

**S&P Global**  
Market Intelligence

**Kinaxis Inc.** TSX:KXS

*Earnings Call*

*Thursday, October 31, 2024 12:30 PM GMT*

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# Call Participants

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*CEO, President & Director*

**Rick Wadsworth**  
*Vice President Investor Relations*

**Robert G. Courteau**  
*Executive Chairman of the Board*

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# Presentation

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## Operator

Good morning, ladies and gentlemen. Welcome to the Kinaxis Inc. Fiscal 2024 Third Quarter Results Conference Call. [Operator Instructions] I'd like to remind everyone that this call is being recorded today, Thursday, October 31, 2024. I will now turn the call over to Rick Wadsworth, Vice President of Investor Relations at Kinaxis Inc. Please go ahead, Mr. Wadsworth.

## Rick Wadsworth

*Vice President Investor Relations*

Thanks, operator. Good morning, and welcome to the Kinaxis' Earning Call. Today, we will be discussing our third quarter results, which we issued after close of markets yesterday. With me on the call are John Sicard, our President and Chief Executive Officer; Bob Courteau, our Executive Chair; and Blaine Fitzgerald, our Chief Financial Officer.

Some of the information discussed on the call is based on information as of today, October 31, 2024, and contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those set forth in such statements. 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 our SEDAR filings.

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

The webcast is live and 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 quarter and recent business developments, followed by Blaine who will review our financial results and outlook, and Bob will provide an update on some recent strategic activities and open the line for questions.

We have a presentation to accompany today's call, you can download it from the Investor Relations home page of our website, kinaxis.com. We'll let you know when to change slides. Over to you, John.

## John Ernest Sicard

*CEO, President & Director*

Thank you, Rick. Good morning, and thank you all for joining us today. I'll be starting on Slide 4. We delivered solid third quarter results that allow us to increase key elements of our guidance for the year. We reported \$78.6 million in SaaS revenue, representing 16% growth. Total revenue was \$121.5 million or 12% growth. We reported over \$30 million in adjusted EBITDA, representing 32% growth and an impressive 25% margin. I'm extremely pleased with the steps we've taken to enhance our profitability. As Blaine will highlight, this result and our outlook will allow us to raise our profitability guidance for the third consecutive quarter.

Moving to Slide 5. Once again, we won an impressive number of new customers, equaling the total from Q3 last year and up slightly year-to-date. This is an ongoing reflection of the strength and persistence of demand for supply chain orchestration solutions and of our superior position in the market. Our enterprise tier contributed the highest number of new wins for the quarter. Last year, we spoke about a 60% plus win rate against our core competitors, and I'm thrilled to see that performance continue year-to-date.

During Q3, we announced a number of new customers. I'm happy to share a sample of those with you now. In Life Sciences, where we continue to dominate, we've been selected by Ono Pharmaceuticals based

in Japan, a company committed to creating innovative medicines that focus on oncology, immunology, neurology and other critical areas. We added Octapharma based in Switzerland, one of the largest human protein manufacturers in the world, employing nearly 12,000 people to support the treatment of patients in 118 countries.

In the industrial market, we won Kronos AG based in Germany, a one-stop shop for producers of liquid consumer goods, including solutions for production, filling and packaging through to plastics recycling and more. We also won Nippon Seiki based in Japan, which manufactures and sells instrument clusters for automobiles, motorcycles, construction and agricultural machineries, marine instruments, air conditioning and much more.

In the consumer products space, we've recently added CMI Foods, which has a vast portfolio that includes food processing and production operations, animal and pet foods and stand-alone restaurants. Suave Brands, a U.S.-based producer, which you probably recognize from the shelves of local retailers, creators of affordable quality hair and body care products.

And finally, in the automotive sector, we're proud to be working with Mahindra & Mahindra, a leading high-growth company in India that offers both internal combustion and electric vehicles and boasts the workforce of approximately 10,000 employees. As you know, these successes and many more have been earned in an environment where buying decisions, particularly for our largest opportunities continue to be subject to elevated levels of scrutiny.

Moving to Slide 6. We continue to widen Maestro's competitive gap as some of our newest innovations hit key milestones, including some of our unique AI-based products. Our brand-new Gen AI enhanced client experience is being used extensively today. Over 100 customers have been active on the Maestro AI chat agent, and we're pleased to see such a rapid uptake. Demand.ai is significantly improving demand forecasts at 14,000-plus restaurants in North America, while deployment is also underway at a very large consumer goods company.

Multiple proof of concepts are also in progress and scheduled with other major customers. Supply.AI has been adopted by over 10 customers, and we are in a number of opportunities to see growth by the end of the year. Enterprise scheduling is live for an extremely large global CPG company in key North American sites and we're heading into negotiations and proof of concepts with other customers for that product later this year.

