



Kingdee International Software Group

2017 Annual Results Announcement

Stock Code: HK 268

14 March, 2018





Business Highlights



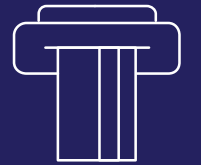
Cloud Market
Update



Cloud Strategy
Update



CFO Report



Appendix



Business Highlights



Cloud Market
Update



Cloud Strategy
Update



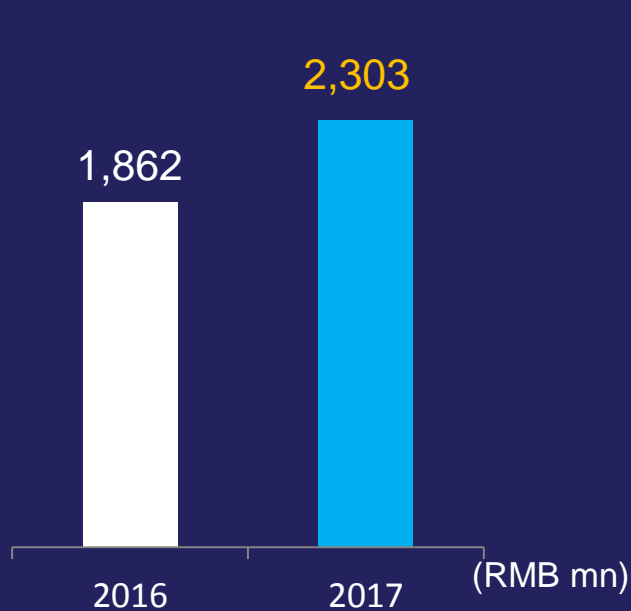
CFO Report



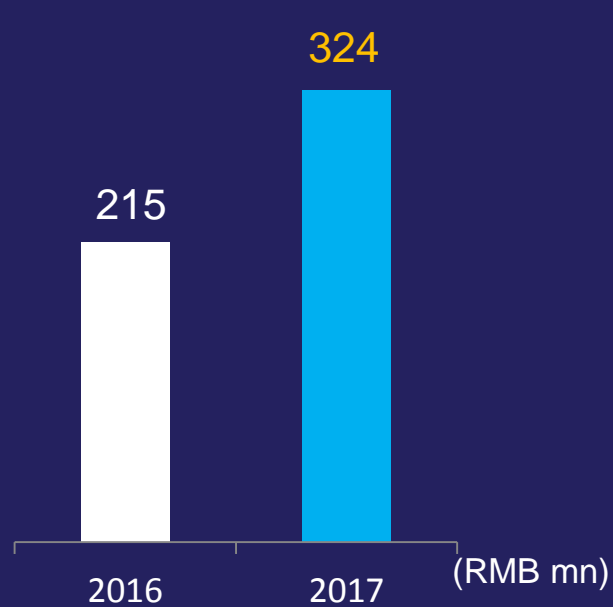
Appendix

Revenue and Cash Flow Growth Driven by Increased Cloud Mix

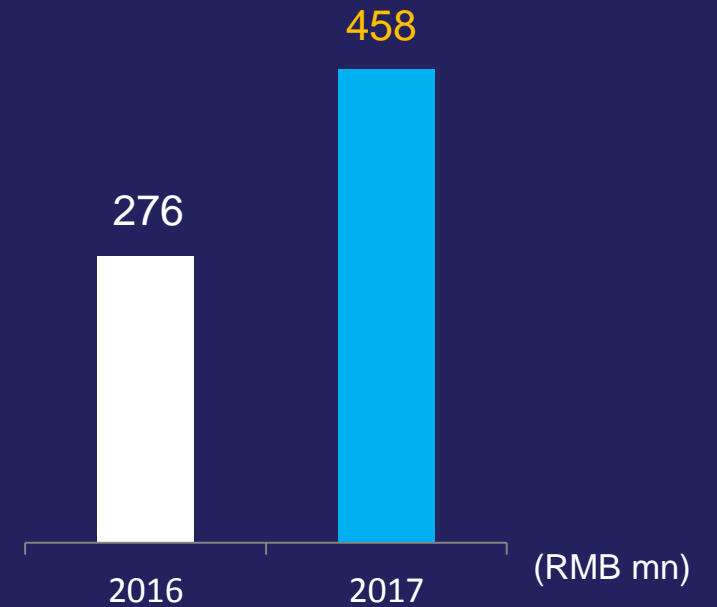
+23.7% YoY
Revenue



+50.8% YoY
Operating Profit*



+65.8% YoY
Free Cash Flow



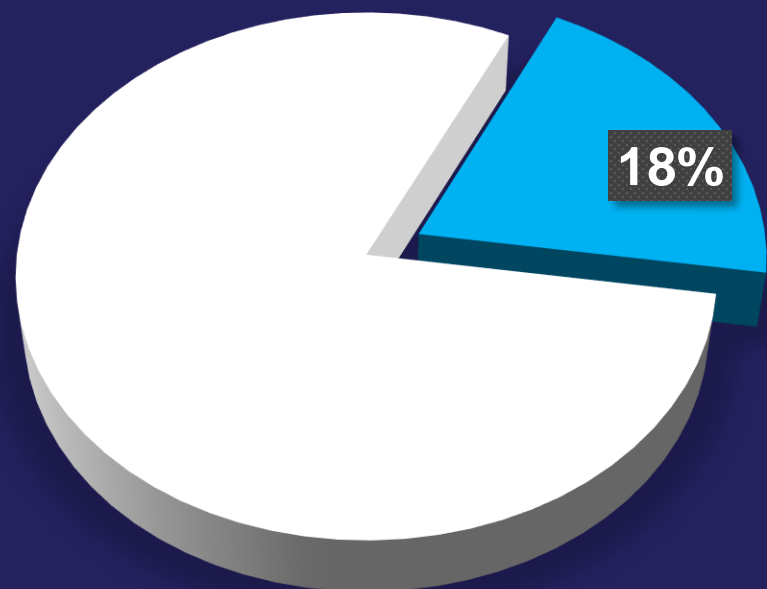
* Excludes real estate revaluation gains

