

EQUITY RESEARCH

March 2, 2023

Earnings Update

KINAXIS INC.

Solid Execution; Well Positioned To Continue Growth Trajectory

Our Conclusion

Despite a weaker macro environment, spending on supply chain software appears robust, with Kinaxis noting increased C-suite demand and decreased sales cycles. We view the 2023 SaaS growth guidance of 25%-27% as somewhat conservative, with 86% of the mid-point of the guide already in committed backlog. Kinaxis continues to invest in growth, including integrating the recent MPO acquisition, building out a retail offering and working with public cloud providers. We see these investments as setting Kinaxis up well for future growth, with management suggesting that 2023 should represent the trough for margins and unveiling mid-term targets of 30%+ SaaS growth and 25% adj. EBITDA margins. We continue to like Kinaxis and see it as undervalued versus peers, trading at 6.5x EV/EBITDA vs. a logistics/supply chain software provider average of 7.6x. We retain our Outperformer rating and C\$200 price target.

Key Points

Executing In A Strong Demand Environment: Kinaxis continues to see a strong demand environment, with the C-suite focused on supply chain execution post recent supply chain disruptions. Kinaxis signed both General Motors and Mazda as clients in the quarter and noted it is working with a marquee retail client to customize the RapidResponse solution for the new vertical. Post the mid-market expansion (which represented 40% of new customers in 2022) Kinaxis is beginning to expand into smaller customers using VAR and public cloud partners. We also see future upside from the expansion of the solution into supply chain execution post the MPO acquisition, with Kinaxis currently focused on linking the two solutions. Given all of these growth vectors, we view 2023 SaaS growth guidance as potentially conservative, with committed backlog in the year representing 86% of the mid-point of the guide, above the typical ~80%. Management cited the macro-environment for the change, but also noted it has yet to see any impact of the economic uncertainty.

2023 Margin Guide Below Expectations As Kinaxis Focuses On Growth:

The 2023 adj. EBITDA margin guide of 13%-15% came in below Street expectations of 16.8%. We view 2023 as an investment year as Kinaxis looks to capitalize on the demand environment, and expect the year to represent the trough of the margin profile. Post 2023, we expect KXS to benefit from recent sales and marketing and professional services investments. We also see upside from efficiencies as KXS' public cloud offering scales and partners take on more professional services.

M&A Upside: Kinaxis recently hired a head of M&A and we expect the company to continue to look at acquisitions as it builds out the platform. While Kinaxis is not a consolidator, we expect it will look for adjacent capabilities that allow it to build out the platform. We see KXS as well positioned to fund M&A, ending the quarter with \$175MM cash and no debt.

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Outperformer

KXS-TSX, Sector: Information Technology

Current Price (3/2/23): C\$166.98

Price Target (12-18 mos.): C\$200.00

CIBC Estimates and Valuation

(Dec. 31)	2021	2022	2023	2024
Revenue(mln)	250.73A	366.89A	429.74E	512.24E
Prior		369.74E	406.79E	486.24E
Adj. EBITDA(mln)	39.9A	79.4A	63.1E	81.4E
Prior		73.9E	74.9E	91.7E
Revenue(mln)	Q1	Q2	Q3	Q4
2022	98.11A	80.80A	89.50A	98.48A
Prior				101.34E
2021	57.73A	60.06A	64.44A	68.51A
Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2022	33.1A	10.4A	14.8A	21.1A
Prior				15.5E
2021	9.0A	7.1A	12.4A	11.3A
Valuation	2021	2022	2023	2024
EV/Sales	11.7x	8.0x	6.8x	5.7x
EV/EBITDA	73.5x	36.9x	46.4x	36.0x

Stock Performance and Key Indicators

Enterprise Value:	C\$3,987M	Shares O/S:	27.8M
Market Cap.:	C\$4,640M	Float:	27.3M
52-wk Range:	C\$120.03 - C\$170.21	Div. / Yield:	NIL/NIL

TSX Composite Index vs. KXS-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.361:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 5.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 6.