Under the hood of Maestro, we've made good progress with our new Data Fabric layer that will greatly improve and simplify the integration of AI across the product and with solution extension partners that will be part of an end-to-end supply chain orchestration solution. On Slide 7, we're absolutely thrilled to continue to receive exceptional validation from third-party industry observers. According to Gartner's Voice of the Customer survey, 93% of customers are willing to recommend Kinaxis. 93% of the 9 vendors in the review, which include 2 of our core competitors, Kinaxis is the only company, the only one to be named a 2024 Gartner Peer Insights Customer Choice for supply chain planning solutions.

This kind of achievement is only possible through outstanding strategy and execution company-wide. We were also named by Nucleus Research as a Leader in the 2024 Transportation Management Technology, Value Matrix, which includes our supply chain execution application. Finally, just last week, we were named by Newsweek as one of Canada's most responsible companies for 2025. Newsweek partnered with [indiscernible] as to recognize 150 companies across 13 industries for their commitment to the climate, social welfare and responsible governance. Kinaxis was placed #38 on that list.

Since we last spoke, I've held countless phone calls and face-to-face meetings around the globe with customers, prospects, partners, industry analysts and others. I can say that I have never had more conviction about our leading position and the opportunity we have in the market, and I'm excited from multiple perspectives. First, as the current CEO to be able to hand off to the experienced incoming leaders, a company that is in such strong shape.

I'm extremely pleased we were able to secure Mark Morgan as President of Commercial Operations. Second, as a large personal shareholder of Kinaxis, I remain fully vested in supporting the company in its

drive to create shareholder value, and I'm confident in our ongoing success ahead. And third, as a future adviser to the company, quite simply, with over 30 years of my life dedicated to Kinaxis, it is now in my DNA, and I will always care deeply about its well-being. I look forward to supporting the Board and the management team through 2025.

It has been my greatest honor to serve you, the Kinaxis shareholders for the past 9 years as CEO, and to lead our incredibly dedicated and talented teams that strive for excellence each and every day. I'm extremely proud of the growth we've been able to accomplish together.

With that, I'll turn the call over to Blaine.

**Blaine Fitzgerald**

*Executive VP & CFO*

Thank you, John, and good morning. As a reminder, unless noted otherwise, all figures reported on today's call are in U.S. dollars under IFRS. Move to Slide 8. We reported solid Q3 results with very strong profitability, excellent trailing 12-month free cash flow margins and are once again able to increase key aspects of our 2024 guidance.

Briefly, total revenue was \$121.5 million, up 12%. And SaaS revenue was \$78.6 million, up 16%. Our subscription term license revenue was \$2.3 million, which was higher than expected due primarily to expansions at renewal. Professional services revenue was \$35.5 million, up 8%. As I've talked about before, our goal is to continue to ship professional services work to partners. Maintenance and support revenue was \$5.2 million.

Our gross profit was up 17% to \$76.4 million or 63% margin, up from 60% last year, primarily reflecting lower cost of services following recent restructuring initiatives, and a large proportion of revenue coming from higher-margin software business. The software margin was 76%, and the professional services margin was 32%. Adjusted EBITDA was extremely strong, up 32% to \$30 million or a 25% margin versus 21% last year and 19% last quarter. This reflects our continued heightened focus on profitability and relates to very successful initiatives aimed at gaining operating leverage as we scale.

Beyond the usual items for better comparability of results, we have excluded from adjusted EBITDA, \$3.1 million in special charges relating to consulting fees for the review of our strategy and executive transition costs. Our profit in the quarter was \$6.8 million or \$0.23 per diluted share versus \$0.25 a year ago. After tax affecting the special charges, they reduced profit by \$2.2 million or \$0.08 per share. Absent these charges, our profit and EPS would have shown growth over the prior period.

Cash flow from operating activities was \$29.9 million compared to a \$1.5 million use of cash in Q3 2023. Cash, Cash equivalents and short-term investments were \$294.6 million, up from \$293 million at the end of 2023, despite some of the special charges and our active share buyback program impacting the balance.

If you move on to Slide 9. As you can see, our trailing 12-month capital margin continues to show tremendous improvement. It was 21.3% in Q3 2024, the highest level since 2020. This was achieved even after significant strategic investments across the business over that time. Again, this excellent result would have been higher absent certain of the special charges.

On Slide 10, our annual recurring revenue, or ARR, grew to \$347 million, an increase of 14% from Q3 2023, 55% of new business added to ARR during the quarter came from new customers and 45% from existing customers. Year-to-date, the split is closer to 65-35 in favor of new customers. The ARR balance continues to reflect the current environment, including generally slower deal approvals, particularly for large enterprise businesses, the S/4HANA migration, which is a net benefit but can extend sales cycles near term, ramp deals that start smaller and ramp in future years and for the first time in several periods, a more favorable FX environment.

Our incremental ACV or annual contract value added in both Q3 and year-to-date is very similar to the amounts added in the comparative period last year. So not all of that flows through to ARR right away. The ratio of annual contract value or ACV to ARR year-to-date is 1.23, the highest level yet. That compares to

1.18 last quarter and 1.08 at the end of 2022. In other words, due to more ramped deals recently, 3 ARRs coming in future periods.

