're going to see some movement in the EBITDA. So again, that's why it was very important for us to provide this framework so that we can provide the readers with that apple-to-apples basis. In this case here, we're providing 23 to 26 percent guidance for the full year on the pre-IFRS Standard for EBITDA performance.

Stephanie Price

Okay. Thanks. In terms of the expansion of the European sales team, now that it's completed can you talk a little bit about the pipeline in that region and how quickly you think the team could ramp up?

John Sicard

Sure, Stephanie. With the added sales force—some call it feet on the street—in Europe we are seeing some expansion in the pipeline in that region across all the market verticals, quite frankly.

In terms of a ramp, our sales cycles, as we've intonated in the past, still tend to be in that 9- to 18-month range. So in terms of getting closure of activity through that pipeline, that's kind of the measure that we're looking at at the moment.

But I can say that the pipeline in general in that region is extremely healthy.

Stephanie Price

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Great. Thank you very much.

John Sicard

Thank you.

Operator

Your next question today comes from the line of Robert Young with Canaccord. Please go ahead.

Robert Young — Canaccord

Hi. Good morning. Maybe one simple question for me on the IFRS changes, if you could. The difference on the top line looks like 8 million to 9 million of revenue lower under the new rules. If you can just draw a simple bridge between those two? It looks like it's mostly in their current piece. I know you've explained this ad nauseam, but if you could simplify that, that would be helpful.

Richard Monkman

Sure, Rob. No, I understand this is something new for not only the analysts, but just for our broader investor base and so more than pleased to help continue to provide insight.

So it's one that we—and the range is, as you can see, in the 7 million to 8 million total, and it is predominantly related to the timing of that subscription term licence component. And I must come back to that retroactive almost 21 million of subscription term licence that we had to put in our opening statements, which in effect really means you will not see that recorded as revenue in any of our statements because, again, it was done retroactively. So that really represents revenue that is

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related under pre-IFRS Standards which would have been recognized this year and in the next, depending upon the term, the next few years.

One thing that is important is those payments of those subscription terms will continue, and our contract models will continue to be subscription-based. And what that has resulted in—and that's why I touched on a few of the other balance sheet items—you'll see that there is an increase in what's terms unbilled receivables. So obviously to balance when you retroactively recognize that revenue, which is a payment stream coming at a future period, you need to set that up on the balance sheet. So that provides a little insight into the some of the timing differences.

So it really is just a matter of how we would have unwound that 21 million in this period and in future periods. Now that does draw down. But again, that is why we thought it was very important to provide this apples-to-apples basis so that the readers can see the continued growth in the business, the continued profitability, and the continued—well, in both cases it's that the cash is the same, so the cash generation.

Robert Young

Okay. So it's basically just the up-front recognition of the on-premise that would have been recognized in 2018 it's been pushed back to 2016, 2017. That's basically the difference.

Richard Monkman

Yeah. The prior period. Yeah. Depending upon the term.

Robert Young

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Okay. The top 10 customers, 42 percent, that's lower than previous. And so could you talk about whether that's a function of the IFRS changes? Or if that should be taken as a sign that the average contract value might be declining?

Richard Monkman

No. Actually, you should take it as a positive sign. And it's driven by two elements. First, it's driven by the number of additional marquee names that we continue to attract and grow, and so as a result we're just dealing with larger customer bases.

Second of all, with our partners taking an increased role in the deployment, the revenue from a number of our top 10 customers is really just the subscription. In the past, it would have been subscription, as well as professional services revenue, so.

And the third element is just really broader diversification. I mean, we are very excited by the growth that's happening, and again, this comes back to my first comment about marquee names in automotive, in life sciences, and continues in high-tech electronics and consumer packaged goods.

So it's really in our view reflective of the health and the diversity of our growing customer base.

Robert Young

Okay. Great. And then in the quarter the professional services revenue was lower than I expected. And so I was hoping that you could talk about the overall activity that's happening? So if you consider the activity in the channel and the activity that you have reported in your revenue under

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the professional services line, while what you've reported is down, could you talk about the amount of activity that's happening? Has that increased year over year?

Richard Monkman

Yes. Absolutely, the activity has increased. The number of certified partners continues to increase. In fact, the number of certified customers, which is great to see, where professionals at our customers are certifying themselves is growing.