Kinaxis Inc. (KXS-TSX) — Outperformer

Price (3/2/23) C\$166.98 12-18 mo. Price Target C\$200.00

Sector: Information Technology

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Peer Comparison	2020	2021	2022	2023E
EV/EBITDA - Rule-Of-40 Peers	-	1.8x	-	-
EV/EBITDA - Kinaxis	-	4.1x	-	-
EV/Sales - Rule-Of-40 Peers	-	2.3x	2.1x	2.0x
EV/Sales - Peer Kinaxis	-	7.3x	5.5x	4.8x
Key Financial Metrics	2020	2021	2022	2023E
Sales Growth	17.0%	11.8%	46.3%	17.1%
Per Share Data	2020	2021	2022	2023E
CFPS	2.14	1.81	0.86	1.72
Adj. EPS Dil.	1.11	0.58	1.60	0.99
Wgt Avg # of Shares	26.6	27.2	27.6	28.0
FD Number of Shares	27.8	27.7	28.4	29.0
Income Statement	2020	2021	2022	2023E
Revenue	224	251	367	430
Cost of Goods Sold	70	87	131	163
Gross Profit	154	164	236	266
SG&A	133	162	208	244
R&D	47	57	74	83
Tot Operating Exp	133	162	208	244
OpEx (% of Revenue)	59.45%	64.63%	56.66%	56.75%
Adj. EBITDA	54	40	79	63
Adj EBITDA Margin	24.0%	15.9%	21.7%	14.7%
D&A	8	2	11	7
Net Interest Income	1	(0)	1	2
Tax Expense	8	2	11	7
Net Income	14	(1)	20	18
Net Margin	6.1%	(0.5%)	5.5%	4.1%
Cash Flow Statement	2020	2021	2022	2023E
Net CFO	59	50	25	50
Capex	(14)	(34)	(18)	(7)
Net CFI	(76)	(35)	(75)	(7)
Net CFF	17	6	27	0
Net Cash Flow	(0)	21	(24)	43
Free Cash Flow	45	16	6	43
Balance Sheet	2020	2021	2022	2023E
Cash & ST Investment	183	203	175	218
Accounts Receivable	114	119	208	244
Net PP&E	31	52	52	29
Total Assets	428	520	648	706
Deferred Revenue	94	99	133	153
Total Liabilities	147	199	247	276
Shareholders' Equity	282	321	401	430
Tot Liab & SE	428	520	648	706

Source: FactSet, Company Reports and CIBC World Markets Inc.

Company Profile

Kinaxis Inc. is a leading provider of supply chain management software, with a SaaS offering that connects to all data, provides better visibility, quicker response times and easier scenario modelling.

Investment Thesis

1) Market leading organic growth 2) Solid base business 3) Scaling into global software firm 4) Benefitting from global supply disruptions

Price Target (Base Case): C\$200.00

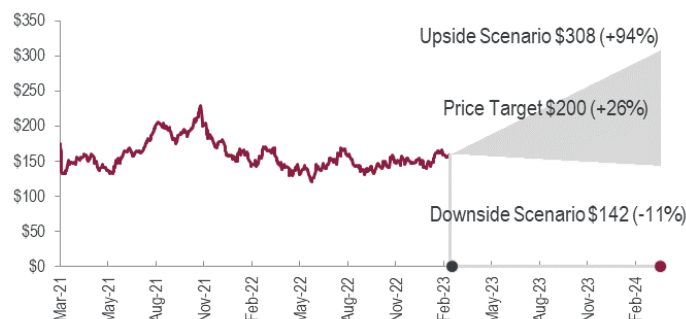
Based on 2024 revenue growth of 14% and an EV/Sales multiple of 8.5x.

Upside Scenario: C\$308.00

Based on 2024 revenue growth of 20% and an EV/Sales multiple of 12.5x.

Downside Scenario: C\$142.00

Based on 2023 revenue growth of 11% and an EV/Sales multiple of 6.0x.



Financial Summary

Q4 Results: Kinaxis reported revenue of \$98.5MM, roughly in line with consensus/CIBC (\$99.4MM/\$101.3MM), while adjusted EBITDA of \$21.18MM was well ahead of consensus and CIBC (\$13.7MM/\$15.5MM). Adjusted EBITDA margin of 21.4% was 760 bps ahead of consensus, and 610 bps above our estimate. Management noted a constant currency adjusted EBITDA margin of 22% in the quarter.

