Why Kinaxis Inc. Plummeted 16.55% on Wednesday

Description

Kinaxis Inc. (TSX:KXS), a leading provider of cloud-based concurrent planning solutions, released its second-quarter earnings results and revised its full-year guidance after the market closed on Tuesday, and its stock responded by plummeting 16.55% in Wednesday's trading session. Let's take a closer look at the quarterly results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity or a warning sign to avoid it for the time being.

Breaking down the Q2 results

Here's a quick breakdown of eight of the most notable financial statistics from Kinaxis's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Subscription revenues	US$24.2 million	US$19.94 million	21.4%
Professional services revenues	US$8.4 million	US$8.54 million	(1.7%)
Maintenance & support revenues	US$269,000	US$261,000	3.1%
Total revenues	US$32.87 million	US$28.73 million	14.4%
Gross profit	US$22.88 million	US$20.02 million	14.3%
Adjusted EBITDA	US$9.6 million	US$7.27 million	32%
Adjusted profit	US$8.04 million	US$5.09 million	57.9%
Adjusted diluted earnings per share (EPS)	US$0.30	US$0.20	50%

The revised guidance

In the press release, Kinaxis also revised its full-year guidance for 2017. Here's a breakdown of its updated guidance compared with its previous guidance:

Metric	Updated Guidance	Previous Guidance
Total revenue	US$131-133 million	US$140-144 million
Annual subscription revenue growth	21-23%	26-28%
Annual adjusted EBITDA as a % of total revenue	26-28%	25-27%

John Sicard, the chief executive officer of Kinaxis, went on to note that the guidance was revised for two reasons.

First, a large Asia-based client breached its contract during the second quarter, so Kinaxis is no longer recognizing revenue from that client and had to remove the future revenue from its guidance.

Second, Kinaxis's strategic partners are increasing their roles in deploying new customer implementations, which results in higher revenues for them, but reduces Kinaxis's revenue in its Professional Services segment, so it had to reduce its revenue expectations for this segment.

Should you buy on the dip?

It was a decent quarter overall for Kinaxis, but its revenue came in well below the consensus analyst estimate, which called for US$35.14 million. The company's revised revenue guidance range for 2017 also came in well below the consensus estimate, which called for US$143.23 million, so I think these two misses are what ignited the 16.55% sell-off.

I think the stock could face further weakness in the days, weeks, and months ahead, because it still trades at very high multiples based on both sales and earnings, and I do not know what a fair multiple of either would be at this point.

With all of the information provided above in mind, I think investors should put Kinaxis in the penalty box and wait for its next quarterly release before taking it out and considering an investment.

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