Looking ahead, we see reasons for optimism. The Q3 end-of-quarter pipeline for fiscal year 2025 is bigger than the fiscal year 2024 pipeline was at the same time last year. The 2025 pipeline of expansion business is already significantly larger and represents a much higher mix of total pipeline than it did for 2024 at this time last year. Expansion business has a higher margin and much higher conversion rates, roughly double new name accounts conversion in recent years.

New go-to-market initiatives will start to bear fruit as we progress through 2025. We get free ARR from phase deals in 2025 that benefit the growth rates. We have a well-recognized industry leader, driving our sales organization, and has scaled businesses to well over \$1 billion in revenue. We also have a maturing sales team that he gets to work with. We believe the more favorable interest rate environment will help spending in many of our verticals as well, in an October 2024 report, Gartner projected worldwide IT spending to experience one of the largest percentage increases in this century and software spending is one of the biggest drivers.

Finally, all of these incremental opportunities get factored through our very strong 60% plus win rate against core competitors. On Slide 11, our 3-year CAGR for total RPO and SAS RPO is 24%, which is extremely strong and reflects both ARR growth over that time and elite gross customer retention, consistently between 95% and 100%. The 3-year results is the best way to look at RBL as it normalizes for expected quarterly fluctuations in customer renewal cycles.

So we continue to direct your attention to those results. More details on our RPO can be found in the revenue note to our financials. Now if we go to Slide 12, I am extremely pleased to be increasing our 2024 profitability margin guidance for the third consecutive quarter, while also increasing our guidance for subscription term license revenue. We reaffirm all other guidance elements as follows. We're maintaining total revenue at \$483 million to \$495 million and SaaS growth at 15% to 17% growth.

We're raising subscription term license revenue guidance to \$11 million to \$12 million and adjusted EBITDA margin guidance to 20% to 22%. We are very proud that our heightened focus on profitability is generating real results. Overall, this is a strong outlook given the environment in 2024. We expect to take another step towards our 25% mid-term adjusted EBITDA margin target next year, and we'll give some specific guidance with next quarter's results after we see Q4 performance as new executives sell in and the variables around our investment planning are further developed.

Finally, for me, on Slide 13, we've continued to be active on our normal course issuer bid. To date, we've repurchased almost 3/4 of the planned limit. During the 9 months ended September 30, 2024, we repurchased and canceled 724,298 commentaries, representing an investment of approximately \$78.3 million. We've been pleased with our share buyback strategy. And the Board has approved another normal course issuer bid for the upcoming year, from November 6 this year through November 5, 2025. We can purchase up to 5% of outstanding shares or approximately 1.4 million shares with a daily maximum of 15,500 shares, subject to typical exceptions.

I'll now turn the call over to Bob.

**Robert G. Courteau**

*Executive Chairman of the Board*

Thank you, Blaine, and John, and good morning, everyone. Well, I've only been in the role as Executive Chair for a few weeks now and let me start by saying it's been fun to run with Blaine and John and the management team. I'm so excited about the work we have been doing and opportunities and growth prospects for our business. I'm going to discuss in more detail shortly. But first, I want to take a moment to reemphasize that over the last 6 months, as always, our entire Board, including our newly appointed Lead Independent Director, Angel Mendez, have been highly engaged in the business, including management changes and the review of our strategy.

As we announced in September, Goldman Sachs has been supporting our efforts with financial advice and addressing inquiries about the company. While the Board has not closed the door to any path, there have

not been any material developments. That's the latest on these topics, and we'll provide further updates as warranted.

Slide 14, please. As I said, the entire Board is focused on adding value to Kinaxis. We've taken a number of decisive actions over the last 6 months, which have benefited Kinaxis and will add value to the company in the near and midterm to the benefit of all shareholders. Let me talk about that.

We continue to review our strategy, both from the inside out and with the help of expert outside consultants. The process has reemphasized that Kinaxis is in an extremely strong position and that we have some exciting opportunities, particularly in the go-to-market functions that will enhance that position, building on our many strengths as a company.

Working with management and a leading external management consulting firm, we've identified the best opportunities, we've organized the company to align with them and have moved talent into the highest value roles. We're already benefiting through the development of our growth opportunities and seeing significant improvements in profitability and free cash flow.

We're steadily driving towards our 25% normalized mid-term adjusted EBITDA margin target. We've doubled down and all that makes Kinaxis such a strong company, including our product and innovation leadership. Since day 1, we set ourselves apart with our concurrency approach, real-time processing and embedded unlimited scenario analysis. To that, we've recently added market-leading AI capabilities, supply chain execution capabilities, public cloud delivery with Google and Microsoft, and a vision to lead the AI infused supply chain orchestration space.

The work of Gartner and other industry experts consistently provides third-party recognition of our product leadership. Importantly, we're transforming our alliances with the world's most important systems integrators, into far more strategic relationships. As you know, we signed a contract to co-invest with Accenture to integrate our pursuit of the best opportunities in select verticals and geographies, so we can jointly own these spaces.