2017 Business Highlights



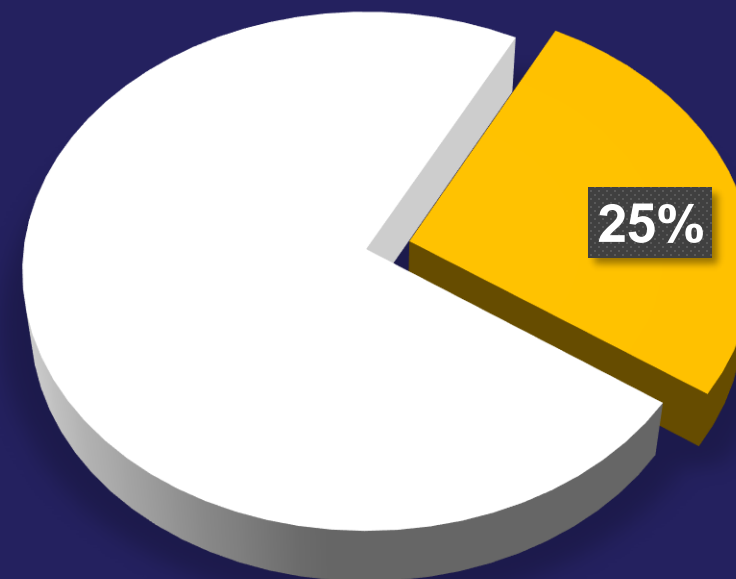
Growth of Cloud Services in 2017

Cloud Services in 2016



+67% YoY

Cloud Services in 2017





Business Highlights



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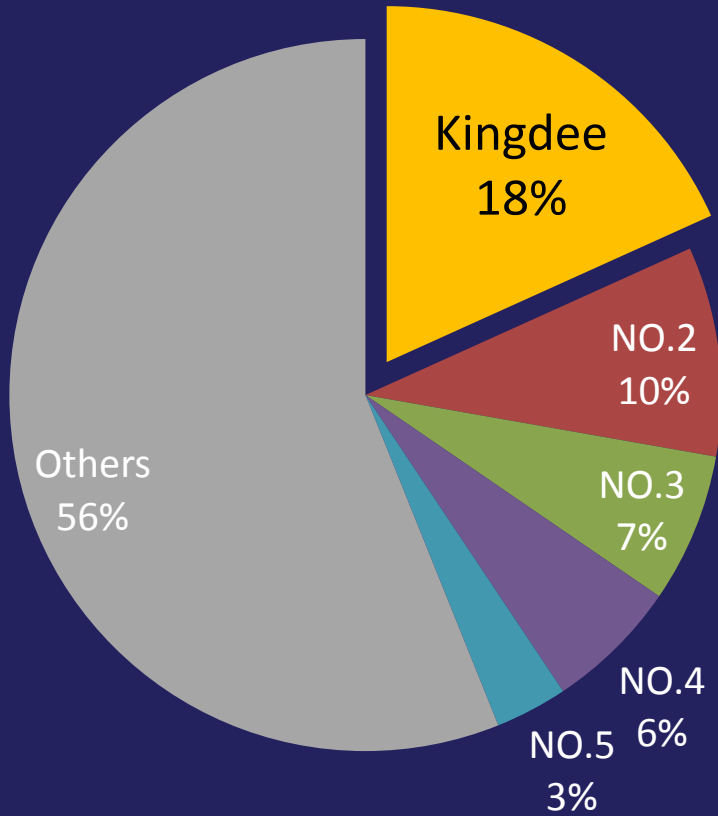


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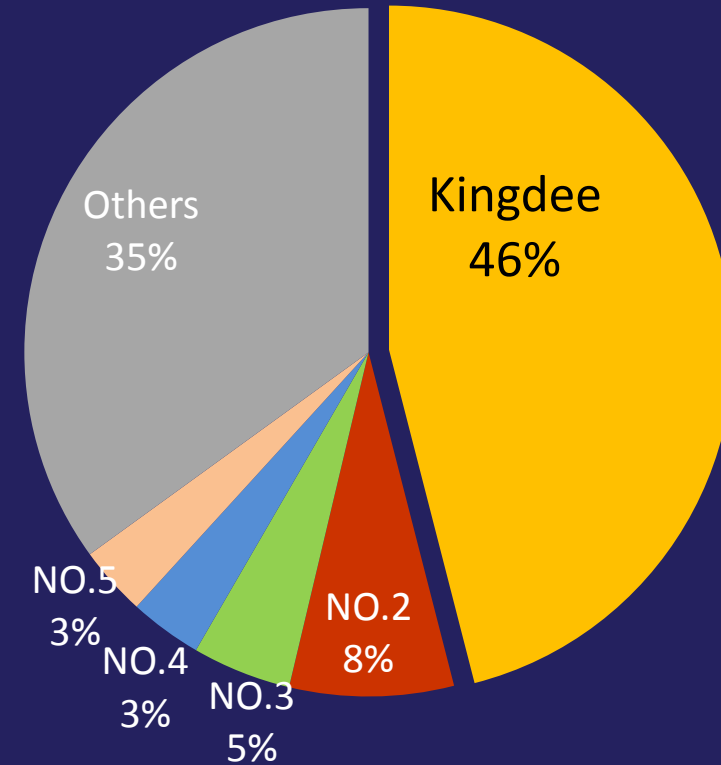