Now you also have to understand that depending upon the quarter, some companies they don't finalize their budget 'til later in the first quarter. So that can have an impact. One of the key items that we do is we do an annual pulling our partners, as well as all our employees together for what we call a connect add event. So we're actually taking them out of the field. But it's very important just to keep them understanding the developments and the industry developments in RapidResponse.

So yes, absolutely it's lower, but we are very pleased to see the level of activity, the level of increased activity with our partners. And the guidance that we've provided does when you run the numbers you'll see that we do anticipate that you'll continue to see to growth in basically all areas of the business.

John Sicard

And, Rob, I'll just add to what Richard described there that we are first and foremost a SaaS company. We focus our growth on subscription revenue. And we have long stated that Kinaxis and

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their success in getting through an inflection point will be directly related to the speed at which we can light up the partner ecosystem.

And the investments we've made over the last two years in certification—and these are all online; some with very extremely difficult exams to pass—all of these investments have been targeted to preparing the partners to do exactly what they're doing. We are—the professional services performance that you're seeing is by design, quite frankly. We want partners to pick this up. And I've said this before. The worst thing we could do as a high-growth SaaS company is to stick our hands into the pockets of our partners. We won't do it. That would be short-term thinking.

And that's just not who we are. We're building a giant, and our strategies are designed around succeeding in that endeavour.

Robert Young

If I draw that back to dollars, like assuming you didn't have a channel, if you didn't have partners, would the professional services in dollar terms would that have been up year over year?

John Sicard

Yes.

Robert Young

Okay. And then one last question for me; it's just related the South Korea win. Congrats on that. Could you talk about that as new vertical? I know it's part of CPG, but it's a different flavour, pardon the pun, in the food area. Just talk about that. And then if you could talk about the Korea

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footprint? You've made some investments there. It's good to see a Korea win. And what's the future for South Korea? And I'll pass the line.

John Sicard

Sure. I've said this before. We're in business in South Korea. And we have a great team. We're really proud of what they've done. This is a South Korean win borne from the South Korean team. And so we're certainly excited that it is in the food and beverage industry.

And you're right to point that out. The CPG space is a collection of segments, white goods, et cetera. And this is the first time we've publicly announced a food and beverage type of a win. Not out first win in that segment, by the way, but certainly the first public one. And it's very exciting for us as we penetrate the consumer packaged goods segment.

And so we're going to continue to harvest there. We think it's fertile, and this is just one sign of that belief.

Robert Young

Do you think of this as expanding the total addressable market? Or is that included in the numbers you've shared in the past?

John Sicard

That's included in the numbers that we've shared in the past for the geographies that we're serving, yes.

Robert Young

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Great. Thanks.

Operator

Your next question comes from the line of Paul Treiber with RBC Capital Markets. Please go ahead.

Paul Treiber — RBC Capital Markets

Just first question just on the IFRS-15. The seasonality in term licence revenue this year, is that typical? Or would it vary depending on the year?

Richard Monkman

It does vary, depending upon the year, Paul. I mean, we have now been writing subscriptions for a dozen years. And so unlike sort of some traditional models where they're focused on that lump sum perpetual, it does go through the year. And it really depends upon the renewal cycle. I mean, traditionally we've signed contracts in the two- to five-year range; generally around the three-year mark seems to be about the natural, so. But you're going to see a little seasonality.

But what our job is going to do is as we continue to provide guidance, our plan would be that when we do introduce then that that guidance for 2019, we'll provide some insight into the timing of that subscription term licence amount.

But again, and I think you fully appreciate this, the actual underlying business is not changing. Those long-term customers they're going to continue to do the annual prepay, and the cash is going to come in along the lines that it has traditionally.

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Paul Treiber

And at this point from a business point of view, are you considering any changes to the contracts in terms of the term to better manage that revenue?

Richard Monkman

We don't really … we don't necessarily view it as a management issue in the sense that, first, the vast majority of our arrangements are on the cloud basis. In fact, a number of the customers that go way back prior to 2005 when we made this conversion first went to continue their on-premise arrangement through subscription, and then understood the value of having the full Kinaxis-hosted, if you will, environment.

And we anticipate that there are going to be other customers that will move to that. But there's also going to be some very—we have deep relationships that for a number of reasons the customer may just with to continue hosting, but they do want to drive that longer-term benefit from RapidResponse. And so we'll engage in subscription, and we'll do that.

