

# Kinaxis, Inc. (TSX:KXS)

Technology Group

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# Overview

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# Company Overview

## Overview

- Kinaxis, Inc. (the “Company” or “KXS”) provides cloud-based subscription software for supply-chain management (SCM) and analytic software solutions
- KXS offers solutions that address a wide range of IT solutions addressing cost/operational inefficiencies, business continuity, and software lifestyle management
- The company serves a large variety of industries such as aerospace, automotive, and consumer products
- The company was founded in 1984 and is headquartered in Ottawa, Canada

## Management



### John Ernest Sicard, President and CEO

Mr. Sicard joined KXS in 1994 and has been CEO of the company since 2016



### Duncan Klett, Co-Founder

Mr. Klett Co-Founded KXS and has more than 27 years of experience in analytics and software solutions



### Richard George Monkman, CFO

Mr. Monkman has been CFO of KXS since 2005 and has more than 25 years of finance and operations experience

## Summary and Recommendation

<b>Current Price</b>	<b>\$168.00</b>	<b>Market Cap</b>	<b>\$5.03B</b>
52-week Low	\$86.53	52-week High	\$224.98
LTM Revenue	\$289.40	EV / Revenue	15.30x
LTM Net Income	\$29.70	Dividend Yield	-
In CAD\$ mm except for share prices			
Trading data current as of February 25th, 2021			
<b>Target Price</b>	<b>\$201.00</b>	<b>Implied Premium</b>	<b>19.70%</b>

## Customers



**A growing leader in cloud-based solutions for operational efficiency and supply-chain efficiency**

Source: Company filings, company website, investor presentations, Capital IQ



# Industry Overview

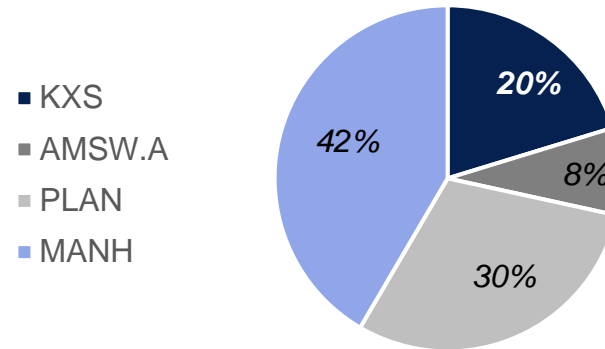
## SCM Software Industry

- KXS operates in the Application Software Industry, particularly with supply chain management software services
- Due to the growth in the SCM market and the increased demand for solutions from corporations, competition is expected to increase in the industry from new entrants and larger incumbent vendors
- KXS utilizes a recurring revenue model, whereby customers enter 2–5-year agreements which are paid annually in advance. KXS's revenue model is becoming much more popular due to the predictability and frequency of cash flows

## Industry Drivers

- **Increase in IPO's:** Growth in SCM solutions industry has inspired IPO's as private firms seek to issue equity at a relative premium and capitalize on low costs of capital
- **Popularity of recurring revenue model:** Recurring revenue model increasing in popularity due to predictability and frequency of cash flows
- **Growing demand for cloud-based services:** Cloud-based technology has allowed corporations to work virtually, allowing SCM capabilities to expand efficiency

## Competitive Landscape



## Challenges

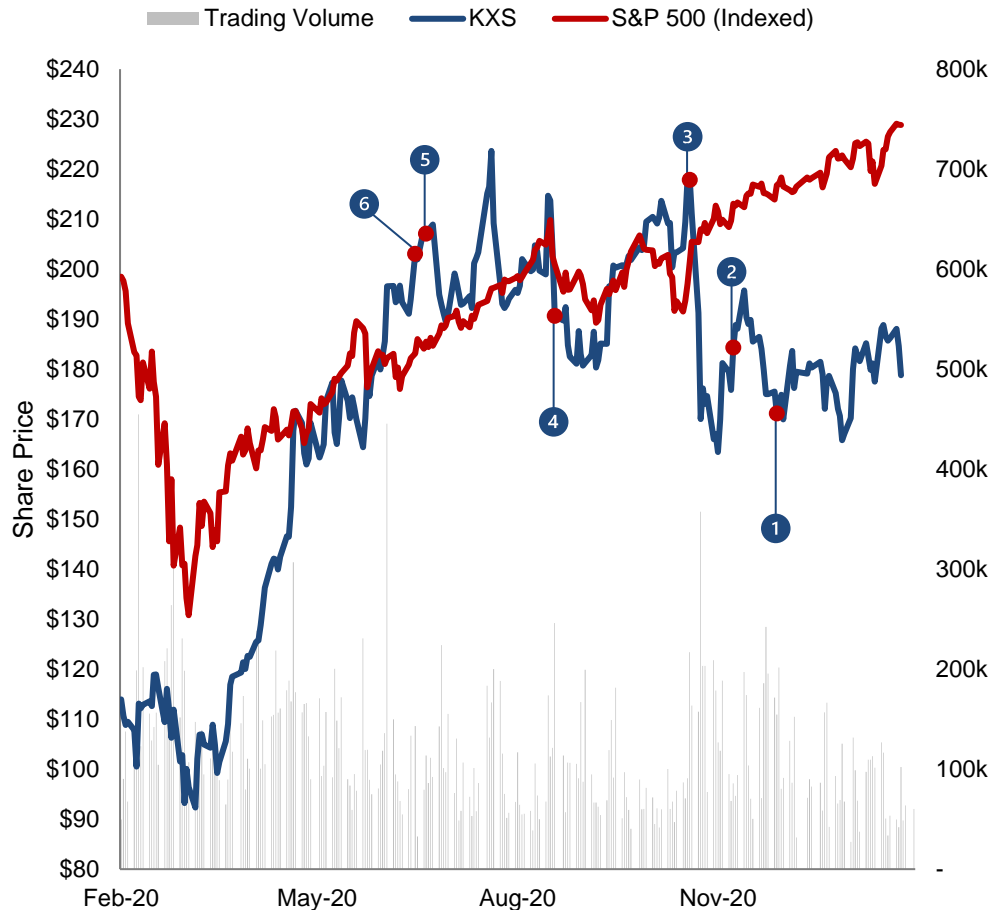
- **Increased competition from new entrants:** Due to the growth in the industry, the competition from new entrants and larger incumbent vendors is expected to increase
- **Macroeconomic uncertainty:** Changes in the global economy will most likely have an impact on the timing and ability on the buying decisions of enterprises
- **COVID-19 pandemic:** Downturns specifically related to the pandemic may limit firms' discretionary spending ability

