

EQUITY RESEARCH

August 10, 2022

Earnings Update

KINAXIS INC.

Executing Amid An Uncertain Environment

Our Conclusion

Kinaxis reported a Q2 that highlighted a solid demand environment, despite macro and FX headwinds. The company is benefitting from its move to the mid-market, with management noting a record pipeline and an increase in unsolicited leads. While the slight Q2 revenue beat was driven by non-recurring professional services revenue, we view the implementation work as a leading indicator and supportive of the outlook for 25%-27% constant currency SaaS revenue growth. We retain our Outperformer rating and have increased our price target to \$190 (previously \$180).

Key Points

Professional Services Drove Revenue Strength: Professional services (PS) revenue was up 81% Y/Y. We see the PS strength as supportive of the 2022 outlook for 25%-27% constant currency SaaS growth given that PS work is typically completed (and revenue recognized) in advance of the associated software revenue. That said, PS revenue is lower margin and we continue to expect Kinaxis to train partners and offload an increasing amount of PS work onto implementation partners. Even with the elevated professional services in the quarter, Kinaxis noted that its partner ecosystem is taking on the vast majority of professional services work, and that it is able to scale PS to meet demand.

SaaS Backlog Growth Supported By Mid-market Wins: Year-over-year SaaS backlog growth of 28% slightly outpaced constant currency SaaS growth of 27%. Backlog growth in the quarter was supported by both enterprise and mid-market wins, with ~40% of new customer wins YTD coming from the mid-market. We expect that these mid-market customer wins are also helping to reduce the sales cycle, with management noting that the sales cycle has shortened from an average 18 months to 12 months. We view the mid-market as adding to the total addressable market (increasing the addressable market from ~3K prospects to ~20K), but at a lower initial price point (roughly half of an average initial enterprise sale).

Managing FX Headwinds: FX headwinds are expected to persist for the remainder of the year, with roughly a quarter of Kinaxis' revenue derived from Europe and impacted by the appreciating U.S. dollar. The company derives an additional roughly 10% of revenue from Asia, with the Japanese yen also impacted. The company introduced 2022 constant currency SaaS revenue growth guidance in Q2 to reflect the headwinds, with constant currency SaaS growth expected to be in the range of 25%-27%. In real-dollar terms, annual SaaS revenue growth guidance was 21%-23%, updated from 23%-25% prior. The margin guide of 16%-19% was maintained, despite a 2% FX headwind on adjusted EBITDA margins in Q2.

Stephanie Price, CFA
+1 416-594-7047
Stephanie.Price@cibc.com

Natalie Zhang, CFA
+1 416-581-2120
Natalie.Zhang@cibc.com

Scott Fletcher, CPA, CA
+1 416-956-3229
Scott.Fletcher@cibc.com

Javeria Gaya, CPA
+1 416-594-7261
Javeria.Gaya@cibc.com

Outperformer

KXS-TSX, Sector: Information Technology

Current Price (8/10/22): C\$166.31

Price Target (12-18 mos.): ↑ C\$190.00

Previous: C\$180.00

CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Revenue(mln)	224.19A	250.73A	361.78E	406.45E
Prior			349.01E	394.87E
Adj. EBITDA(mln)	53.8A	39.9A	65.0E	73.1E
Prior			63.9E	80.1E

Revenue(mln)	Q1	Q2	Q3	Q4
2022	98.11A	80.80A	90.20E	92.67E
Prior		79.20E	82.83E	88.87E
2021	57.73A	60.06A	64.44A	68.51A

Adj. EBITDA(mln)	Q1	Q2	Q3	Q4
2022	33.1A	10.4A	10.8E	10.7E
Prior		10.3E	10.3E	10.1E
2021	9.0A	7.1A	12.4A	11.3A

Valuation	2020	2021	2022	2023
EV/Sales	13.0x	11.6x	8.0x	7.2x
EV/EBITDA	54.1x	72.9x	44.7x	39.8x

Stock Performance and Key Indicators

Enterprise Value:	C\$3,708M	Shares O/S:	27.6M
Market Cap.:	C\$4,589M	Float:	27.0M
52-wk Range:	C\$120.03 - C\$229.10	Div. / Yield:	NIL/NIL

TSX Composite Index vs. KXS-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.276: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 (8/10/22) C\$166.31 12-18 mo. Price Target C\$190.00