We're building pipelines, creating new deployment capacity, enhancing the delivery expertise, creating joint go-to-market resources and even building some vertical-specific product enhancement plans. Our joint pipeline with Accenture at the end of Q3 is already ahead of the expectations we had for this time.

Other major systems integrators are investing in their Kinaxis practices instead of our competition, reflecting our momentum and our joint successes. This is, and will create a snowball effect that will reinforce Kinaxis leadership position in the market. Taken together, our alliances will bolster our growth paradigm and simultaneously improve margins as system integrators take on more of our services work.

We undertaken a number of other initiatives that will expand our TAM, including a broader mandate for our value-added resellers, focused upsell and cross-sell of our proven new product capabilities and low-hanging fruit around pricing opportunities. Our competitive position has never been better.

Our win rate against our three core competitors continues to exceed 60%, and certain of those competitors have recently fallen dramatically in the Gartner Magic Quadrant, including two that are no longer in the Leaders quadrant, and our product and innovation strength is shining through. And I'm so excited about the addition of Mark Morgan who can help to leverage our enviable market position.

Everyone at Kinaxis has spoke to Mark, through this process, instantly knew, he was the right guy. And that belief was only reinforced by talking to the many people that have worked with him in the past, including partners, customers, many people that know him very well. He's a well liked proven leader, who knows our space extremely well, and has scaled businesses well beyond \$1 billion in revenue. Mark has hit the ground running, and we're thrilled to have him on board.

A lot of credit for what has put Kinaxis in such a strong position goes to John Sicard. I'm so happy that John will be with us as a key adviser through 2025. Over the last few weeks, John and I spent time with many of our large clients, who remain enthusiastic supporters of Kinaxis. I am thrilled to be able to lock arms with John as we head into the new year.

Our CEO search is advancing. Progress is positive, and the candidates fit the excellent opportunity that Kinaxis represents. We'll continue to be thoughtful and thorough throughout this process. As I said at the outset, our numerous actions over the last 6 months have already increased the value of Kinaxis and much more value creation lies ahead.

I know I can speak for my fellow directors, when I tell you that we are moving with urgency and discipline to optimally position Kinaxis to deliver increasing and sustainable value. To everyone that's listening in, as always, thank you for your ongoing interest in the company and great support to date. We're excited about the future and welcome you on the next step in Kinaxis highly successful journey. I'll now turn the line over to the operator to start the Q&A session.

## Question and Answer

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### Operator

[Operator Instructions]

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

### Thanos Moschopoulos

*BMO Capital Markets Equity Research*

John, congrats on your upcoming retirement and the great success you've had in building Kinaxis over your career.

### John Ernest Sicard

*CEO, President & Director*

Thank you, Thanos.

### Thanos Moschopoulos

*BMO Capital Markets Equity Research*

Maybe just to start off, it might be too early to talk about 2025. But if you look at recent ARR growth, that would seem to point towards a deceleration in SaaS revenue growth next year? Would that be a fair conclusion? Or the offsetting factors you cited such as, the pipeline for Q4 and the ramps already in backlog are those meaningful factors that could up with the dynamic?

### Blaine Fitzgerald

*Executive VP & CFO*

Yes, I'll take that, Thanos. As you noted, there is a high amount of correlation between SaaS growth and our previous year ARR growth. And I appreciate the -- your comment about, it may be too early to talk about 2025. We still have another quarter to get through, and we're 1 month into that last quarter of the year. So we'll see how things turn out.

But I'll remind you that one of the things that I mentioned as part of the script is that, there are some interesting macroeconomic effects that I think are in our favor at this day. And the IT spending prediction that Gartner has in terms of that increasing for the largest amount in the century is a nice little tailwind that we're hoping to benefit from.

Our pipeline, as you mentioned, for 2025 at this point at the same time last year, it's much higher than it was before. And the pipeline mix is a very important component of that. It's an interesting dynamic when you look at the difference between the conversion metrics on expansion revenue or expansion pipeline versus a new logo. And everyone realizes that what we've been doing is actually fairly incredible considering the amount of new logos that we've been bringing on, compared to the installed base that we haven't really have moved forward as far as we can at the stage.

And I'll finally finish all that with, we have one secret, I guess, not so secret tool that we have right now, which is we're really pleased to have Mark Morgan on board. And I've had the pleasure of working with him now for less than a week, but I think he will be an incredible addition, brings a lot of supply chain understanding of the industry. And I think it'll be a great help for accelerating that growth in the future.

### Thanos Moschopoulos

*BMO Capital Markets Equity Research*

Great. And a question for Bob. Bob, you said the Board hasn't closed the door to any past. Should we take that to mean that the Board is open to engaging with interested parties if appropriate?

### Robert G. Courteau

*Executive Chairman of the Board*

Yes. Look, we're following a process here to create value for the company, and I think my comments stand.