**The SCM solutions industry is quickly growing with new vendors capturing incumbent market shares**

Source: Company filings, Capital IQ

# Trading History

## Trading Performance vs. S&P 500 (1 Year)



## Annotations

- 1 KXS served with patent infringement and IP lawsuit by BlueYonder, an Arizona-based SCM software provider
- 2 KXS signs agreement with Hollister Inc. to expand SCM and logistical capabilities
- 3 KXS reports Q3 2020 Earnings (\$0.2 actual, \$0.16 median projection)
- 4 L3Harris Technologies selects KXS to enhance real-time decision-making
- 5 Alstom, Inc. renews contracts for RapidResponse
- 6 KXS closes acquisition of RubikCloud, a leading provider of AI-driven SCM automation services

Source: Capital IQ, Company filings, Fintel.io.

# Investment Theses

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# Thesis I: Expansion into New Verticals

## Current Verticals

- Focus: large, global enterprises operating in industries defined by intricate SCM networks; technology and electronics manufacturing, aerospace and defense, industrial products, life sciences and pharmaceuticals, automotive, and consumer products
- Innovation such as machine learning and AI implementation have allowed for growth within current verticals
- Targets firms with over USD\$1B in revenue
- Current breakdown of 'Subscription Revenues' is split at 35% from current customers and 65% for new accounts

## Potential New Verticals



**Global Mining Industry**

**USD \$692B (2019)**



**Global Renewable Energy**

**USD \$928B (2017)**



**India Supply Chain**

**USD \$400B (2020)**



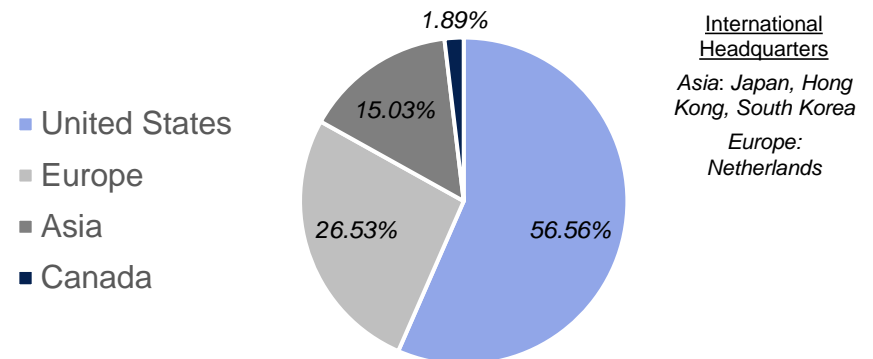
**UAE Logistics Industry**

**USD \$30B (2015)**

## Future Strategy – Expansion

- Patented technology has applicability to geographies and industries that Kinaxis is not currently operating in
- Machine learning and AI processing will continue to improve when exposed to new industries and business models
- Can increase Service Partners who allow for customers to deploy and expand RapidResponse in a cost-effective manner
- Can combine North American companies in new industry verticals with new geographies to achieve dual growth

## Geographic Revenue Breakdown (as of Q3 2020)



**Vertical expansion will allow KXS to further optimize RapidResponse through machine learning**

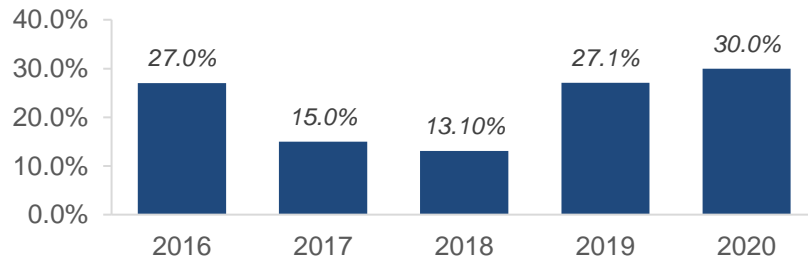
Source: Capital IQ, company filings, Statista.com, Arthur D Little

# Thesis II: Scalability of RapidResponse

## RapidResponse

- Cloud-based and on-premise software used for planning and analysis of interconnected SCM processes
- RapidResponse uses a patented in-memory data base as opposed to traditional disk storage ➔ exponentially faster
- Only platform that can create custom, interconnected apps & algos and profitably implement external algorithms across existing supply chains
- Directly contributes to lower working capital, increased asset efficiency, increased profitability, and improved customer relations ➔ internal net income growth

## KXS Revenue Growth



*Upscaling RapidResponse would improve 5-year revenue CAGR and add to already strong 3-year CAGR*

## Data Capability

- By leveraging cloud capability, RapidResponse can be deployed in 4-6 months; lower risk and upfront cost compared to offerings from ERPPs<sup>1</sup>
- Cloud allows for a single centralized application as opposed to traditional disparate systems
- System framework design is built on extensive run-time configuration allowing for single common product supporting multiple market verticals
- Patented technology can store multiple versions of data (“scenarios”) using only minor changes (deltas) in input data

## Margin Analysis (LTM as of Sept. 30, 2020)

	KXS	Manhattan Associates	Anaplan
Gross Margin %	71.2%	54.0%	75.5%
EBITDA Margin %	19.6%	21.0%	(31.3%)
Unlevered FCF Margin %	22.2%	19.1%	16.5%

*Kinaxis is in a relatively strong position to upscale profitability compared to close SCM software competitors*

**The dynamics of the RapidResponse model allow for efficient scalability and affordable growth**

Source: Company filings, investor presentations, Capital IQ.