Appendix

Market Leader in China's Enterprise SaaS Market



No. 1 in China's SaaS ERP Market: **18%**

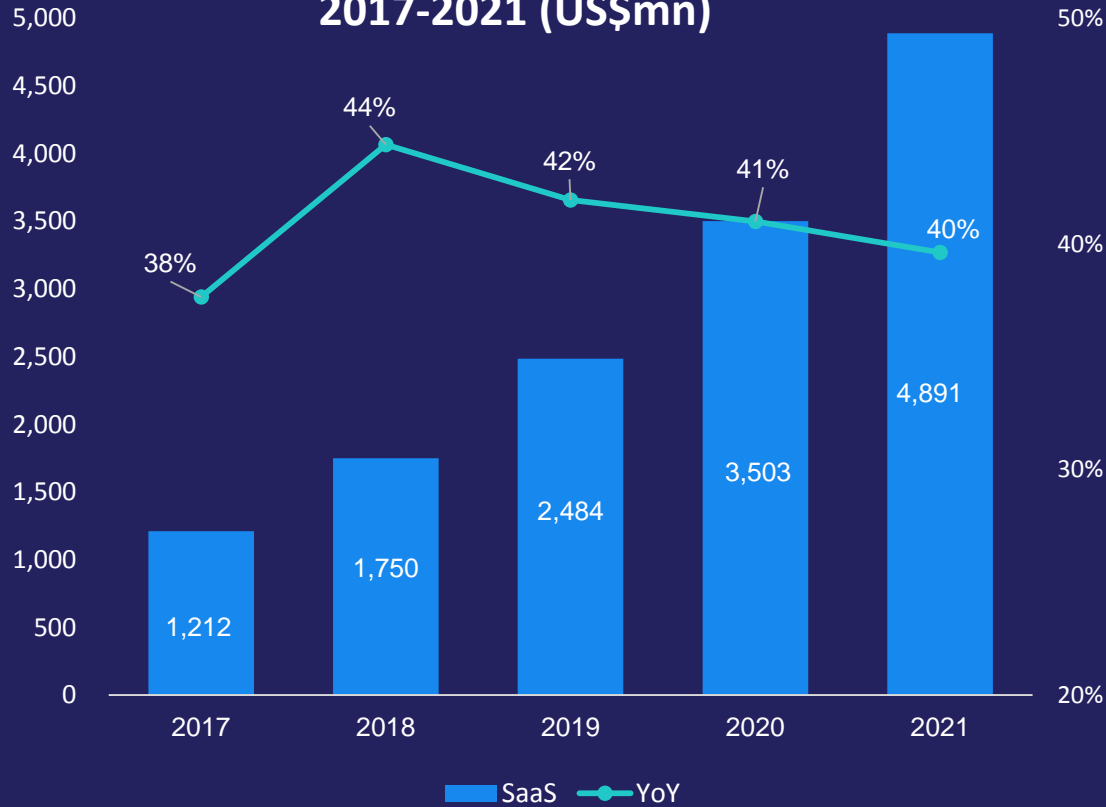


No. 1 in China's SaaS Financial Management Applications Market: **46%**

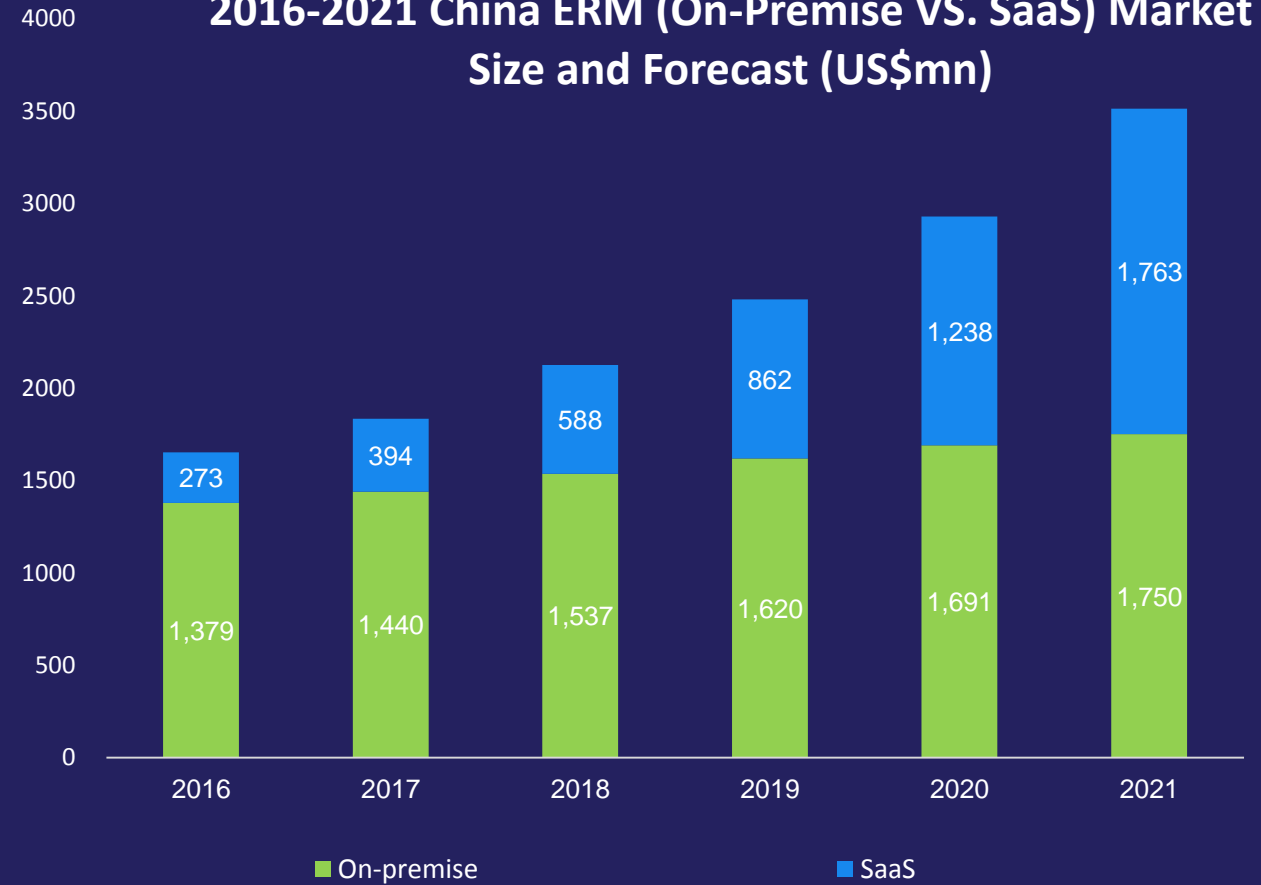
Source: IDC Semiannual Public Cloud Services Tracker, 2017H1

China Public Cloud SaaS Market Forecast

China Public Cloud SaaS Market Forecast 2017-2021 (US\$m)



2016-2021 China ERM (On-Premise VS. SaaS) Market Size and Forecast (US\$m)

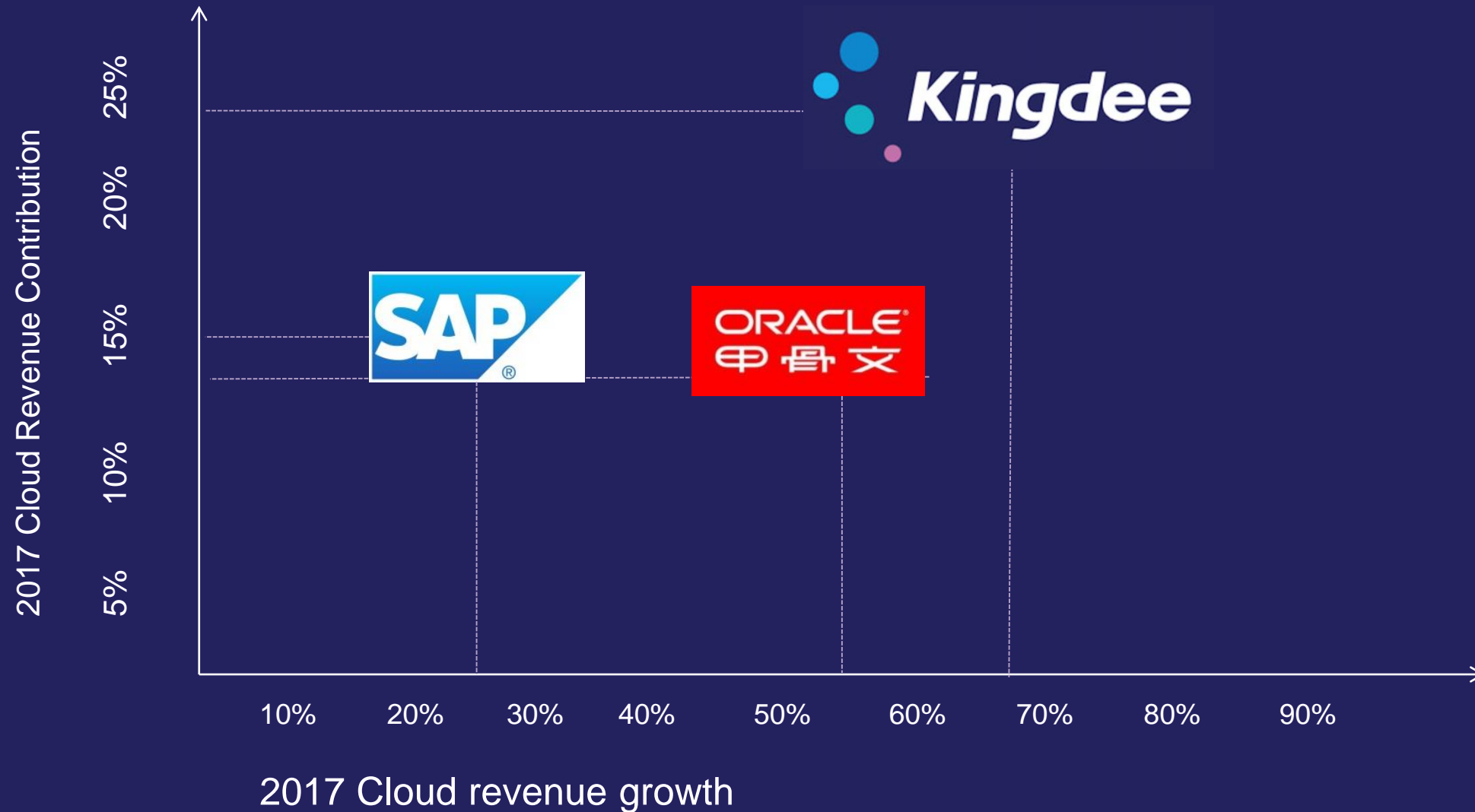


2016-2021 CAGR: 5%

2016-2021 CAGR: 45%

Source: IDC Semiannual Public Cloud Services Tracker, 2017H1

Widening Lead Over Global Peers in SaaS Transition





Business Highlights



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Appendix

Product to Platform



金蝶云平台 (Kingdee Cloud Platform)