Sector: Information Technology

Stephanie Price, CFA +1 416-594-7047 Stephanie.Price@cibc.com

Peer Comparison	2020	2021	2022E	2023E
EV/EBITDA - Rule-Of-40 Peers	-	0.0x	0.0x	0.0x
EV/EBITDA - Kinaxis	-	10.1x	33.1x	29.3x
EV/Sales - Rule-Of-40 Peers	-	0.0x	0.0x	0.0x
EV/Sales - Peer Kinaxis	-	44.1x	0.0x	27.4x
Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	17.0%	11.8%	44.3%	12.3%
Per Share Data	2020	2021	2022E	2023E
CFPS	2.14	1.81	2.33	2.68
Adj. EPS Dil.	1.11	0.58	1.20	1.31
Wgt Avg # of Shares	26.6	27.2	27.6	28.0
FD Number of Shares	27.8	27.7	27.9	28.0
Income Statement	2020	2021	2022E	2023E
Revenue	224	251	362	406
Cost of Goods Sold	70	87	114	114
Gross Profit	154	164	247	293
SG&A	133	162	232	260
R&D	47	57	82	89
Tot Operating Exp	133	162	232	260
OpEx (% of Revenue)	59.45%	64.63%	64.17%	64.00%
Adj. EBITDA	54	40	65	73
Adj EBITDA Margin	24.0%	15.9%	18.0%	18.0%
D&A	8	2	7	10
Net Interest Income	1	(0)	1	3
Tax Expense	8	2	7	10
Net Income	14	(1)	8	26
Net Margin	6.1%	(0.5%)	2.2%	6.3%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	59	50	65	75
Capex	(14)	(34)	(10)	(5)
Net CFI	(76)	(35)	(13)	(5)
Net CFF	17	6	8	0
Net Cash Flow	(0)	21	60	70
Free Cash Flow	45	16	55	70
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	183	203	260	330
Accounts Receivable	114	119	159	173
Net PP&E	31	52	41	17
Total Assets	428	520	619	680
Deferred Revenue	94	99	159	178
Total Liabilities	147	199	260	285
Shareholders' Equity	282	321	359	396
Tot Liab & SE	428	520	619	680

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\$190.00

Based on 2023 revenue growth of 14% and an EV/Sales multiple of 10x.

Upside Scenario: C\$290.00

Based on 2023 revenue growth of 20% and an EV/Sales multiple of 14.0x.

Downside Scenario: C\$120.00

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



Financial Summary

Kinaxis reported revenue of \$80.8MM, 2% ahead of consensus and our estimate (\$79.1MM/\$79.2MM). Adjusted EBITDA of \$10.4MM was in line with consensus and CIBCe (\$10.2MM/\$10.3MM). Margins of 12.8% were in line with consensus, but 20 bps below our estimate. Management noted a constant currency margin of 15% in the quarter.

Exhibit 1: KXS - Financial Summary, Q2/22

	Q2/22						
	Actual	CIBCe	Cons.	Q2/21	Y/Y%	Q1/22	Q/Q%
Consolidated							
Revenue (\$MM)	80.8	79.2	79.1	60.1	35%	98.1	-18%
SaaS & Subscription	51.1	53.2	52.4	42.3	21%	49.3	4%
Subscription Term License	0.4	3.0	1.9	0.6	-39%	23.5	-98%
Professional Services	25.4	19.6	21.1	14.0	81%	21.5	18%
Maintenance & Support	3.9	3.4	3.7	3.1	25%	3.9	2%
EBITDA (\$MM)	10.4	10.3	10.2	7.1	45%	33.1	-69%
EBITDA Margin	12.8%	13.0%	12.9%	11.9%	8%	33.8%	-62%
Adjusted EPS	0.14	0.18	0.16	0.04	264%	0.65	-78%

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

Changes To Our Model: We have updated our model to reflect Q2 results and updated 2022 guidance. We have increased our professional services revenue estimates in both 2022 and 2023. We have also increased our license revenue estimate for 2022 to account for a new on-premise customer in Q3. We have brought our adjusted EBITDA estimates down slightly in 2023 to reflect the mix of business (higher PS) and ongoing investments in the business.

Exhibit 2: KXS – Changes To Our Model, F2021A To F2023E

	Revenues (\$MM)	EBITDA (\$MM)	Adjusted EPS (\$)	CFO (\$MM)
2021A	251	40	0.58	50
2022E				
CIBC est. – new	362	65	1.20	65
CIBC est. – prior	349	64	1.19	67
Consensus	352	67	1.19	68
2023E				
CIBC est. – new	406	73	1.31	75
CIBC est. – prior	395	80	1.44	81
Consensus	401	78	1.44	82

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

12.4

Updated on
Dec 23, 2021

-6.2

Momentum

Low Risk



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	608/14418	5th
Software & Services INDUSTRY	16/979	3rd
Enterprise and Infrastructure Software SUBINDUSTRY	6/411	2nd

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	57.8 Strong	3.8 Low	30.7%
Human Capital	7.2 Medium	57.5 Strong	3.3 Low	26.4%
Product Governance	1.9 Low	40.0 Average	1.1 Negligible	9.2%
Business Ethics	2.7 Low	55.0 Strong	1.3 Negligible	10.4%
Data Privacy and Security	7.2 Medium	75.0 Strong	2.9 Low	23.3%
Overall	28.0 Low	60.0 Strong	12.4 Low	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	22	+2	Value	213	+223
Momentum	14	-1	Momentum	138	+218
Quality	22	+2	Quality	168	+174
Market	22	-1	Market	169	+167
Low Volatility	16	0	Low Volatility	157	+147
Growth	20	0	Growth	186	+190

Note: Ranking out of 28 stocks

Note: Ranking out of 237 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	3	Momentum	C
Beta	0.85	MACD	B
Volatility	↔	Alpha (Sector)	A
Trend	↔	Alpha (Index)	B
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\$190 based on a 10x EV/Sales multiple on our 2023E 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.
Marketweight	M	Sector is expected to equal the performance of the broader market averages.
Underweight	U	Sector is expected to underperform the broader market averages.
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	42%	Neutral	132	100%
Underperformer	8	3%	Underperformer	8	100%
Tender	4	1%	Tender	3	75%
Restricted	7	2%	Restricted	7	100%

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