<sup>1</sup> Enterprise Resource Planning Providers





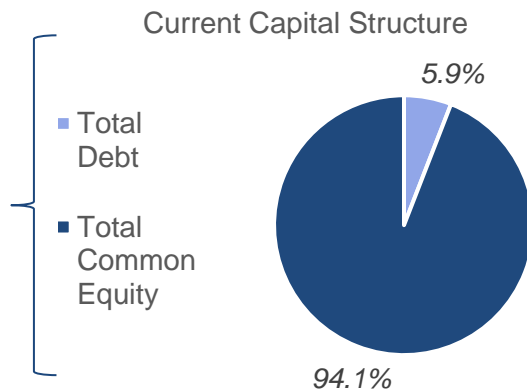
# Thesis III: Strategic M&A

## Rubikloud

- Provider of AI solutions for SCM prescriptive analytics.
- Previous operations were in the retail & consumer packaged goods industries
- Acquired on July 2, 2020 via all-cash purchase of 100% of outstanding shares for USD \$60MM
- Purpose of acquisition → enhance demand planning capabilities and assembled workforce
- Rubikloud software has applicability to current verticals outside of retail as well as new verticals → estimated synergies of USD \$36MM

## Increase Leverage to Support Growth

*KXS is significantly under levered and can fund M&A through issuance of debt. Can also benefit from increased tax shield*



## Prana Consulting

- Provider of consulting services for software implementation
- Acquired Jan. 31, 2020 via cash/contingent consideration equal to USD \$4MM for 100% of outstanding shares
- Based out of India → can provide market and cultural expertise for expansion into India's SCM industry
- Direct synergies from addition of Prana's workforce estimated at USD \$3.7MM
- Primary concern from KXS management with expansion into foreign markets was lack of cultural knowledge → Prana could expose KXS to further Middle Eastern M&A

## Forward-Looking M&A Opportunity

- Use increased leverage to fund inorganic growth → repay debt through strong EBIT and resulting organic growth
- Enhance Service Partner representation in emerging markets
- Build on recent momentum in 2020 M&A activity through continued acquisitions
- Maintain trend of 100% share acquisitions to maximize control of firm direction
- Continue M&A in product *supporting* businesses and maintain RapidResponse development in-house

**Continued strategic M&A through increased leverage will increase firm value and bolster market position**

Source: Company filings, investor presentations, Capital IQ.

# Catalysts & Further Potential Upsides

## Catalysts

## Explanation



**Corporations Search  
for Profitability**



As the economy reaches cyclical peaks, corporations are no longer experiencing strong growth from general macroeconomic strength, manufacturers and supply-chain oriented clients will need to look internally for profitability, increasing demand for RapidResponse



**Rapid Expansion in  
Europe and Asia**



A large driver for revenue growth comes in the form of contracts with new customers, therefore KXS plans to continue expanding geographically into Europe and Asia, representing a strong avenue for growth via geographical pivot



**Growth in Demand for  
Cloud-Based Services**



Demand for Cloud-Based services has increased substantially as cloud-based services allow firms to become more geographically mobile and flexible, and the ability to do this has become extremely valuable due to the COVID-19 pandemic



**Acquisition of  
Rubikloud**



Rubikloud's advanced artificial intelligence-based demand forecasting capabilities will significantly improve RapidResponse's effectiveness, which will result in increasing demand for the product, potentially leading to greater cross-selling opportunities

Source: Company filings, investor presentations.

# Risks & Mitigants

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## Risks

**Customer Concentration**



Distribution and dilution of customer concentration through increased cross-selling opportunities with newly engaged customers, expanding KXS's ability to engage new clientele, minimizing key customer concentration

**Long Sales Cycles**



By focusing on potential clients that fit the ideal buyer of KXS's products and spending less time pitching to other companies, KXS has been able to decrease their long sales cycles

**Increasing Competition**



Constant innovation in KXS's cloud-based solutions have allowed them to retain customers, ensure a low switching rate to competitor products, and maximize customer engagement opportunities

**M&A/Integration**



KXS has a very strong track record with product integrations, given Rubikloud's compatibility with RapidResponse. KXS's management team targets and acquirers' firms with comparable product portfolios to bolster existing offerings

## Mitigants

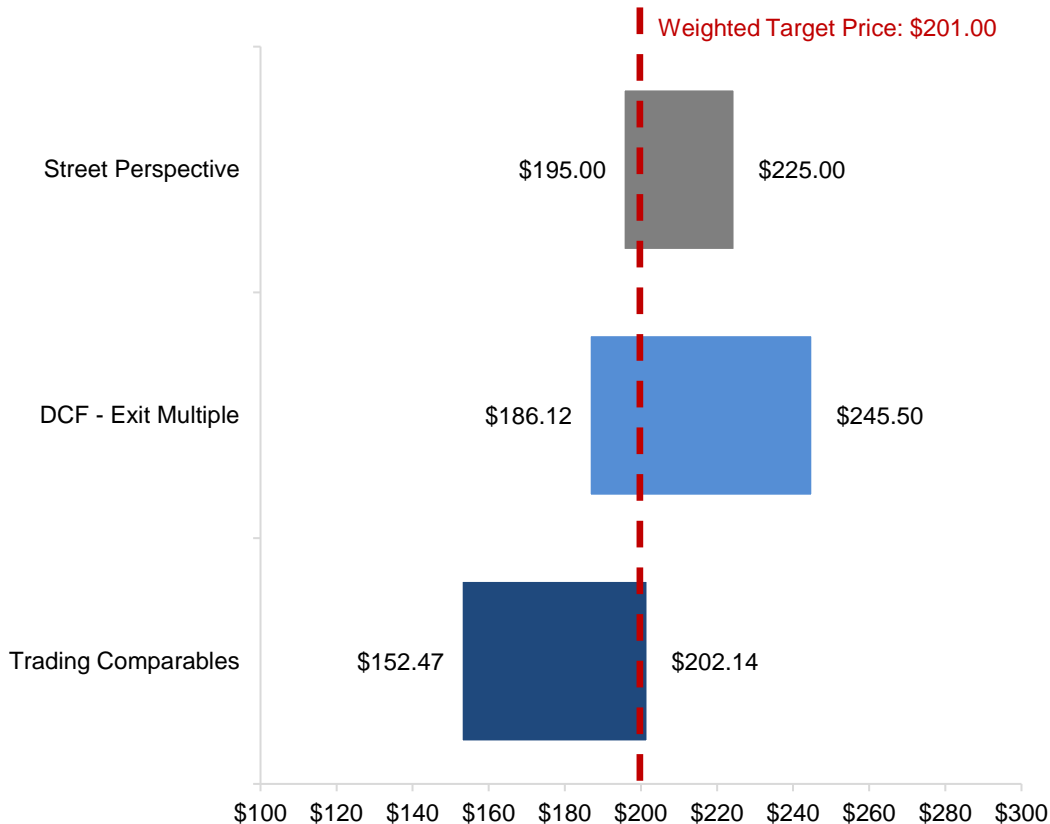
Source: Company filings, investor presentations, company website.