**Thanos Moschopoulos**

*BMO Capital Markets Equity Research*

Okay. Last thing I'll ask is, has there been any impact on bookings from recent corporate events? Or has that not really been a factor?

**Blaine Fitzgerald**

*Executive VP & CFO*

Yes. At this stage, whenever you have a change in leadership, you -- there should be some type of execution risk that may occur. At this stage, there hasn't been anything that we've encountered. We've been very happy with the outreach, and I think John has been very happy with here from our current customers. I think they're relieved.

The fact that he is going to be around. He's not like going on a cruise over the next couple of years or next year. So we'll see how that plays out. But as of right now, there's nothing that's occurring that is indicating that the execution risk is there.

**Robert G. Courteau**

*Executive Chairman of the Board*

I'd just add that John has been unbelievable and a great partner over the last month in really locking down the customer relationships engaged in, was in Europe a few weeks ago. I'm going to Europe next week. So if anything, we're all hands on deck.

**Operator**

Our next call comes from the line of Richard Tse from National Bank Financial Markets.

**Richard Tse**

*National Bank Financial, Inc., Research Division*

Yes, so John, all the best in your retirement and advisory role, it's been great working with you over the years here, it's been a pleasure. So I don't know those questions for you, Bob or Blaine. But with respect to your comments around the strategic review, what areas have you identified as having sort of the greatest opportunity? Is it kind of a sales and marketing sort of motion? Or is it on the product side? I'm just trying to get a bit more detail in terms of what you've uncovered so far.

**Robert G. Courteau**

*Executive Chairman of the Board*

Yes. So maybe I'll take it. It's Bob. Look, we're going to push on all our advantages that are in front of us. And there's been a lot of talk about go-to-market. And the reality is that what we're absolutely doing right at the top end of this, is to really think about the monetization of our product leadership.

We are absolutely creating a gap between us and the competitors. That allows us to really think about our go-to-market from a perspective of monetization. The value that our products bring to our customers. And now with AI-infused applications and the demand that John talked about, is one of the biggest parts of our strategy that we're pushing on, bringing Mark Morgan onto the team allows us to really double down on the industry and global solutions that come along with that. Big push right now in terms of as Blaine talked about, restructuring or repositioning the company, opens the door to take people that are highly talented people inside of Kinaxis and put them into areas where they can have an immediate and dramatic impact on the company, and that's been part of the strategy.

The whole focus on enhancing our partners' relationships, not unlike Accenture, but not limited to Accenture. I think you know that system integrators are the bellwether on the winning formula, and a big part of what we're trying to do is make sure that we're the in-demand, on-demand company when it

comes to those relationships, and that's working because, as I said, they're overinvesting in our platform relative to other opportunities that they could pursue.

And then for me, probably one of the big ones, is leveraging our customer base. We have, as indicated by Gartner, way higher customer satisfaction than our competitors, we find ourselves in a place where our products work, we're seeing increasing churn coming from those competitors, and we're going to take advantage of that. And so we're doing all the things that great software companies do.

**Richard Tse**

*National Bank Financial, Inc., Research Division*

Okay. That's super helpful. My other question has to do with sort of the comments around that level of scrutiny. I think it's fair to say that a lot of your competitors in the industry are sort of pointing to a similar thing. So when it comes to that scrutiny, do you think it's kind of normal course of business now? Or do you think that there will be a trigger to sort of turn that around again?

I know Blaine, you talked about sort of the Gartner stuff, but it seems like there's something more that there is other than the economy sort of having people pause here, but are they kind of waiting for how AI scales and structurally, they don't want to make a move ahead of that? Or am I reading too much into that?

**John Ernest Sicard**

*CEO, President & Director*

No. So I'll take that one, Richard. So here's what I've observed. As it relates to the selling motion, the area that's most elongated happens after you've been selected. It's sort of the contractual negotiation portion is what has been much more protracted, often going for months before getting signatures. The other area of scrutiny and I have a belief that this may be infused or induced by one of the larger analyst firms in the world, suggesting that proof of concepts are becoming part of the norm of every single sales cycle, no matter what, and that is creating some elongation as well.

And again, I think a lot of that is coming from the AI kind of promise, sounds fantastical, but show me, before I laid down some dollars, show me. Show me proof. And so those are the areas that we're seeing. I don't see necessarily a curbing of that effect in 2025 or beyond. I think that is becoming part of the norm, and it's becoming part of the selling motion, I suspect not only for us, but for a lot of software companies that are talking about the potency of AI and the promise of AI before spending dollars, it's like, okay, it sounds fantastical, prove it.

So I think those are the drivers, Richard, and I think that they won't subside anytime soon.

**Robert G. Courteau**

*Executive Chairman of the Board*

Yes. I would add to it. that if you look at our performance and some of the metrics that we've evaluated over the last few months, we're closing the best brands in the world, we're closing deals with the companies that are treating supply chain as the strategic asset inside your company. One of the complexities of the close time is it's so important and AI is becoming a parameter of choice that there's expanded decision-making. CEO is getting well. The COO, the CFO are getting more and more integrated in that decision maker, because this is best your business stuff.

