

EQUITY RESEARCH

May 16, 2022

Company Update

KINAXIS INC.

Takeaways From Kinexions 2022

Our Conclusion

Kinaxis hosted its first in-person Kinexions user conference since 2019. The event was sold out, with Kinaxis capping attendance at 450 and hosting 1,500 participants virtually. Conference attendees were spread across numerous different industries and the overall environment was upbeat, with management noting a "supply chain renaissance" as the pandemic and supply chain disruptions have illustrated the need for supply chain planning to the C-suite. We continue to see Kinaxis as well positioned in the current environment and retain our Outperformer rating and \$180 price target.

Key Points

Moving To The Public Cloud: Kinaxis highlighted the value of its Microsoft Azure partnership, stating that the partnership will allow Kinaxis to scale RapidResponse outside its traditional geographies. Recall that historically Kinaxis has built out its own data centres, and the company intends to maintain data centres for large enterprise clients that need the scale and speed that the data centres offer. However, the conference appeared to signal an embrace of the public cloud, with management noting that the Azure partnership is not exclusive and that the solution had been tested with other major public cloud vendors. The public cloud strategy will allow Kinaxis to scale implementation work quickly, ensuring no hardware shortages with large or RapidStart implementations. We expect that the strategy will start to ramp slowly with new SME clients initially added to the public cloud. We will be watching the shift and expect an impact to adjusted EBITDA as spending shifts from capex (data centres) to opex (public cloud).

Planning.ai: At the conference, Kinaxis unveiled its planning.ai offering, a fusion of heuristic, optimization and machine learning for supply chain planning. Planning.ai uses multiple analytical approaches to solve a single problem, broadening the types of supply chain problems that can be solved and removing the need for deep analytics experts and data scientists. Kinaxis noted that 80% of transactions are obvious and can be handled through analytics, leaving humans to focus on the 20% of planning that is more complex and requires human intervention. Planning.ai is currently in beta phase, with two pilot customers. The solution is completely integrated with RapidResponse and expected to be sold as an add-on offering.

Partner Update: Kinaxis had over 90 partners attending Kinexions. Premier partners for the conference included Accenture, CapGemini, Genpact and Levadata. Kinaxis has a growing number of value-added resellers (VARs) that target SME customers, with the company targeting 20,000 accounts through the VAR program. The partner and VAR program allows Kinaxis to extend its geographic footprint, with the public cloud offering removing the need for proprietary data centres in tertiary geographies.

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Outperformer

KXS-TSX, Sector: Information Technology

Current Price (5/16/22): C\$135.20

Price Target (12-18 mos.): C\$180.00

CIBC Estimates and Valuation

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

Revenue(mln)	Q1	Q2	Q3	Q4
2022	98.11A	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	10.3E	10.3E	10.1E
2021	9.0A	7.1A	12.4A	11.3A

Valuation	2020	2021	2022	2023
EV/Sales	12.9x	11.5x	8.3x	7.3x
EV/EBITDA	53.8x	72.6x	45.3x	36.1x

Stock Performance and Key Indicators

Enterprise Value:	C\$3,733M	Shares O/S:	27.2M
Market Cap.:	C\$3,684M	Float:	27.0M
52-wk Range:	C\$129.21 - C\$229.10	Div. / Yield:	NIL/NIL

TSX Composite Index vs. KXS-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.291:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page(s) 3.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 4.

Kinaxis Inc. (KXS-TSX) — Outperformer

Price (5/16/22) C\$135.20 12-18 mo. Price Target C\$180.00

Sector: Information Technology

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Peer Comparison	2020	2021	2022E	2023E
EV/EBITDA - Rule-Of-40 Peers	-	16.3x	25.5x	25.7x
EV/EBITDA - Kinaxis	-	-	42.8x	34.2x
EV/Sales - Rule-Of-40 Peers	-	7.9x	6.2x	5.2x
EV/Sales - Peer Kinaxis	-	10.9x	7.0x	6.9x
Key Financial Metrics	2020	2021	2022E	2023E
Sales Growth	17.0%	11.8%	39.2%	13.1%
Per Share Data	2020	2021	2022E	2023E
CFPS	2.14	1.81	2.34	2.78
Adj. EPS Dil.	1.11	0.58	1.19	1.44
Wgt Avg # of Shares	26.6	27.2	27.6	28.0
FD Number of Shares	27.8	27.7	28.6	29.0
Income Statement	2020	2021	2022E	2023E
Revenue	224	251	349	395
Cost of Goods Sold	70	87	104	111
Gross Profit	154	164	245	284
SG&A	133	162	229	245
R&D	47	57	81	87
Tot Operating Exp	133	162	229	245
OpEx (% of Revenue)	59.45%	64.63%	65.65%	62.00%
Adj. EBITDA	54	40	64	80
Adj EBITDA Margin	24.0%	15.9%	18.3%	20.3%
D&A	8	2	6	11
Net Interest Income	1	(0)	1	3
Tax Expense	8	2	6	11
Net Income	14	(1)	10	31
Net Margin	6.1%	(0.5%)	2.9%	7.8%
Cash Flow Statement	2020	2021	2022E	2023E
Net CFO	59	50	67	81
Capex	(14)	(34)	(25)	(25)
Net CFI	(76)	(35)	(28)	(25)
Net CFF	17	6	6	0
Net Cash Flow	(0)	21	44	56
Free Cash Flow	45	16	42	56
Balance Sheet	2020	2021	2022E	2023E
Cash & ST Investment	183	203	248	304
Accounts Receivable	114	119	153	168
Net PP&E	31	52	56	51
Total Assets	428	520	617	684
Deferred Revenue	94	99	153	173
Total Liabilities	147	199	255	280
Shareholders' Equity	282	321	362	404
Tot Liab & SE	428	520	617	684

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\$180.00

Based on 2023 revenue growth of 14% and an EV/Sales multiple of 10.5x.

Upside Scenario: C\$280.00

Based on 2023 revenue growth of 21% and an EV/Sales multiple of 15.0x.

Downside Scenario: C\$110.00

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



Valuation

We see Kinaxis as attractively valued at these levels, trading 7.3x EV/23 Sales, a discount to SaaS based peers at 8.5x.

Exhibit 1: Logistics/Supply Chain Comp Table – 2021A-2023E

	Ticker	Share Price	Enterprise Value	EV/S		
				C21A	C22E	C23E
Logistics/Supply Chain						
Descartes Systems Group Inc.	DSGX	59.96	4,881	11.5x	10.3x	9.7x
Kinaxis, Inc.	KXS	105.395	2,892	11.5x	8.3x	7.3x
Veeva Systems Inc Class A	VEEV	172.78	24,349	16.6x	11.4x	9.7x
Anaplan, Inc.	PLAN	64.16	9,404	21.0x	12.8x	10.3x
Ceridian HCM Holding, Inc.	CDAY	56.40	9,519	9.3x	7.8x	6.7x
ServiceNow, Inc.	NOW	452.65	88,924	15.1x	12.0x	9.6x
Workday, Inc. Class A	WDAY	182.29	44,207	10.3x	7.2x	6.0x
Logistics/Supply Chain Average				13.6x	10.0x	8.5x

Source: FactSet and CIBC World Markets Inc.

Price Target Calculation

We calculate Kinaxis' price target of C\$180 based on a 10.5x 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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Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
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CIBC World Markets Inc. Price Chart

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