cloud.kingdee.com

Kingdee Cloud, Innovative Model for Enterprise Management



Innovative Model for Enterprise Management

新模式

Innovative Model

以个体为中心。我为人人、人人为我

新技术

Disruptive Technology

ABCD + IoT

新体验

New Experience

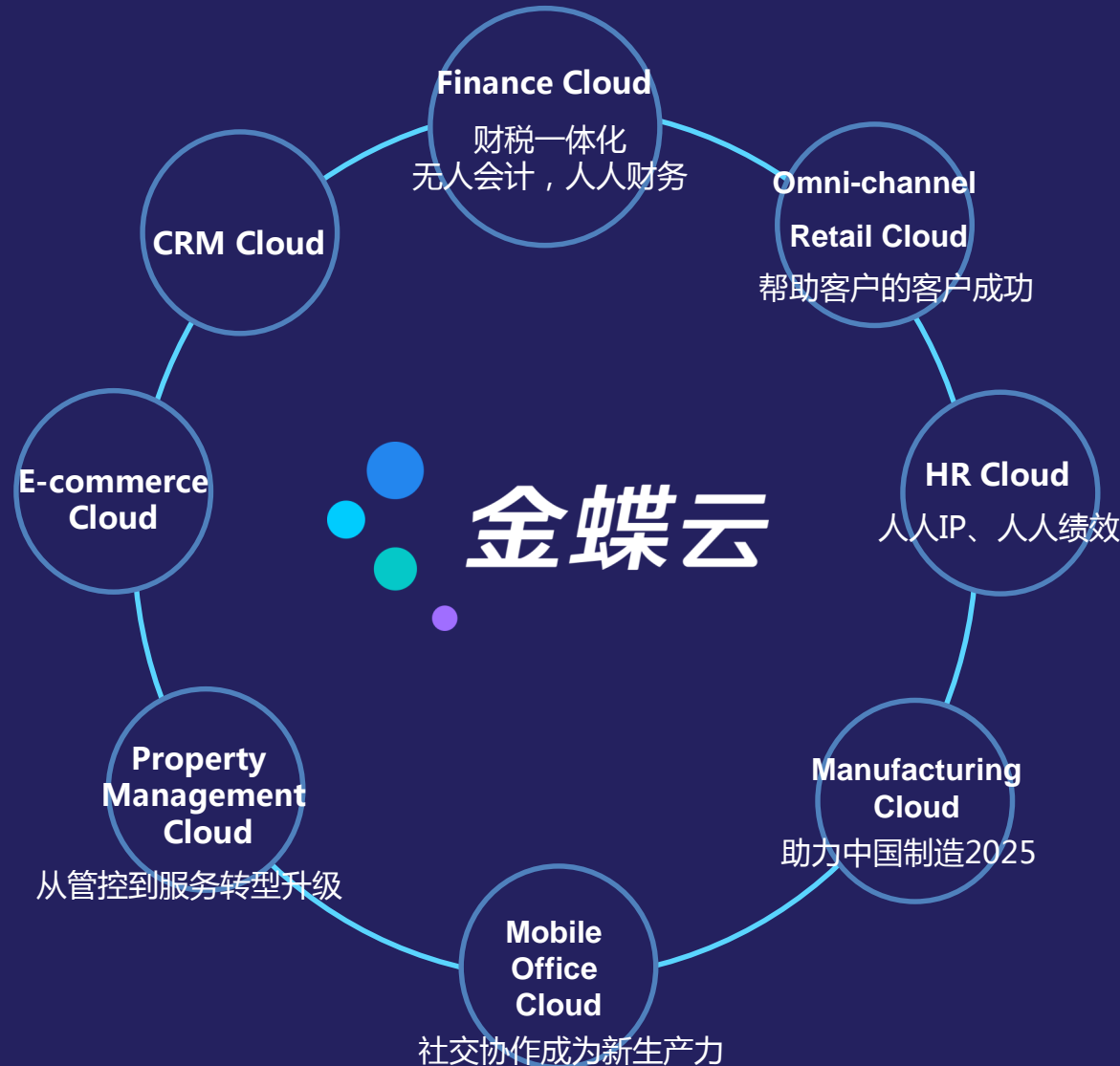
极致简约、按需个性

A : 人工智能、B : 区块链、C : 云计算、D : 大数据

The Most Comprehensive Cloud ERP Solution in the Market



Traditional ERP
Management control
and workflow

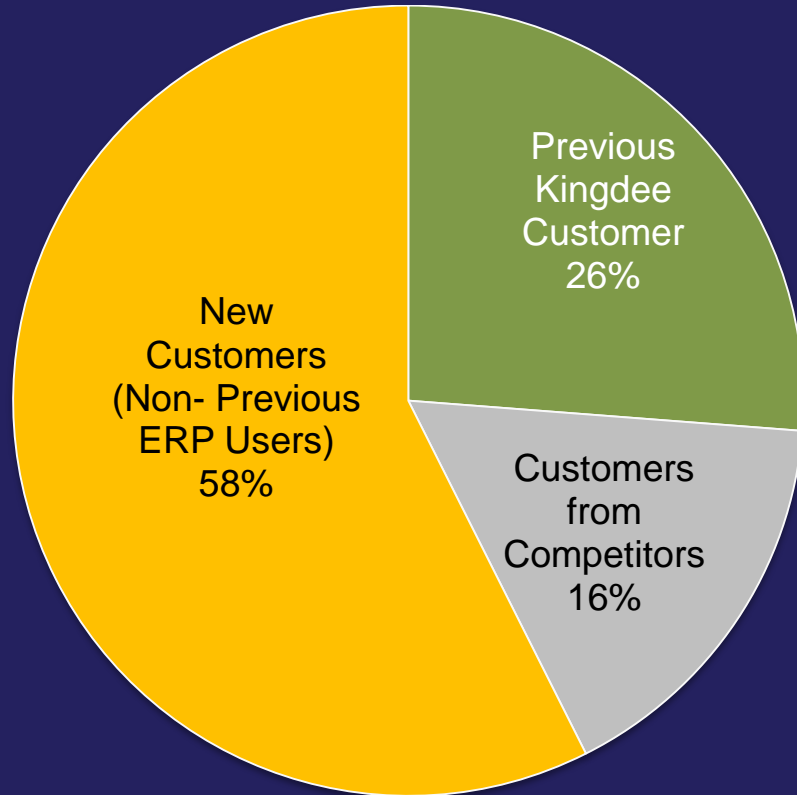


5500+
Customers

88%
Revenue
Growth

90%+