But the companies that we're closing that are absolutely growing market share, being a new innovator. We had a couple in the quarter are very quickly coming on to the Kinaxis platform. And that thing that John was just talking about, is really exaggerated in the largest enterprise customers. Because when you make a decision to buy supply chain in a global company, it's a one-way trip. The neat thing about our category is that once a customer signs with Kinaxis, they stay with Kinaxis.

And again, our differentiation is that the products work. They go in. We got the best partners in the world, but there is definitely a lot more scrutiny in those largest companies in the world. And that's the biggest differentiation from how we were operating before. It's with those large customers.

**Richard Tse***National Bank Financial, Inc., Research Division*

Okay. Super helpful. All the best, John.

**Operator**

Our next question comes from the line of Paul Treiber of RBC Capital Markets.

**Paul Michael Treiber***RBC Capital Markets, Research Division*

Just first question, just for Bob. You've managed very large enterprise software sales forces in the past, you've been on the Board of Kinaxis for a number of years. Have you seen or would you attribute any sales force execution or sales-related strategic [indiscernible] steps as a driver of the slower growth here? Or is it -- it sounds like in saying is it mostly or entirely externally related?

**Robert G. Courteau***Executive Chairman of the Board*

First of all, Paul, the way I look at it is, that if I look at the last 2 years, first, the thing that we're trying to do with management and the Board is to take a company that's \$500 million and become a \$1 billion company. And to do that, as I said earlier, there's a whole bunch of things you do as a software company to get there to get that scale. And I feel like we've done a lot of them, the partnerships with SIs, the focus on moving to public cloud, the opportunity to think about driving an AI strategy first in the industry, great pickup. These are things that we've done over the last couple of years that drive scale.

The whole go-to-market strategy has been really about broad scale globally. And the work that we've done in the last few months is to double down on our strength. So create market share in the categories that we already have advantage, and we think there's still a lot of TAM. And really, the thing we're doing going into next year is to repurpose people around that strategy, and that includes our go-to-market capability, meaning that how we set up territories, the kind of talent we want to apply to that, really bringing people into the company that really understand this new complex selling. And so that's how I'm thinking about it.

We've covered a lot of ground. We've got a higher win rate. We're creating market share both directly with respect to TAM, but also with the SIs. We have an unbelievable reference base in customer satisfaction, and now we've got to take advantage of those things. And that's kind of how we're driving forward. And the benefit of that is the win rate we enjoy now and the -- we've pretty well doubled the number of customers that we have in the last couple of 3 years. And so the metrics aren't bad.

What we've got to do now is take advantage of the position in the marketplace, and that's where Mark Morgan comes in. He gets this industry. We did our assessment of Mark. I talked to customers, I talk to the partners, I talked to the influencers in the industry. His followership is going to be unbelievable, and he's already brought a couple of people into the company, and there's a lot lucky to join the company.

So I would say that the one thing that we might not have anticipated is the importance of supply chain with the largest customers in the world against the backdrop of them being careful in the way they procure. That's been the gap. And we want to get organized around that as we go forward.

**Paul Michael Treiber***RBC Capital Markets, Research Division*

And secondly, for John, best of luck in the future. The -- you've been at the company for 30 years, it gives you a really long-term perspective. And I'm sure you've seen ebbs and flows in the past, and looking at where we are right now, going through a little period of slower growth, you sound very bullish on the opportunity. Can you sort of relay or express comparatively how it was in the past and the bullishness where you are on the company's prospects here?

**John Ernest Sicard***CEO, President & Director*

No, absolutely. Look, supply chain as a practice, supply chain as a competence is the operating system of humanity. It's not a nice to have. It is a requirement for a fully functioning successful society to exist. And I absolutely see the industry at a pivotal moment perhaps caused by a global pandemic and people realizing that their mad obsession for accuracy was at the expense of agility, and there's a realization that successful supply chains for society require both. And I think there's -- so we are -- I think at a very pivotal moment, I call it a renaissance and some people laugh when I use that word, but I -- it's a rebirth of the craft.

Now these things don't happen overnight. People have asked me what's the likelihood that everybody adopts concurrency and automation and resilience, 100%. I just can't tell you exactly when, what the uptake will be. Now obviously, we've doubled the number of customers inside of a 2- to 3-year period, and we're starting to see that adoption even from some of the smallest and some of the very largest companies that do hundreds of billions in revenue, are all recognizing that. And that's causing my confidence at very least in the approach and the techniques that we've invented here at Kinaxis.

I'll call it the new AI infusion to this equation carries a tremendous amount of progress -- promise. The notion of artificial intelligence applied to supply chain is going to drive automation, intelligent automation. And I think that when you apply that to the overall solutions, that's what's going to ultimately build resilience. So that's driving my confidence and certainly, adding Mark Morgan here into the equation, listen, I spent probably the longest amount of hours with him prior to the selection. He was my first pick, and I'm thrilled that we were his first pick. And so I think he's going to have a pronounced impact on our growth as well.