But it really is a minority. And I think what's happening is we're, I mean as evident in Japan for instance—Japan was one of the last areas at least we support that had moved to the cloud—they're very, very comfortable. And now that we in particular have a global distribution of data centres, we can respond to local geographies, as well as provide that global support. We just don't see this as an issue.

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And so what we're first and foremost focused on is supporting, landing, growing with customers, and maintaining that long-term visibility and cash generation.

Paul Treiber

And then looking out longer term just with the decreasing mix of professional services relative to subscription and also with the increasing participation of partners, is it reasonable to assume that gross margins and EBITDA margins would expand over time? Or are there offsets that we should be aware of?

Richard Monkman

Yes. Mathematically you will see expansion. And in fact, what we have talk about in the past is sort of aspirational goals where we see an 80/20 mix: 80 percent on the subscription and 20 percent on professional services. You will have—I mean just this quarter alone we've seen expansion in gross profit.

But it also—and by the way, that expansion reflects the investments that we've made most recently in not only expanding the North America footprint, but building out the Japan footprint. And on a same-year basis, having the European data centre in. So you'll see that we still drive out very strong gross profit.

And so yes, longer term we anticipate that this will be an expansion even with that level of investment.

Paul Treiber

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And just one last one for me just on the data centre side. What's the rationale for the two data centres, the two separate data centres in Japan as opposed to a single one? It seems a little counterintuitive from an economies of scale point of view. Thanks very much.

John Sicard

Yeah. Our customers look at RapidResponse as being mission critical. And part of being a mission critical service, subscription service is a pretty significant SLA. And having two data centres, in fact, is quite common for disaster recovery. And so that is the primary purpose for it.

In some cases it can be intercontinental, but in this case it really didn't make sense. It was more economical to just choose two distinctly different cities in Japan; one as a backup. It's just that simple.

Richard Monkman

But it is a network from a global basis. So there is some very sophisticated technology, very low latency with regards. And so we are really putting multiple levels of redundancy in place.

But as John noted, that level of investment made sense to us at this time.

Paul Treiber

Okay. Thanks very much. I'll pass the line.

Operator

Your next question comes from the line of Paul Steep with Scotia Capital. Please go ahead.

Paul Steep — Scotia Capital

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Thanks. John, could you talk maybe a little bit about what you've seen on the trending around partner-influenced sales and their efforts maybe over the last couple quarters and some of the changes that Paul had been implementing on that side? Thanks.

John Sicard

Sure. Obviously the longer the program has been in existence, the more mature those relationships get. And the more competent, quite frankly, the partners get in not only deploying RapidResponse, but in selling it. And I've said this on the last earnings call, and frankly the trend is as it's always been at least for the last 12 months, the vast majority of new-name sales activities are coming through partner influence. They have privilege, which would be difficult for us to have. They have entry points into some of the largest corporations and trust, quite frankly. They have trusted relationships already in place that we wouldn't ordinarily have and so that leverage for us is extremely important and, frankly, important for the partners as well.

This notion of what we call revolutionizing the planning function and providing concurrent planning just in my opinion just isn't available anywhere else in the world. So when these large firms, large manufacturing firms are looking to transform their supply chain practice, they go to partners first in general. They go to their trusted advisors first.

And so one area of expansion that Paul has introduced, when we say he's expanded the sales function significantly, that includes the partner managers; not just adding account executives

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and presales and industry principals. The partner management layer of Kinaxis has also increased since Paul's entry to the management team.

Paul Steep

Great. And then I guess maybe the other one, it sounds like you're agnostic in terms of selling these on-premise deals. Is that the right way to think about it? And then, Richard, on the minority, like I'm assuming this is just falling off over time; that you're not proactively seeking to sell on-prem term licences? Thanks.

Richard Monkman

That's a great question, Paul. Thank you. Actually, we do have a very strong bias to focus on the cloud base. This is the best way we believe we can drive value for our customers. And so it is absolutely the first in lead; it's actually an unusual situation now, I would say, a very unusual situation where there's a discussion about on-premise, and quite frankly even when that arises it's one of education because it's not just simply the capabilities of the current planning and the unique capabilities of RapidResponse. It's the rest of the package is our ability to directly host in our data centres, monitor the performance, relieve the customer of that sort of service management, and just engage directly.

And so when it does come up, we move really into an education mode. Our sales team is very capable in this regard, and overall they just understand that it is just a better delivery platform. So it is absolutely—that's why, as we've noted multiple times, the vast majority are on the cloud basis.