Retention
Rate

Kingdee Cloud is Attracting a New Customer Base



Tencent 腾讯

Coca-Cola



HUAWEI



OJI PAPER

NUOIO

Makeblock



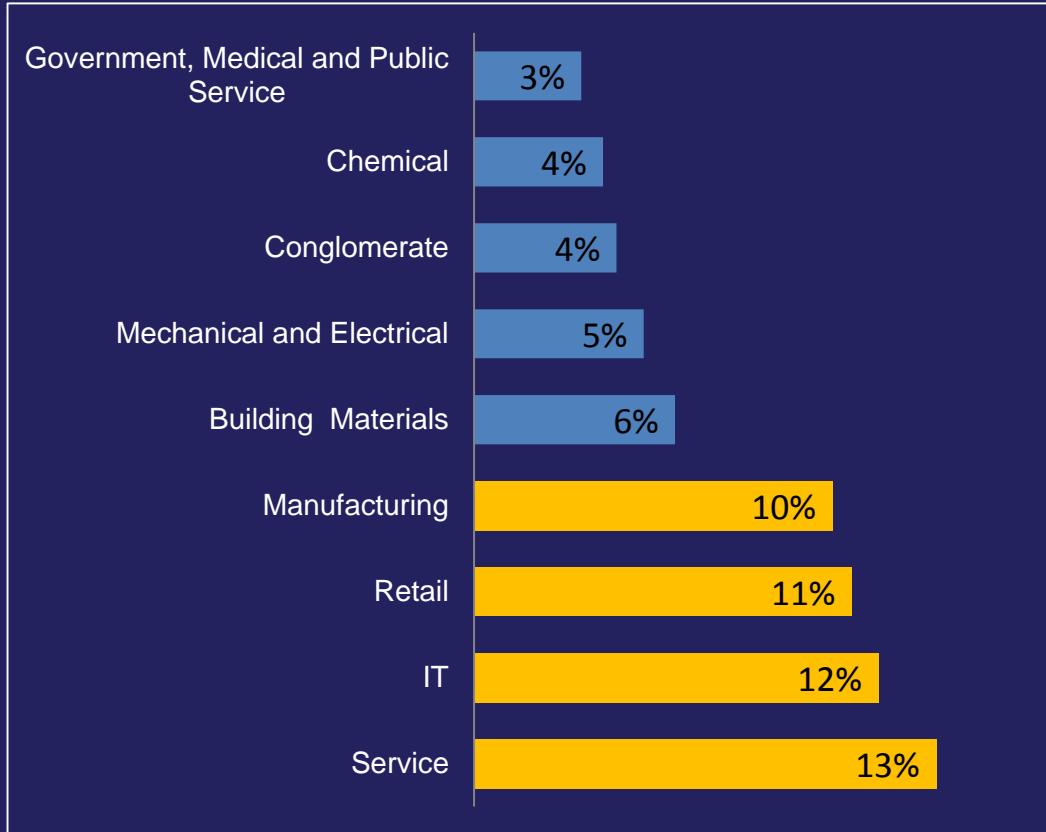
云南白药

oppo

74% of Kingdee Cloud customers are new to Kingdee

Average upgrade cycle is **3-4** months (vs ~6 months for on-premise solution)

New Economy Sectors are Major Adopters of Kingdee Cloud

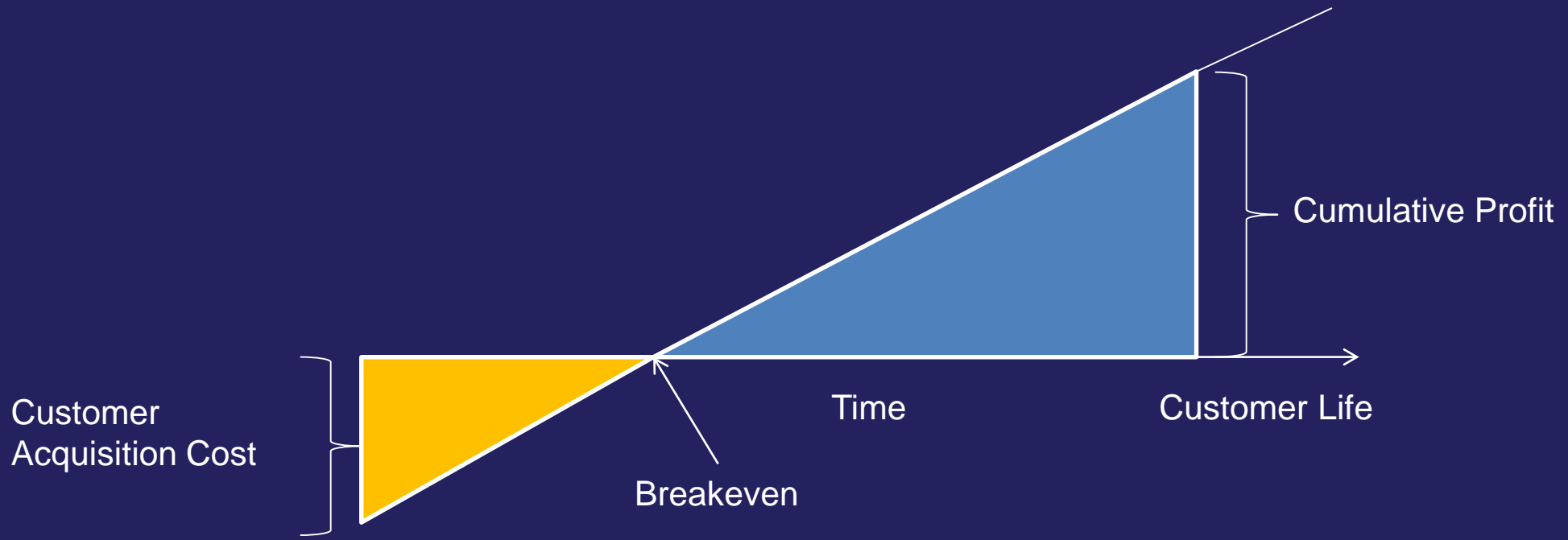


- Guangdong 32%
- Shanghai 11%
- Beijing 8%
- Shandong 6%
- Jiangsu 5%
- Zhejiang 5%