### **Operator**

Our next question comes from the line of Doug Taylor from Canaccord Genuity.

### **Douglas Taylor**

*Canaccord Genuity Corp., Research Division*

I'm going to drill down from some of the bigger picture questions that have been answered so far and talk about the guidance for this year and what you're signaling with that. It remains a pretty wide range given how late we are in the year. And so I just want to understand the implications for Q4. As the midpoint would suggest an uptick in the overall growth profile, while a similar profile to what we've seen over the last couple of quarters would suggest the lower end of the range. So my question is whether the mid or high end of the range is an achievable target still for this year and whether there's something you're seeing in the market that supports that.

### **Blaine Fitzgerald**

*Executive VP & CFO*

Sure. I'll take that, Doug. Obviously, you're focusing on total revenue, which is obviously one of the key areas and has a large range at this stage \$4.83 to \$4.95 is what we've been consistently saying for the -- from the beginning of the year, and we'll continue to say that at this stage.

In Q2, I did make a mention of we'd be at the lower end of that range. And I would say that's still consistent with what our thoughts are at this stage. There's always things that can change that, though. And we see that things that are out there sometimes outside of our control, such as foreign exchange rates. And then there's other things that are completely in our control which at this stage now is professional services, which is, again, continue to be a very high demand area, but we're actually getting control about how that growth is going.

As we continue to leverage off of what we have from our partners, and we're doing that more and more at this stage, which is partially why we're seeing an increase in our margins going all the way up to 32% of professional services. The one other key thing that can throw off our numbers and have a big upside is if subscription term license came in much higher than we expected. That can always be a last second change in the contract, especially for customers who want a hybrid contract where they want the option to have on-prem. And that's particularly why we have such a wide range at this stage.

**Douglas Taylor***Canaccord Genuity Corp., Research Division*

That's great color. Blaine, while I've got you, I think you mentioned in your prepared remarks, the SAPS for HANA migrations being a benefit and not a headwind in some aspect of the pipeline in the near term despite us hearing over the last couple of quarters, some delays to roll outs related to the HANA migration. I just want you to if I can to clarify your comments there, maybe expand on that and what you're seeing?

**Blaine Fitzgerald***Executive VP & CFO*

Yes. So number one, we love that there's S/4HANA migration. We've seen our win rates against SAP in particular go up as a result, and they are included in that over 60% win rate against our three core competitors. On the other hand, they are a pain in the butt, because it does take a little bit longer to get those deals through, because there is a lot more board input on these massive transformations that are going through. It's trying to figure out the resources that are available to ensure that it's not only deploying S/4HANA, but also the Kinaxis solution, so it creates a longer sales cycle. But again, it's given us more opportunities, more wins against a very key competitor against us. I will welcome any S5 HANA migration that they might have in the future.

But I'll even add in, we're always lucky to have someone who led a sales force at SAP. So Bob, why don't you add some color.

**Robert G. Courteau***Executive Chairman of the Board*

The only thing I'd say is in these large enterprise companies, part of the challenge is what Blaine described is the idea of transformation. Our biggest competitor is do nothing because -- and particularly around SAP, a lot of the doubling of the number of customers, the predominant customer type is one that's innovative that see supply chain as strategic. The alternative is do nothing. And the S/4HANA upgrade is going to cause the do-nothing clients to have to consider alternatives. And when they consider alternatives, we'll win.

That's how this is going to play out over the next couple of years because we can -- these customers that are very careful know that we have the solutions with the highest customer satisfaction. The products go in and they're the least risky alternative. And so that's why that whole opportunity over the next couple of years is significant for Kinaxis.

**Douglas Taylor***Canaccord Genuity Corp., Research Division*

Okay. Last question for me, and I guess this could be for anyone. If we wind back the clock to the Maestro announcement a couple months ago. I think you had laid out a couple of different horizons as to the Generative AI road map and the business model that you had supporting it. Can you give us an update on where you sit with fleshing out those -- the revenue model for some of the Gen AI products you're hoping to bring on and the milestones we should expect here in the near and medium term?

**John Ernest Sicard***CEO, President & Director*

Yes, absolutely. So first, we're quite proud of our rapid progress here on our AI journey. And we announced that the event first, our Maestro Gen AI chat agent, which we seeded the market with, okay? And we've got well over 100 customers now already actively leveraging that technology. And anybody who's ever used that kind of technology, they know it's kind of addictive actually.

And so we seeded our customer base with that usage, while we're simultaneously moving towards our next layer and the future layers, which will all be monetized, the next layer is having AI conversations with your data. Right now, when you use a Chat GPT, you're often having conversations with text documents. The future of this technology is to have conversations with your data, which is a giant leap forward.

And also to have this technology generate content for, right, to have Gen AI be a creator for you. And these are the areas that we're investing in now, and there'll be future releases, which will get monetized. For all those that are currently using the chat agent now. Ultimately, and the Holy Grail is to have the agent become essentially your copilot in decision-making and automating what I described in supply chain anyway. The ability to automate 80% of the obvious transactions should be hands-free without human intervention.