# Valuations

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# Valuation Overview

## Target Price Range



## Observations

- Target price weighting:
  - 33.3% DCF
  - 33.3% trading comparables
  - 33.3% street projections
- DCF assumes modest margin expansions (resulting from the growth in the cloud platform and economies of scale), a conservative discount rate, and a peer average exit multiple
- Comparables based on SCM software providers and analytic software providers in North America
- Street perspectives reflect recent periods of global equity volatility, hence being more conservative

The weighted target price reflects 19.7% upside over the current share price

Source: Company filings.



# DCF Analysis

## DCF Overview

### Unlevered Free Cash Flow Projection

	FY21E	FY22E	FY23E	FY24E	FY25E
Operating Income	36,084	42,776	50,855	55,050	57,391
<i>marginal tax rate</i>	27.0%	27.0%	27.0%	27.0%	27.0%
Net Operating Profit after Tax	26,342	31,226	37,124	40,186	41,896
Non-cash Adjustments	29,025	29,068	30,761	31,268	29,597
Changes in Working Capital	14,991	9,721	23,426	23,645	23,340
Capital Expenditure	(18,396)	(18,696)	(17,782)	(11,549)	(8,027)
<b>Unlevered Free Cash Flow</b>	<b>51,963</b>	<b>51,319</b>	<b>73,529</b>	<b>83,551</b>	<b>86,806</b>
<b>Discount Rate</b>	<b>5.23%</b>				
Discount Factor	0.98	0.93	0.89	0.84	0.80
<b>PV of UFCF</b>	<b>51,048</b>	<b>47,908</b>	<b>65,228</b>	<b>70,421</b>	<b>69,526</b>

### Share Price Calculation

<b>Implied EV</b>	<b>5,897,527</b>
Add: Cash and Short-term Marketable Securities	210,033
Less: Long-term Debt	12,796
Less: Noncontrolling Interest	-
<b>Implied Equity Value (USD)</b>	<b>6,094,764</b>
<b>Conversion Rate (USD/CAD)</b>	<b>1.27</b>
<b>Implied Equity Value (CAD)</b>	<b>7,740,350</b>
Fully Diluted Shares Outstanding	28,511
<b>Implied Share Price</b>	<b>\$ 213.77</b>
Current Share Price	\$ 168.00
<b>Implied Premium / (Discount)</b>	<b>27.2%</b>

### Terminal Value - Exit Multiple

FY25E Revenue	401,339
Implied Exit Multiple	17.85x
<b>Terminal Value</b>	<b>7,163,597</b>
Discount Factor	0.78
<b>PV of Terminal Value</b>	<b>5,593,395</b>
<i>% Implied EV</i>	<i>94.8%</i>

## Key Assumptions

- Assumes ~15% revenue growth rate for 2021 to reflect lasting effects of COVID-19 and stabilizing supply chains, then ~20% YoY growth rate for the next two years, in line with historical trend, stepping down to 10% and 5% in FY24 and FY25
- 5.6% discount rate used, reflecting the general cost of equity in the Canadian market plus KXS's cost of debt
- Assumes the exit multiple of ~17.85x revenue, in line with peer averages (~17.85x revenue)

**Strong revenue growth and margin expansion drives upside despite conservative assumptions**

# Trading Comparables

## Target Price Calculation

### Share Price Calculation

	Low	Medium	High
<b>LTM EV / Revenue</b>	<b>15.3x</b>	<b>17.8x</b>	<b>20.3x</b>
LTM Revenue	283.2	283.2	283.2
<b>Implied EV</b>	<b>4,346.9</b>	<b>5,054.9</b>	<b>5,762.9</b>
Add: Cash and Short-term Marketable Securities	0.18	0.18	0.18
Less: Long-term Debt	-	-	-
Less: Noncontrolling Interest	-	-	-
<b>Implied Equity Value</b>	<b>4,347.1</b>	<b>5,055.1</b>	<b>5,763.1</b>
Fully Diluted Shares Outstanding	28.51	28.51	28.51
<b>Target Share Price</b>	<b>\$ 152.47</b>	<b>\$ 177.30</b>	<b>\$ 202.14</b>
Current Share Price	\$ 168.00	\$ 168.00	\$ 168.00
<b>Implied Premium / (Discount)</b>	<b>(9.2%)</b>	<b>5.5%</b>	<b>20.3%</b>

## Observations

- Peer sets include:
  - Dye & Durham (TSX:DND)
  - Enghouse Systems (TSX:ENGH)
  - Manhattan Associates (NASDAQ:MANH)
  - Descartes Systems (TSX:DSG)
- KXS trades at a discount to its peers on EV / Revenue (15.3x vs. ~17.85x average)
- KXS should trade above its peers due to:
  - Higher EBITDA growth rate
  - Greater recurring revenue
- Target price calculated using 17.85x LTM 2020 EV / Revenue multiple

**Superior expansion opportunities and scalability suggest that KXS should trade at a premium to its peers**

Source: Company filings, Capital IQ.



# Recommendation

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We are bullish on KXS with a holding period of 1 – 2 years for the following reasons:

- 1 Clean value proposition driven from full-suite of product offerings, as well as ample cross-selling opportunities through a variety of different channels
- 2 Increasing scalability of SCM services and new investment into cutting-edge technologies such as RapidResponse & RubikCloud
- 3 Growth in cloud-based SCM solutions leading to margin expansion, upscaling, customer retention, and new customer engagement

**Overall Recommendation: Buy**

**Target Price: \$201.00**

Weighted Implied Upside: 19.7%



# Appendices

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# I: Revenue Assumptions

## Revenue Breakdown

	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Revenue</b>						
SaaS	147,172	169,248	211,560	264,450	290,895	305,439
Growth Rate	23.8%	15.0%	25.0%	25.0%	10.0%	5.0%
% of Revenue	65.6%	67.1%	70.7%	74.4%	75.6%	76.1%
Professional Services	46,845	51,530	55,137	57,894	60,209	62,016
Growth Rate	39.6%	10.0%	7.0%	5.0%	4.0%	3.0%
% of Revenue	20.8%	20.4%	18.4%	16.3%	15.6%	15.5%
Subscription Term License	17,824	18,715	19,651	20,634	21,459	22,103
Growth Rate	-32.0%	5.0%	5.0%	5.0%	4.0%	3.0%
% of Revenue	7.9%	7.4%	6.6%	5.8%	5.6%	5.5%
Maintenance and Support	12,911	12,846	12,782	12,654	12,401	11,781
Growth Rate	-0.1%	-0.5%	-0.5%	-1.0%	-2.0%	-5.0%
% of Revenue	5.7%	5.1%	4.3%	3.6%	3.2%	2.9%
<b>Total revenue</b>	<b>224,752</b>	<b>252,339</b>	<b>299,130</b>	<b>355,631</b>	<b>384,964</b>	<b>401,339</b>
Growth Rate	17.3%	12.3%	18.5%	18.9%	8.2%	4.3%