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John Sicard

Yeah. And I would say, quite frankly, we have a bias for business. That's our bias. And we're revolutionizing planning. And I for one refuse to disqualify a prospect that's in need because they may have policies that restrict their data centre activities. And aerospace and defence is a perfect example. Whether you make missile systems or fighter jets, if someone is in need of concurrent planning and transforming their supply chain, we're going to serve.

So those, as Richard said, are definitely fewer and far between in our market segments. Some of these have been, again, dated pre-2005, but I would say rather than suggesting we have a bias towards one or another, we have a bias for good business and on occasion this may occur, but it's quite rare.

Richard Monkman

But the underlying business model continues to be one of subscription—

John Sicard

Yup.

Richard Monkman

—annual prepayment, long-term visibility.

John Sicard

Yeah.

Paul Steep

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Great. Thanks, guys.

Operator

Your next question comes from the line of Deepak Kaushal with GMP Securities. Please go ahead.

Deepak Kaushal — GMP Securities

Hey, guys. Good morning. Thanks for taking my questions. I've got thousands of them—none relating to accounting—but I'll ask only three. Thanks. First off, John, you mentioned earlier you won a new major automotive customer. I know you're not disclosing who that is. Could you help us understand what geographic region it's in? I know you've made some inroads in Japan; you're already in North America. How is Korea and Europe doing?

John Sicard

So I can tell you that this large automotive manufacturer is in Europe.

Deepak Kaushal

Excellent.

John Sicard

It's European. And so, again, we're obviously very excited by it. And we're hoping to be able to disclose that in the near future here.

Deepak Kaushal

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That's good to know, and I appreciate the extra colour on that. Second question, at your recent Investor Day one of your partners said that they're seeing bake-offs now reduced to one or two out of the gate, one or two bidders rather than the usual four or five. Can you say what you're seeing on a competitive front in terms of Oracle and Infor? I know Oracle recently is pushing to the cloud. Are you seeing these guys less? Is it just specifically geographic? Any kind of colour on the competitive change that you're seeing?

John Sicard

Sure. I struggle to point to any competitor other than SAP. Certainly we do encounter others, but SAP is very often the incumbent. And you're right, it's often down to a couple of us or a very small subset, which has changed over the last five-plus years.

I would tell you that often the competition is less about product and more about technique. It's about describing the benefits of inextricably connected planning processes that you get only through concurrent planning. You just flat-out don't get it any other way.

So we often compete first on technique; we don't talk about technology. We talk about the merits of this breakthrough technique. And once we get someone to say that sounds like fantasy, then you know you've generated the right amount of interest and intrigue, and all you have left to do is trust and confidence. And that gets done through let me show you. Let me show you the technology that brings about this fantastic transformation.

So that—

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Deepak Kaushal

Okay. Maybe I'll—yeah. Go ahead.

John Sicard

Go ahead. Go ahead.

Deepak Kaushal

Well, no, I wanted to push my luck and ask then, is your European automotive customer then a competitor replacement? Or are you doing it in parallel with some competitors? Or …

John Sicard

Yeah. So again, we generally don't talk about any specific customer account or competitive situation about anybody specific. I can tell you in generalities. As I said, we typically compete first on technique and then the technologies that bring about that value proposition.

In terms of whether we replace versus augment, quite honestly quite frequently it is a replacement. Whether somebody is running a competitive product or not, without concurrency we often see rampant Excel use. Excel is the glue between all these planning processes. And certainly that gets ripped and replaced with RapidResponse.

Deepak Kaushal

That's very helpful. Thank you. Then my final question, and this is my usual question every time I see you guys, you've been at "about 100 customers" for a couple years now. Any change in

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that? Or any sense of when we might be able to hear about 200 customers or at about 300 customers? Are you seeing any meaningful acceleration?

Richard Monkman

So there is meaningful acceleration. We are continuing to grow and grow profitability. We have arrangements with customers. Even an initial arrangement could be 4 million or 5 million a year, but it could also be 400,000 or 500,000. So our goal has always been to establish that relationship, to build on that relationship, and we just … we don't really see it as valuable right now noting the customer count.

What we do think of value is that long-term sustained growth; noting the 100 percent-plus net revenue retention of dollars; noting the strong consistent performance. So that's really where our message is going to remain.

Deepak Kaushal

Well, so if I can ask it a different way then. Now that more of your new wins are partner-influenced, how is the makeup of partner-influenced wins trending? Are they more trending towards new customer additions? Or expansions within existing customers?