And you can only do that if you have an AI technology that sits on top of it is entirely concurrent system. If you cannot create an automation of a transaction without predetermination of whether it's safe on either side. What does it do to customer set, what does it do to distribution downstream. So that's where our AI technology is at. We look forward to our next connections, which will be earlier in 2025, and we'll be showcasing some new stuff there.

**Blaine Fitzgerald**

*Executive VP & CFO*

And Doug, maybe I'll even add on to that, because you said revenue, and I like revenue. One of the things -- so we were in board meetings, obviously, the last couple of days and our Chief Product Officer, started talking about the timeline of when we're expecting what we'll call Phase II and Phase III of Gen AI and when it's going to be ready for market. And I think people will realize that it's coming sooner than they think.

In fact, the targets they've set, they've already said for Phase II, it's ahead of schedule at this stage, which, as you can imagine, most product timelines are generally pushed back. So I'm pretty excited about when I started getting that revenue, and we'll see how 2025 looks with some of those opportunities in our forecast.

**Douglas Taylor**

*Canaccord Genuity Corp., Research Division*

All right. Thank you, Blaine, and thanks, John, for your insights, and I'll echo everyone else's congratulations on your upcoming transition to what I guess will be the next phase of your contributions to this organization. Thank you so much.

**Operator**

Our next question comes from the line of Lachlan Brown from Redburn.

**Lachlan Brown**

*Redburn (Europe) Limited, Research Division*

The AR \$1.23 year-to-date, that was up from the first half. Was growth driven by 1 large dining? Or was it more based, and just on the sales, could you provide some color on the additional modules that you're typically upselling into throughout these contracts? And how should we think about the ramp-up of these sale deals over the life of the contract?

**Rick Wadsworth**

*Vice President Investor Relations*

Lachlan, sorry, it's a little hard to understand you, but Blaine will do his best.

**Blaine Fitzgerald**

*Executive VP & CFO*

I will. So ATV AR, you asked a question about the ratio getting to \$1.23 billion, and that was a pretty big jump. We saw a gain in Q3 after some big jumps that we've seen over the previous quarters. We were at 1.18 at the end of Q2. And again, on the 2 year to 1.08 and the year before that, 1.04. So we are seeing a lot more rent deals, and it's not just 1 or 2. It is a significant amount of deals that are asking for this. that just gets in line with how they think about their budget constraints in the near term and the usage of our solution over a longer period of time.

It's hard to say it is just one application or modules. It is numerous things that are happening. It is the number of users that they want to roll out over time. There are specific modules like Demand and supply AI, they're starting to get a lot of attention at this stage and are being put into the back end of some of these contracts. I'm always hopeful that those time lines get moved forward as we move ahead.

But at this stage, yes, we are seeing a lot more activity around ramp deals. But I would say it's across the board. They're looking at all of our modules and applications as well as our users, and growing that.

**Lachlan Brown**

*Redburn (Europe) Limited, Research Division*

Okay. That's very clear. And just on the professional services margin. You previously talked about the reverting, obviously, that's a great outcome. But how should we think about these margins going forward? Is 30% the right way to think about this?

**Blaine Fitzgerald**

*Executive VP & CFO*

Yes. When we started the year, I had a target for them. They're exceeding their targets. As soon as you get closer and closer to a number, I think we're at 20.7% so you get closer to 30%. I started saying, "Hey, we can hit 30%". And so I like the fact that we have a very strong pricing power right now. And I want to make sure that we utilize that pricing power to the maximum that we can. And the next milestone is 30%.

If people want to keep paying us to that amount versus using our partners we'll take that. But we want to utilize our pricing power as much as we can in the near term.

**Lachlan Brown**

*Redburn (Europe) Limited, Research Division*

That's clear. And if I might just ask the last one. Fourth quarter, normally, if there's any hard bookings quarter. I know it's early days, but any color what you're seeing in October and the pipeline have been for the next 2 months? And just any color on how we should think about any levels in the quarter.

**Blaine Fitzgerald**

*Executive VP & CFO*

Yes, Q4 is always a bigger quarter for renewals. So I won't really get too much into the details, but it's usually a higher renewal quarter. The -- as far as talking about the quarter so far, we're not going to talk about how Q4 is going. Obviously, you're right, it is a bigger quarter generally for us, so.

**Operator**

This concludes our Q&A session. I'm going to turn the call back over to Rick Wadsworth.

**Rick Wadsworth**

*Vice President Investor Relations*

Thanks, operator. For those of you who didn't get around asking your questions, we'll follow up with you immediately after the call. We do have a hard stop now. So thank you, everyone, as always, for participating. Appreciate your questions and your interest in Kinaxis. We look forward to speaking with you again when we report the fourth quarter and year-end results. Bye for now.

**Operator**

Thank you all for joining. This concludes today's call. You may now disconnect.

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