	FY17	FY18	FY19	YTD	1Q-3Q 19	4Q20E
<b>Revenue</b>						
SaaS	100,813	97,157	118,860	109,058	86,854	38,114
Growth Rate	N/A	-3.6%	22.3%			
% of Revenue	75.6%	64.5%	62.1%	64.4%	64.2%	68.7%
Professional Services	31,469	31,854	33,549	34,565	24,618	12,280
Growth Rate	N/A	1.2%	5.3%	40.4%		37.5%
% of Revenue	23.6%	21.1%	17.5%	20.4%	18.2%	22.1%
Subscription Term License	-	9,935	26,218	15,942	14,098	1,882
Growth Rate	N/A	N/A	163.9%			
% of Revenue	0.0%	6.6%	13.7%	9.4%	10.4%	3.4%
Maintenance and Support	1,035	11,781	12,922	9,679	9,667	3,232
Growth Rate	N/A	1038.3%	9.7%			
% of Revenue	0.8%	7.8%	6.7%	5.7%	7.1%	5.8%
<b>Total revenue</b>	<b>133,317</b>	<b>150,727</b>	<b>191,549</b>	<b>169,244</b>	<b>135,237</b>	<b>55,508</b>
Growth Rate	N/A	13.1%	27.1%			

Source: Company filings.

## Observations

- Cloud based subscription revenue (SaaS) continues to drive growth forward
- Maintenance and Support revenue is expected to decrease as customers convert to subscription based service or choose to let their support contracts lapse
- We see a drop in Subscription Term License (for on-premise subscription) revenue this year due to COVID-19 as customers choose the cloud solution instead

# II: Income Statement

## Historical and Projected Income Statement

	Historical						Projected					
	FY17	FY18	FY19	YTD	1Q-3Q 19	4Q20	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Revenue</b>												
SaaS	100,813	97,157	118,860	109,058	86,854	38,114	147,172	169,248	211,560	264,450	290,895	305,439
Professional Services	31,469	31,854	33,549	34,565	24,618	12,280	46,845	51,530	55,137	57,894	60,209	62,016
Subscription Term License	-	9,935	26,218	15,942	14,098	1,882	17,824	18,715	19,651	20,634	21,459	22,103
Maintenance and Support	1,035	11,781	12,922	9,679	9,667	3,232	12,911	51,530	55,137	57,894	60,209	62,016
<b>Total Revenues</b>	<b>133,317</b>	<b>150,727</b>	<b>191,549</b>	<b>169,244</b>	<b>135,237</b>	<b>55,508</b>	<b>224,752</b>	<b>252,339</b>	<b>299,130</b>	<b>355,631</b>	<b>384,964</b>	<b>401,339</b>
<b>Cost of Sales</b>												
Cost of Sales	(39,780)	(47,032)	(53,850)	(50,027)	(38,978)	(16,430)	(66,457)	(74,692)	(88,542)	(105,267)	(113,949)	(118,796)
<b>Gross Profit</b>	<b>93,537</b>	<b>103,695</b>	<b>137,699</b>	<b>119,217</b>	<b>96,259</b>	<b>39,078</b>	<b>158,295</b>	<b>177,647</b>	<b>210,587</b>	<b>250,364</b>	<b>271,015</b>	<b>282,543</b>
<i>Gross profit margin</i>	70.2%	68.8%	71.9%	70.4%	71.2%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%	70.4%
<b>Operating Expenses</b>												
Selling and Marketing	(29,280)	(35,055)	(44,270)	(37,109)	(30,523)	(12,378)	(49,487)	(55,515)	(65,809)	(78,239)	(84,692)	(88,295)
Research and Development	(23,690)	(27,626)	(34,125)	(33,598)	(24,628)	(10,824)	(44,422)	(49,963)	(59,228)	(70,415)	(76,223)	(79,465)
General and Administrative	(13,855)	(20,167)	(26,852)	(24,249)	(20,347)	(7,771)	(32,020)	(36,084)	(42,776)	(50,855)	(55,050)	(57,391)
<b>Operating income</b>	<b>26,711</b>	<b>20,847</b>	<b>32,452</b>	<b>24,261</b>	<b>20,707</b>	<b>8,104</b>	<b>32,365</b>	<b>36,084</b>	<b>42,776</b>	<b>50,855</b>	<b>55,050</b>	<b>57,391</b>
<i>Operating margin</i>	20.0%	13.8%	16.9%	14.3%	15.3%	14.6%	14.4%	14.3%	14.3%	14.3%	14.3%	14.3%
<b>Non-operating Expenses</b>												
Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-
Interest Income	1,131	1,810	3,037	981	-	327	1,308	1,308	1,308	1,308	1,308	1,308
Other Income / Expense, Net	(84)	(181)	(226)	168	-	-	168	-	-	-	-	-
Change in Fair Value of Warrant Liability	-	-	-	-	-	-	-	-	-	-	-	-
Loss on Extinguishments of Debt	-	-	-	-	-	-	-	-	-	-	-	-
<b>Earnings before taxes</b>	<b>27,758</b>	<b>22,476</b>	<b>35,263</b>	<b>25,410</b>	<b>-</b>	<b>8,431</b>	<b>33,841</b>	<b>37,392</b>	<b>44,084</b>	<b>52,163</b>	<b>56,358</b>	<b>58,699</b>
Benefit / (Provision) for income tax	7,375	8,068	11,932	10,094	-	2,276	12,370	10,096	11,903	14,084	15,217	15,849
<b>Net income (loss)</b>	<b>20,383</b>	<b>14,408</b>	<b>23,331</b>	<b>15,316</b>	<b>-</b>	<b>6,155</b>	<b>21,471</b>	<b>27,297</b>	<b>32,181</b>	<b>38,079</b>	<b>41,141</b>	<b>42,851</b>

## Observations

- Assumes a conservative 70.4% gross profit margin and 14.4% operating margin, in line with the historical trend
- Kinaxis historically does not have any debt requiring interest expense
- Assumes a marginal tax rate of 27%

Source: Company filings.