Exhibit 1: Kinaxis – Financial Summary, Q4/22

	Q4-F2022			Q4-F2021	Y/Y%	Q3-F2022	Q/Q%
	Actual	CIBC	Cons				
Consolidated							
Revenue (\$MM)	98.5	101.3	99.4	68.5	44%	89.5	10%
SaaS & Subscription	58.8	58.6	58.5	46.9	26%	54.0	9%
Subscription Term License	9.1	9.4	9.3	1.4	533%	5.8	57%
Professional Services	26.2	29.8	27.2	17.0	54%	25.6	2%
Maintenance & Support	4.4	3.6	4.1	3.2	37%	4.0	8%
EBITDA (\$MM)	21.1	15.5	13.7	11.3	87%	14.8	43%
EBITDA Margin	21.4%	15.3%	13.8%	16.5%	30%	16.5%	30%

Source: Company reports, FactSet and CIBC World Markets Inc.

Changes To Our Model: We have updated our model to reflect Q4 results and updated 2023 guidance. We have increased our revenue estimates in both 2023 and 2024 given the strong backlog. We have decreased our adjusted EBITDA estimates given the higher investment in sales.

Exhibit 2: KXS – Changes To Our Model, F2022A To F2023E

	Revenues (\$mln.)	EBITDA (\$mln.)	Adjusted EPS	CFO (\$mln.)
2022A	251	40	0.58	50
2023E				
CIBC est. – new	430	63	0.99	50
CIBC est. – prior	407	75	1.31	74
Consensus	417	71	1.44	73
2024E				
CIBC est. – new	512	81	1.27	93
CIBC est. – prior	486	92	1.54	89
Consensus	485	90	1.42	159

Source: Company reports, FactSet and CIBC World Markets Inc.

Environmental, Social and Governance (ESG) Metrics for KXS-TSX

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	3.6%	3.6%	0.3%	1%	1%
Board Gender Diversity	17.0%	29.0%	38%	38%	38%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	NO	NO	NO	NO	NO
Disclose ESG Data?	NO	NO	YES	YES	YES

Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$1.9	\$1.0	\$1.7	\$1.8	\$1.9
Diversity Targets	NO	NO	YES	YES	YES
Women Managers	33%	29%	23%	22%	29%

Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	0	0	0
Net-zero Targets?	NO	NO	NO	YES	YES

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO2e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

11.8 -6.7 Low Risk

Updated on
Oct 26, 2022

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK	PERCENTILE
	(1 st = lowest risk)	(1 st = lowest risk)
Global Universe	621/14667	5th
Software & Services INDUSTRY	17/1000	3rd
Enterprise and Infrastructure Software SUBINDUSTRY	7/419	2nd

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure	ESG Risk Management	ESG Risk Rating	Contribution to ESG Risk Rating
	Score Category	Score Category	Score Category	
Corporate Governance	9.0 High	63.8 Strong	3.3 Low	27.5%
Human Capital	7.2 Medium	57.5 Strong	3.3 Low	27.6%
Product Governance	1.9 Low	40.0 Average	1.1 Negligible	9.6%
Business Ethics	2.7 Low	55.0 Strong	1.3 Negligible	10.9%
Data Privacy and Security	7.2 Medium	75.0 Strong	2.9 Low	24.3%
Overall	28.0 Low	62.0 Strong	11.8 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	11	0	Value	214	-3
Momentum	7	-1	Momentum	172	-20
Quality	11	0	Quality	156	+1
Market	11	+1	Market	166	+2
Low Volatility	8	0	Low Volatility	150	-3
Growth	3	0	Growth	55	-1

Note: Ranking out of 14 stocks

Note: Ranking out of 235 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	-1	Momentum	D
Beta	0.87	MACD	A
Volatility	↔	Alpha (Sector)	B
Trend	↔	Alpha (Index)	C
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

We calculate Kinaxis' price target of C\$200 based on a 8.5x EV/Sales multiple on our 2024E Revenue under the current capital structure.

Key Risks To Price Target

The primary risks to our price target include the following: 1) Customer Concentration Risk; 2) Economic Conditions; 3) Ability To Scale; 4) Competition.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
Not Rated	NR	CIBC World Markets does not maintain an investment recommendation on the stock.
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Overweight	O	Sector is expected to outperform the broader market averages.
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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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Neutral	132	44%	Neutral	131	99%
Underperformer	7	2%	Underperformer	6	86%
Tender	2	1%	Tender	2	100%
Restricted	13	4%	Restricted	13	100%

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