Understanding Short and Long-term Impact

Short-term margin pressure

Higher long-term customer value and margins

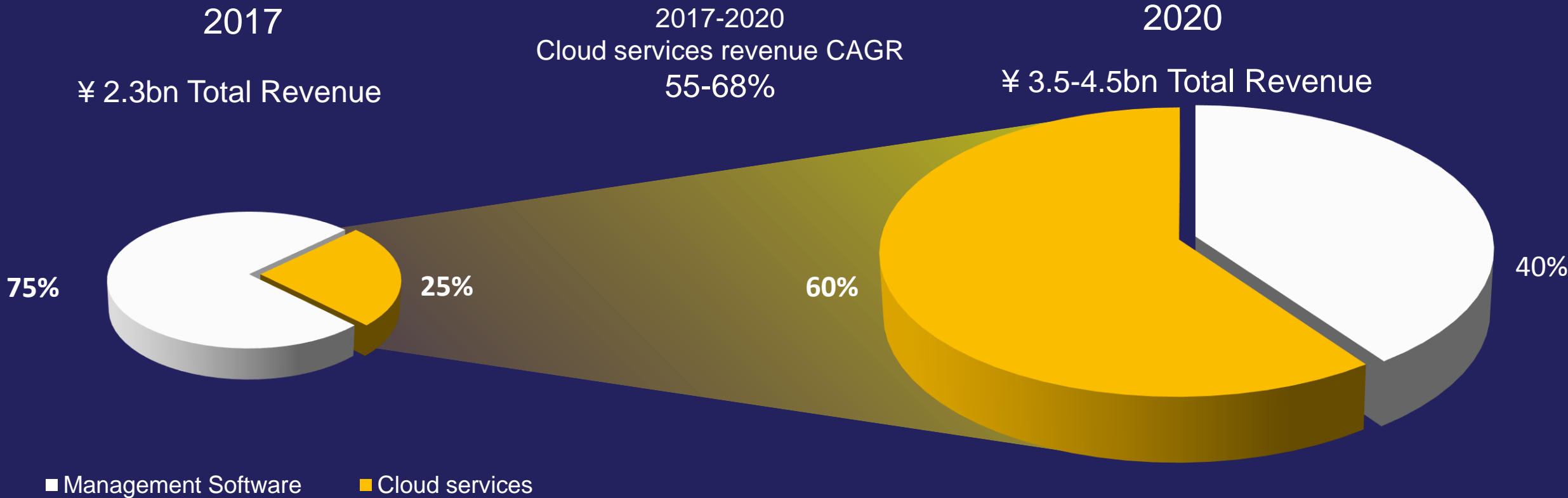


Cloud Margins Improving



Cloud on Track to Reach 60% of Total Revenue by 2020

Cloud revenue contribution



Focused on Long-Term Revenue Growth



Revenue and scale remains top priority for Cloud



Key metrics shifting to retention rate, cash flow



SaaS transition to weigh on margin expansion in short-run



Target long-term Cloud operating margin **30%+**

Improving long-term cash flow & margins

New Product Innovations

Accelerating Innovation & Investments to Enhance Enterprise Cloud Ecosystem

Launched the first AI financial assistant in China



Strategic cooperation with Huawei in areas including cloud computing and AI



Became the largest enterprise cloud services partner for Amazon Web Services in China



Kingdee Industrial Internet Platform Architecture



CRCC Zhuzhou Industrial Internet Platform Architecture



Invested the First Smart Manufacturing Innovation Center in Hunan Province For Transportation Technologies

Kingdee invested in Zhuzhou Guochuang Railway Technology LTD in February 2018

Other shareholders include CRRC Zhuzhou Locomotive, Zhuzhou SDIC, Tsinghua University

One of 15 national manufacturing innovation centers in China

Smart manufacturing reform is the top priority for the “Made in China 2025” directive





Business Highlights



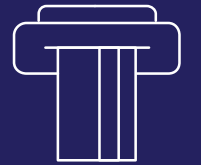
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Appendix

Management Software Business Review

Management Software

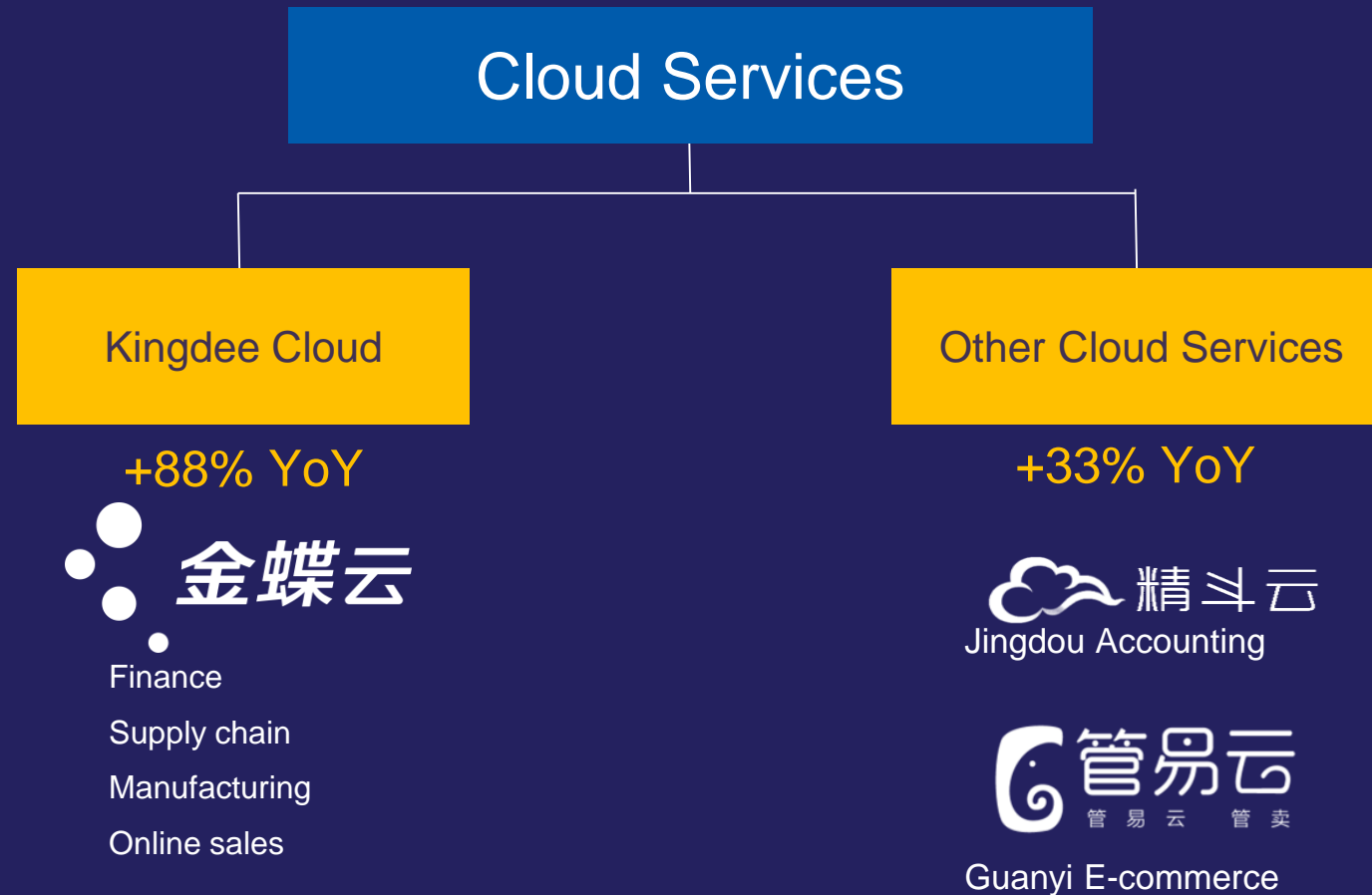


KIS revenue +21% YoY as small enterprise market remained healthy

EAS revenue +17% YoY as large enterprises continued to increase investments in software