# III: Cash Flow Statement

## Cash Flow from Operations

	FY17	FY18	FY19	YTD	4Q20	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Cash Flow from Operating Activities</b>											
Net income	20,383	14,408	23,331	15,316	6,155	21,471	27,297	32,181	38,079	41,141	42,851
Non-cash adjustments:											
Depreciation of Property and Equipment and Right-Of-Use Assets	3,618	9,272	11,908	10,403	1,780	12,183	20,237	18,473	17,984	17,360	15,056
Amortization of Intangible Assets	-	-	-	665	-	665	-	-	-	-	-
Share Based Payments	9,746	11,568	13,367	12,231	-	12,231	-	-	-	-	-
Amortization of Lease Inducement	(18)	-	-	-	-	-	-	-	-	-	-
Investment Tax Credits Recoverable	(156)	911	-	-	-	-	-	-	-	-	-
Net Finance Income	(1,131)	(1,810)	(3,037)	(981)	(327)	(1,308)	(1,308)	(1,308)	(1,308)	(1,308)	(1,308)
Income Tax Expense	7,375	8,068	11,932	10,094	2,276	12,370	10,096	11,903	14,084	15,217	15,849
Changes in Operating Assets and Liabilities:											
Trade and Other Receivables	(6,835)	(23,302)	(16,776)	35,979	(50,892)	(14,913)	(25)	(11,330)	(1,994)	10,448	15,973
Investment Tax Credits Receivable	1,583	-	-	-	-	-	-	-	-	-	-
Prepaid Expenses	(838)	(1,633)	(716)	(1,907)	(2,999)	(4,906)	(1,177)	(2,340)	(2,825)	(1,467)	(819)
Contract Acquisition Costs	-	(2,429)	(1,566)	503	-	503	-	-	-	-	-
Trade Payables and Accrued Liabilities	(2,296)	(1,118)	4,726	(2,178)	15,854	13,676	(55)	1,203	1,452	754	421
Deferred Revenue	5,757	15,267	5,171	(21,923)	21,770	(153)	18,475	18,913	22,838	11,856	6,619
Interest Received	999	2,413	3,653	1,658	(350)	1,308	1,308	1,308	1,308	1,308	1,308
Interest Paid	-	(773)	(531)	(487)	-	(487)	-	-	-	-	-
Income Taxes Paid	(4,624)	(2,927)	(14,863)	(3,103)	(9,267)	(12,370)	(10,096)	(11,903)	(14,084)	(15,217)	(15,849)
<b>Cash Flow from Operating Activities</b>	<b>33,563</b>	<b>27,915</b>	<b>36,599</b>	<b>56,270</b>	<b>(16,000)</b>	<b>40,270</b>	<b>64,752</b>	<b>57,100</b>	<b>75,535</b>	<b>80,093</b>	<b>80,101</b>

## Observations

- Depreciation as % of PP&E is expected to decrease slightly from 37% to 30% over the years due to optimization and as the company matures

Source: Company filings.



# III: Cash Flow Statement

## Cash Flow from Investing and Financing

	FY17	FY18	FY19	YTD	4Q20	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Cash Flow from Investing Activities</b>											
Purchase of Property and Equipment	(10,149)	(12,310)	(11,719)	(12,337)	(4,047)	(16,384)	(18,396)	(18,696)	(17,782)	(11,549)	(8,027)
Purchase of Short Term Investments	(80,006)	(112,684)	(60,108)	(95,452)	-	(95,452)	-	-	-	-	-
Redemption of Short Term Investments	25,000	112,588	85,108	95,404	-	95,404	-	-	-	-	-
Acquisition of Businesses, Net of Cash Acquired	-	-	-	(61,743)	-	(61,743)	-	-	-	-	-
<b>Cash Flow from Investing Activities</b>	<b>(65,155)</b>	<b>(12,406)</b>	<b>13,281</b>	<b>(74,128)</b>	<b>(4,047)</b>	<b>(78,175)</b>	<b>(18,396)</b>	<b>(18,696)</b>	<b>(17,782)</b>	<b>(11,549)</b>	<b>(8,027)</b>
<b>Cash Flow from Financing Activities</b>											
Payment of Lease Obligations	-	(2,160)	(2,674)	(2,639)	-	(2,639)	(2,674)	(2,674)	(2,674)	(2,674)	(2,674)
Common Shares Issued on Exercise of Stock Options	6,713	10,120	8,751	17,896	-	17,896	-	-	-	-	-
<b>Cash Flow from Financing Activities</b>	<b>6,713</b>	<b>7,960</b>	<b>6,077</b>	<b>15,257</b>	<b>-</b>	<b>15,257</b>	<b>(2,674)</b>	<b>(2,674)</b>	<b>(2,674)</b>	<b>(2,674)</b>	<b>(2,674)</b>
Changes in Cash and Cash Equivalents	(24,879)	23,469	55,957	(2,601)	(20,046)	(22,647)	43,682	35,730	55,079	65,870	69,400
Cash and Cash Equivalents, Beginning	127,910	103,392	126,144	182,284	179,856	182,284	159,637	203,319	239,049	294,128	359,998
Effects of Exchange Rates on Cash and Cash Equivalents	361	(717)	183	173	-	-	-	-	-	-	-
<b>Cash and Cash Equivalents, Ending</b>	<b>103,392</b>	<b>126,144</b>	<b>182,284</b>	<b>179,856</b>	<b>159,810</b>	<b>159,637</b>	<b>203,319</b>	<b>239,049</b>	<b>294,128</b>	<b>359,998</b>	<b>429,398</b>

## Observations

- Capital expenditure as % of revenue is expected to decrease from 7% to 2% over the years as the company matures
- Projected lease payment is kept constant as last year
- No additional investing and financing activities were assumed, aside from the ones present in 2019
- One time expenses are not projected

Source: Company filings.