Richard Monkman

Oh, yes. Well, it is absolutely focused more on new customer arrangements. But we also have … we have terrific relationships customers—sorry, with our partners, as well as our customers,

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and in some cases there's been a transition of existing customer ongoing deployments and expansions to our partners.

But really the partner theme has always been really two key measures. One is we want to virtually expand the Company and to drive growth, and we believe that's best through partners, so hence their focus on new-name opportunities, and then second of all to be able to execute upon those deployments and hence the expansion of certified professional partner, personnel that can manage these deployments.

So it is very much focused on new-name.

Deepak Kaushal

Excellent. Well, thank you for taking my questions. I know that the call is long, so thank you. Appreciate it.

Richard Monkman

No problem.

Operator

Your next question comes from the line of Blair Abernathy with Industrial Alliance. Please go ahead.

Blair Abernathy — Industrial Alliance

Thanks. Thanks for squeezing me in, guys. John, just expanding on the automotive vertical, can you talk a little bit about the opportunity and perhaps traction that you've been seeing in the

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supply chains of the automotives? Are your existing auto customers influencing the supply chain to maybe pick up RapidResponse?

John Sicard

Yeah. It's a great question. And I do think the—I mean, this is an opinion—that automotive supply chains are transforming right now. And from my vantage point in looking at how automotive companies have been planning supply chain, they haven't seen a transformation in a very, very, very long time.

And now that automobiles are, in my opinion again, largely computers with a motor attached and in some cases no motor attached at all, the methods used for manufacturing these machines require change. The notion of line stocking, just-in-timeline stocking of nuts and bolts and so on are quite difficult to do with electronic components. So we're definitely seeing that as a catalyst for change and transformation. And I think that if you are going to transform, you learn from the electronics sector first. I think they were first to transform and adopt, again, what I believe to be the breakthrough here of concurrent planning.

So certainly we're proud to have the names that we have in that sector. I do think to some degree that gives you some trust by association when you can win the types of names that we've described already. Companies like Nissan, Toyota, and Ford and others, that definitely points to some very world-leading manufacturers, let alone world-leading auto manufacturers for a transformative approach to supply chain.

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Blair Abernathy

Great. Thank you very much for the colour. And just one quick one for you, Richard. The deferred revenue, just 64 million versus under prior IFRS 76 million, I assume is most of that change due to the term licence amount? And can you remind us, is there any professional services revenue in that deferred revenue?

Richard Monkman

Yeah. So you are correct, Blair, that that change—and you can see how we've noted it on a comparative basis in Note 3—is driven in large measure by that retroactive recognition of revenue and consequently reduction of deferred revenue. And our deferred revenue is almost exclusively on the subscription side, yes.

Blair Abernathy

Perfect. Thank you very much, guys.

Operator

Your next question comes from the line of Suthan Sukumar with Eight Capital. Please go ahead.

Suthan Sukumar — Eight Capital

Good morning, guys. And appreciate you guys squeezing me in here. Just want to ask a question on R&D. Noticed there was an uptick in spend this quarter. Kind of broadly, can you speak

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to some of the recent progress you're making from an R&D perspective, some of the areas of focus, and the level of activity with respect to joint efforts with partners and customers?

John Sicard

Sure. I've mentioned some of the innovative investments we've made in R&D on previous calls. And we're certainly making a lot of progress on this notion of a self-healing supply chain. So rather than—folks have heard me talk about machine learning in the context of a use case rather than the academically interesting technique of machine learning. And we've made some terrific progress on that front.

There are other significant investments driving new innovations, things that we're calling Live Lens, for example, you'll hear about entering the market shortly here that we're excited about. And much of our investments are also tied to driving into new market segments.

We're obviously very excited with the uptick in consumer packaged goods. And every time you enter a new vertical like that it influences the analytics that you need to invest in inside of RapidResponse, what I call the brain function of RapidResponse. And so we continue to invest to make sure that we're able to take advantage of every opportunity in the CPG space.

Suthan Sukumar

Okay. Great. Thank you. That's quite helpful. I'll pass the line.

Operator

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And we have no further questions at this time. I would now like to turn the call back over to Mr. Wadsworth for closing remarks.

Rick Wadsworth

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

We look forward to speaking with you again in August when we report our Q2 results.

Bye-bye.

Operator

Thank you to everyone for attending today. This will conclude today's call, and you may now disconnect.

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