Implementation and Maintenance revenues maintained double-digit growth driven by EAS demand

Management software segment saw YoY margin expansion driven by scale



Kingdee Cloud Highlights



No. 1 Cloud ERP in China

88%

YoY Revenue Growth

>90%

Retention Rate

>5500

Customers

>120%

YoY Customer Growth

Jingdou Accounting Highlights



**No. 1 Accounting Cloud
in China**

>40%

YoY Revenue Growth

>70%

Retention Rate

>150K

Paying Customers

>75%

YoY Paying Customer
Growth

Guanyi E-Commerce Highlights



**No. 1 E-Commerce Cloud
in China**

>34%

YoY Revenue Growth

>70%

Retention Rate

>6200

Customers

>20%

YoY Customer Growth

Financial Highlights



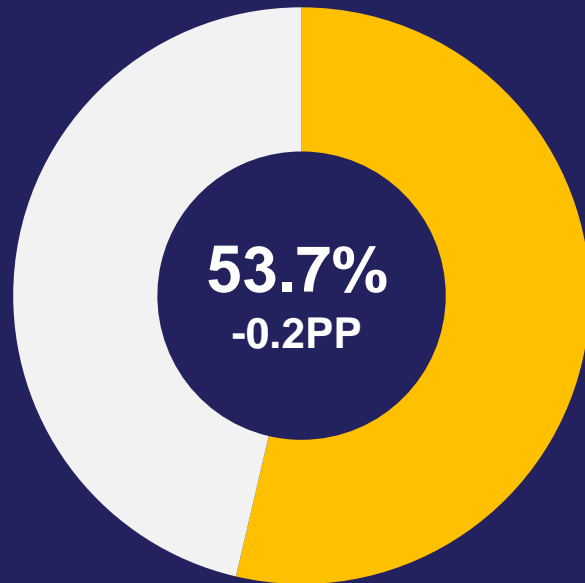
<i>(RMB'000)</i>	2017	2016	Change
Revenue	2,303,458	1,862,207	23.7%
Cost of Sales	-426,974	-347,961	22.7%
Gross Margin	81.5%	81.3%	+0.2pts
Total Operating Expenses	-1,901,402	-1,563,646	21.6%
Other Income & Gains	349,258	264,421	32.1%
Operating Profit	420,759	248,900	69.0%
Operating Margin	18.3%	13.4%	+4.9pts
Finance Costs– net	-27,112	-22,012	23.2%
Tax Expenses	-54,808	5,945	NM
Net Profit – equity holders	310,004	288,230	7.6%
Net Profit Margin	13.5%	15.5%	-2.0pts
Diluted EPS(cents)	10.75	9.74	10.4%
Fair value gains on investment properties	-96,419	-33,879	184.6%
Stock-Based Compensation	68,097	59,327	14.8%
Profit from discontinued operations	0	-73,734	NM
Tax effects and adjustments*	3,540	-44,964	NM
Non-GAAP Net Profit	285,222	194,980	46.3%
Non-GAAP EPS(cents)	9.89	6.59	50.1%

³² Note: The Group believes that providing non-GAAP financial measures may prove useful to investors and enable investors to evaluate financial results in the same way management does