# IV: Balance Sheet

## Assets

	Historical				Projected					
	FY17	FY18	FY19	3Q20	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Current Assets</b>										
Cash and Cash Equivalents	103,392	126,144	182,284	179,856	159,637	203,319	239,049	294,128	359,998	429,398
Short Term Investments	55,138	55,404	30,319	30,177	30,319	30,319	30,319	30,319	30,319	30,319
Accounts Receivable	29,152	63,026	79,264	42,072	89,901	93,365	104,695	106,689	96,241	80,268
Other Receivables	3,410	1,304	2,072	3,440	3,440	-	-	-	-	-
Prepaid Exp.	4,196	5,815	6,534	8,610	11,440	12,617	14,956	17,782	19,248	20,067
Other Current Assets	-	-	-	-	-	-	-	4,791	9,518	13,338
<b>Total Current Assets</b>	<b>195,288</b>	<b>251,693</b>	<b>300,473</b>	<b>264,155</b>	<b>294,737</b>	<b>339,621</b>	<b>389,020</b>	<b>453,709</b>	<b>515,324</b>	<b>573,390</b>
<b>Non-current Assets</b>										
Gross Property, Plant & Equipment	27,731	47,553	57,527	78,220	94,604	112,999	131,695	149,476	161,025	169,052
Accumulated Depreciation	(10,600)	(16,900)	(24,600)	(31,600)	(36,783)	(57,020)	(75,493)	(93,478)	(110,837)	(125,894)
Goodwill	-	-	-	39,988	39,988	39,988	39,988	39,988	39,988	39,988
Other Intangibles	255	1,039	1,452	14,594	14,594	14,594	14,594	14,594	14,594	14,594
Accounts Receivable Long-Term	-	457	249	1,683	1,683	1,683	1,683	1,683	1,683	1,683
Deferred Tax Assets, LT	55	49	149	2,033	2,033	2,033	2,033	2,033	2,033	2,033
Deferred Charges, LT	-	13,902	15,497	15,087	15,087	15,087	15,087	15,087	15,087	15,087
Other Long-Term Assets	-	-	-	733	733	733	733	733	733	733
<b>Total Non-current Assets</b>	<b>17,441</b>	<b>46,100</b>	<b>50,274</b>	<b>120,738</b>	<b>131,939</b>	<b>130,097</b>	<b>130,319</b>	<b>130,117</b>	<b>124,306</b>	<b>117,276</b>
<b>Total Assets</b>	<b>212,693</b>	<b>297,759</b>	<b>350,743</b>	<b>384,877</b>	<b>426,675</b>	<b>469,717</b>	<b>519,340</b>	<b>583,825</b>	<b>639,630</b>	<b>690,667</b>

## Observations

- The industry has low AR to Sales ratio. Kinaxis is expected to decrease their accounts receivable over the years from 40% to reach the industry average of 20% as they form partnerships
- Prepaid expenses as % of revenue is kept constant as historical
- All other accounts are kept constant as the last quarter

Source: Company filings.



# IV: Balance Sheet

## Liabilities and Equity

	Historical				Projected					
	FY17	FY18	FY19	3Q20	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
<b>Current Liabilities</b>										
Accounts Payable	3,307	1,406	4,285	4,932	6,540	6,485	7,688	9,140	9,894	10,314
Accrued Exp.	5,516	9,141	13,360	14,975	19,891	17,664	20,939	24,894	26,947	28,094
Curr. Port. of Leases	-	2,572	2,288	4,369	4,369	4,369	4,369	4,369	4,369	4,369
Curr. Income Taxes Payable	2,353	11,076	3,125	5,934	5,934	5,934	5,934	5,934	5,934	5,934
Unearned Revenue, Current	67,040	78,496	83,673	62,893	83,520	101,995	120,908	143,746	155,602	162,221
Other Current Liabilities	-	-	-	-	-	-	-	-	-	-
<b>Total Current Liabilities</b>	<b>78,216</b>	<b>102,691</b>	<b>106,731</b>	<b>93,103</b>	<b>120,254</b>	<b>136,447</b>	<b>159,838</b>	<b>188,083</b>	<b>202,747</b>	<b>210,932</b>
<b>Non-current Liabilities</b>										
Long-Term Leases	-	6,311	6,818	12,796	12,796	12,796	12,796	12,796	12,796	12,796
Unearned Revenue, Non-Current	7,745	-	-	-	-	-	-	-	-	-
Def. Tax Liability, Non-Curr.	1,944	4,075	7,092	3,342	3,342	3,342	3,342	3,342	3,342	3,342
Other Non-Current Liabilities	-	-	-	-	8,235	7,788	1,838	-	-	-
<b>Total Non-current Liabilities</b>	<b>9,689</b>	<b>10,386</b>	<b>13,910</b>	<b>16,138</b>	<b>24,373</b>	<b>23,926</b>	<b>17,976</b>	<b>16,138</b>	<b>16,138</b>	<b>16,138</b>
<b>Equity/(Deficit)</b>										
Common Stock	108,253	124,951	140,961	164,845	164,845	164,845	164,845	164,845	164,845	164,845
Additional Paid In Capital	19,294	24,284	30,392	36,635	36,635	36,635	36,635	36,635	36,635	36,635
Retained Earnings	(2,500)	35,766	59,097	74,413	80,568	107,864	140,045	178,124	219,266	262,116
Treasury Stock	-	-	-	-	-	-	-	-	-	-
Comprehensive Inc. and Other	(300)	(300)	(300)	(300)	-	-	-	-	-	-
<b>Total Equity / (Deficit)</b>	<b>124,747</b>	<b>184,701</b>	<b>230,150</b>	<b>275,593</b>	<b>282,048</b>	<b>309,344</b>	<b>341,525</b>	<b>379,604</b>	<b>420,746</b>	<b>463,596</b>
<b>Total Liabilities and Equity</b>	<b>212,652</b>	<b>297,778</b>	<b>350,791</b>	<b>384,834</b>	<b>426,675</b>	<b>469,717</b>	<b>519,340</b>	<b>583,825</b>	<b>639,630</b>	<b>690,667</b>

## Observations

- Accounts payable and accrued expenses as % of revenue are kept constant as historical average (2.6% and 7% respectively)
- Unearned revenue as % of revenue is kept constant as historical average (40%)

Source: Company filings.



# V: Discounted Cash Flow Analysis

## WACC Calculation

Comparable Companies	Ticker	Levered Beta	Debt (mm)	Equity	Tax Rate	Unlevered Beta
Dye & Durham	DND	1.43	420.10	557.02	27.0%	0.92
Enghouse Systems	ENGH	0.89	42.20	496.30	27.0%	0.84
Manhattan Associates	MANH	1.89	34.40	218.90	22.0%	1.68
Descartes Systems	DSG	0.83	13.06	870.77	27.0%	0.82
<b>Kinaxis, Inc.</b>	<b>KXS</b>	<b>0.81</b>	<b>17.17</b>	<b>275.64</b>	<b>27.0%</b>	<b>0.77</b>

<b>Mean</b>	<b>1.07</b>
<b>Median</b>	<b>0.88</b>

### WACC Calculation

	Cost of Equity	Years
TSX Return	75.46%	10
Annualized Return	5.78%	
US10Y	1.27%	
Risk Premium	4.51%	
Beta	0.88	5.0
<b>Cost of Equity</b>	<b>5.24%</b>	

	Amount	Cost
Debt	17,165	3.50%
Equity	3,872,441	5.24%
<b>Weighted Average Cost of Capital</b>		<b>5.23%</b>

Source: Company filings, Capital IQ, U.S. Department of Treasury.

## Observations

- The correlation of 5-year daily returns of S&P 500 and comparable companies were used to calculate peer group average beta
- The cost of equity was calculated using the standard Capital Asset Pricing Model
- Since KXS has no publicly traded debt, the average cost of debt was calculated by using the BA Prime base rate (~300bps), with ~50bps of credit spread (as per revolving credit agreements)



# V: Discounted Cash Flow Analysis

## Sensitivities

		Discount Rate								
		3.2%	3.7%	4.2%	4.7%	5.2%	5.7%	6.2%	6.7%	7.2%
Exit Multiple	18.8x	\$245.50	\$240.10	\$234.84	\$229.73	\$224.76	\$219.92	\$215.22	\$210.64	\$206.19
	18.3x	\$239.47	\$234.20	\$229.09	\$224.11	\$219.26	\$214.55	\$209.97	\$205.51	\$201.17
	17.8x	\$233.44	\$228.31	\$223.33	\$218.48	\$213.77	\$209.18	\$204.72	\$200.38	\$196.16
	17.3x	\$227.41	\$222.42	\$217.57	\$212.86	\$208.27	\$203.81	\$199.47	\$195.25	\$191.14
	16.8x	\$221.37	\$216.53	\$211.82	\$207.24	\$202.78	\$198.44	\$194.22	\$190.12	\$186.12

		Discount Rate								
		3.2%	3.7%	4.2%	4.7%	5.2%	5.7%	6.2%	6.7%	7.2%
Exit Multiple	18.8x	46.1%	42.9%	39.8%	36.7%	33.8%	30.9%	28.1%	25.4%	22.7%
	18.3x	42.5%	39.4%	36.4%	33.4%	30.5%	27.7%	25.0%	22.3%	19.7%
	17.8x	39.0%	35.9%	32.9%	30.0%	27.2%	24.5%	21.9%	19.3%	16.8%
	17.3x	35.4%	32.4%	29.5%	26.7%	24.0%	21.3%	18.7%	16.2%	13.8%
	16.8x	31.8%	28.9%	26.1%	23.4%	20.7%	18.1%	15.6%	13.2%	10.8%

## Observations

- Even under the most conservative assumption (50bp higher discount rate and 0.5x lower exit multiple), the implied share price represents a 21.3% premium over the current price
- Return on KXS can be significantly higher if the Company successfully de-risks itself through continuous market and/or product developments
- KXS can also deliver outsized returns if it continues to demonstrate high revenue growth prospects at the end of the projection period, while reducing operating costs via economies of scale

Source: Company filings.



# VI: Trading Comparables

## Financial Profile of Comparable Companies

Company	Ticker	Price	Market Cap	EV	Revenue	EV / Revenue	Revenue Growth		EBITDA	EV / EBITDA
					LTM	LTM	FY 2020	CY 2019	LTM	LTM
Manhattan Associates	(NASDAQ:MANH)	\$ 124.36	\$ 7,919.10	\$ 7,748.80	\$ 586.40	13.21x	-5.10%	10.50%	\$ 123.00	63.00x
Descartes Systems	(TSX: DSG)	\$ 73.03	\$ 5,253.60	\$ 5,147.30	\$ 339.50	15.16x	49.41%	-	\$ 13.20	389.95x
Enghouse Systems	(TSX: ENGH)	\$ 46.90	\$ 2,596.10	\$ 2,848.00	\$ 385.90	7.38x	30.56%	19.39%	\$ 111.30	25.59x
Dye & Durham	(TSX: DND)	\$ 38.63	\$ 2,487.50	\$ 2,620.90	\$ 68.60	38.21x	18.40%	18.40%	\$ 129.60	20.22x
Kinaxis	(TSX: KXS)	\$ 136.29	\$ 3,691.60	\$ 4,328.70	\$ 283.20	15.28x	13.28%	27.08%	\$ 55.50	77.99x
<b>Minimum</b>		\$ 38.63	\$ 2,487.50	\$ 2,620.90	\$ 68.60	7.38x	-5.10%	10.50%	\$ 13.20	20.22x
<b>Median</b>		\$ 73.03	\$ 3,691.60	\$ 4,328.70	\$ 339.50	15.16x	18.40%	18.90%	\$ 111.30	63.00x
<b>Mean</b>		\$ 83.84	\$ 4,389.58	\$ 4,538.74	\$ 332.72	17.85x	21.31%	18.84%	\$ 86.52	115.35x
<b>Maximum</b>		\$ 136.29	\$ 7,919.10	\$ 7,748.80	\$ 586.40	38.21x	49.41%	27.08%	\$ 129.60	389.95x

## Observations

- The peer set consists of both smaller and larger companies specializing in analytics and cloud-based SCM services (MANH) and SCM software providers (DND/ENGH/DSG)
- EV / Revenue is important as most companies are well established, capitalized, and hold a relatively stable position within their respective ecosystems
- KXS trades at a steep discount relative to its peer average on an EV / EBITDA basis, and trades at a slight premium relative to its close comparables (MANH), however, this is likely due to market scale differences, as MANH competes in global marketplaces, while KXS remains focused on expanding global footprint.
- KXS trades at a slight premium to its peers on EV / Revenue basis despite:
  - Demonstrating one of the highest EBITDA growth rates in the last fiscal year
  - Generating one of the most consistent revenue growth rates relative to peers (close comp average of ~19%, KXS ~22%)

Source: Company filings.