* Note: non-GAAP tax provisions uses a long-term projected tax rate of 12.5%

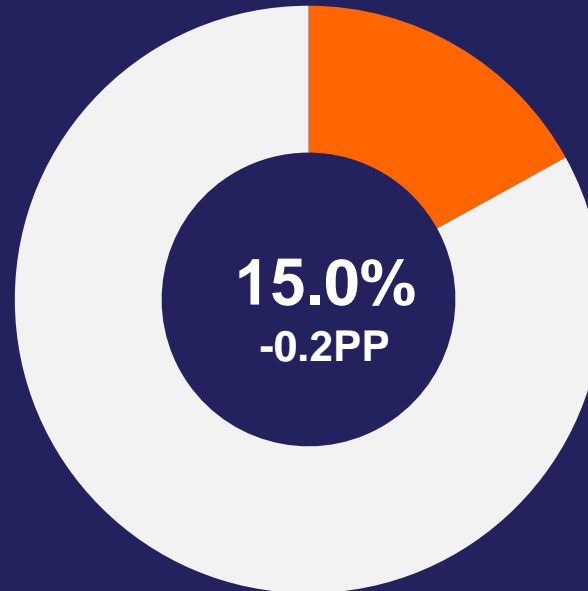
Operating Expense Breakdown

S&M
as a % of total revenue



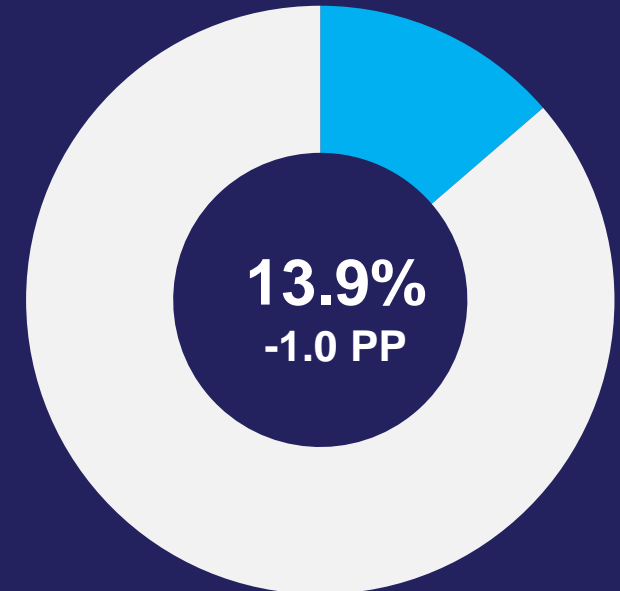
RMB 1,236mn

R&D
as a % of total revenue



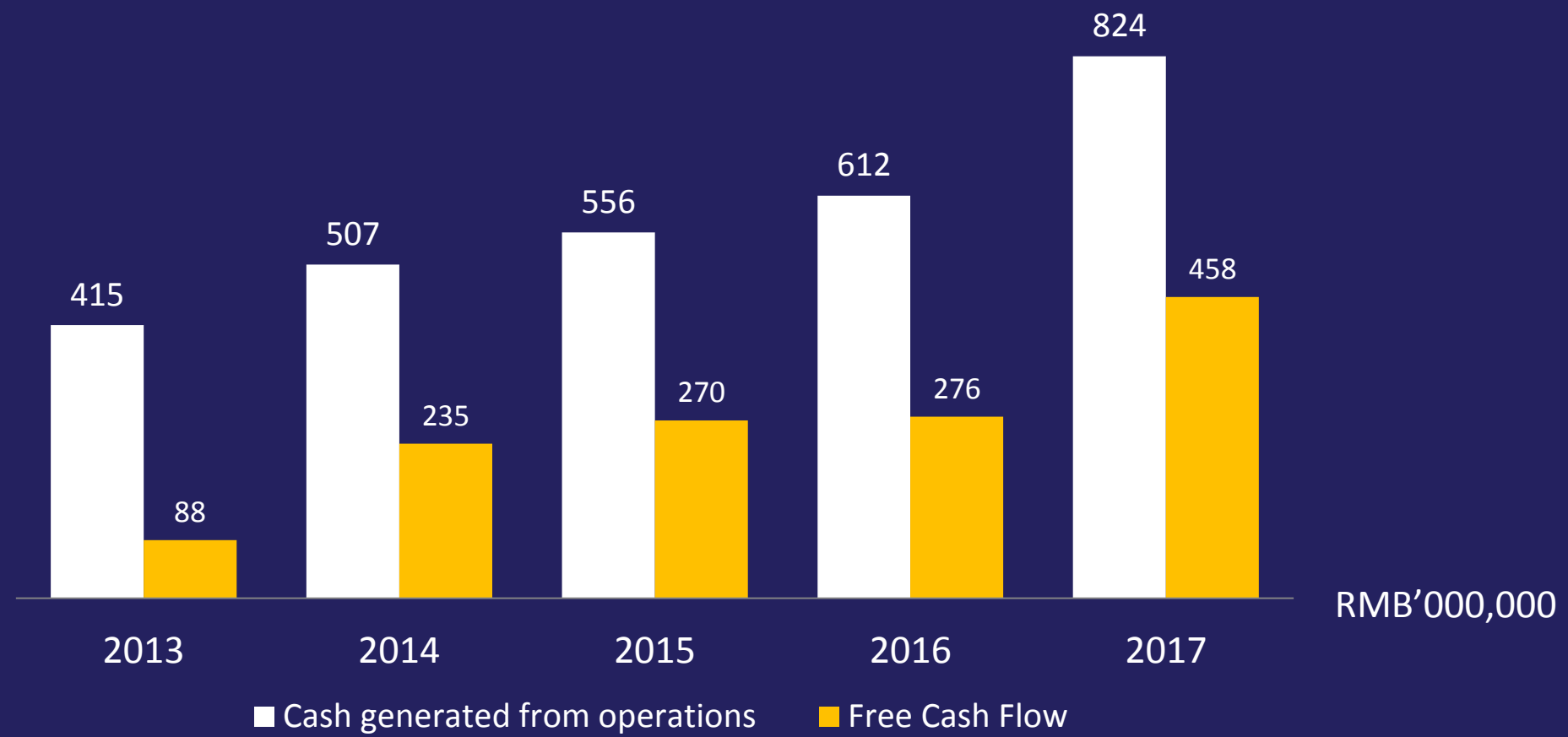
RMB 345mn

G&A
as a % of total revenue



RMB 320mn

Operating Cash Flow & Free Cash Flow*



*Note:

Free cash flow = Operating cash flow – | Purchases of property, plant and equipment | – | Purchases of intangible assets | + | Cash paid for software parks |



Business Highlights



Cloud Market
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Cloud Strategy
Update



CFO Report



Appendix

Investment Highlights

Market Leader in Enterprise Cloud Services in China

- Leader in SaaS ERP and SaaS financial software in China
- Significant leadership in both scope of services offering and product maturity vs. competitors
- Broad direct sales and distributor networks

Market-leading Cloud Ecosystem with Industry-leading Partners

- Industry-leading partners including JD.com, Amazon Web Services, and Huawei
- Continuing to expand product and services offering through investments in areas such as e-commerce and CRM
- Technology roadmap geared towards open-source and platform services

China Software Market Remains Very Healthy

- Medium and large enterprises viewing software as a core part of business model and to control cost
- Small and micro-sized companies increasingly adopting software to increase efficiency
- Shift towards digital business models is accelerating for all enterprises

Well-positioned as a Consolidator in the Cloud Services Market

- Tremendous cross-selling opportunities in existing customer base
- Company has Rmb2.5bn+ in cash and equivalent assets
- Generated Rmb450m+ in free cash flow in 2017 as recurring revenue base expands
- Cash will be used to supplement existing product and services offering through investments, and potential share buybacks and dividends

Total Revenue by Segments

<i>(RMB'000)</i>	2017	% of Total Revenue	2016	% of Total Revenue	Change
Management Software business	1,735,265	75.3%	1,521,383	81.7%	14.1%
- Sales of software license	878,100	38.1%	774,442	41.6%	13.4%
- Implementation	406,529	17.6%	346,718	18.6%	17.3%
- Maintenance	426,967	18.6%	378,477	20.3%	12.8%
- Others	23,669	1.0%	21,746	1.2%	8.8%
Cloud services business	568,193	24.7%	340,824	18.3%	66.7%
Total	2,303,458	100.0%	1,862,207	100.0%	23.7%

Software License by Segments

<i>(RMB'000)</i>	2017	% of Total Revenue	2016	% of Total Revenue	Change
KIS	332,864	14.5%	275,679	14.8%	20.7%
K/3	189,526	8.2%	189,964	10.2%	-0.2%
EAS	313,891	13.6%	268,943	14.4%	16.7%
Others	41,819	1.8%	39,856	2.1%	4.9%
Total software license turnover	878,100	38.1%	774,442	41.6%	13.4%

Total Revenue by Sales Channel

<i>(RMB'000)</i>	2017	% of Total Revenue	2016	% of Total Revenue	Change
Management Software business	1,735,265	75.3%	1,521,383	81.7%	14.1%
- Direct sales	257,823	11.2%	221,613	11.9%	16.3%
- Indirect sales	620,277	26.9%	552,828	29.7%	12.2%
- Services	833,496	36.2%	725,195	38.9%	14.9%
- Implementation	406,529	17.6%	346,718	18.6%	17.3%
- Maintenance	426,967	18.6%	378,477	20.3%	12.8%
- Others	23,669	1.0%	21,746	1.2%	8.8%
Cloud services business	568,193	24.7%	340,824	18.3%	66.7%
Total	2,303,458	100.0%	1,862,207	100.0%	23.7%

Other Gains

<i>(RMB'000)</i>	2017	2016	Change
VAT refund	171,837	147,447	16.5%
Government projects	52,340	45,582	14.8%
Rental income - net	68,236	70,597	-3.3%
Others	56,845	795	7050.3%
Total	349,258	264,421	32.1%
VAT % of Total Revenue	7.5%	7.9%	

Selling & Marketing Expenses

<i>(RMB'000)</i>	2017	2016	Change
Advertising and marketing	88,383	72,190	22.4%
Sales promotion	118,448	95,633	23.9%
Salary of sales persons	728,585	580,990	25.4%
Project cooperation fees	195,028	163,283	19.4%
Traveling	34,587	29,458	17.4%
Fixed costs	62,882	53,438	17.7%
Others	7,969	7,403	7.6%
Total	1,235,882	1,002,395	23.3%
S&M % of Total Revenue	53.7%	53.8%	-0.1pts

R&D Expenses

<i>(RMB'000)</i>	2017	2016	Change
Salaries and staff welfare	262,698	204,849	28.2%
Option & restricted stock expense	20,793	17,108	21.5%
Fix costs	51,107	51,007	0.2%
Travelling costs	9,411	9,348	0.7%
Others	1,308	1,291	1.3%
Total	345,317	283,603	21.8%
R&D % of Total Revenue	15.0%	15.2%	-0.2pts

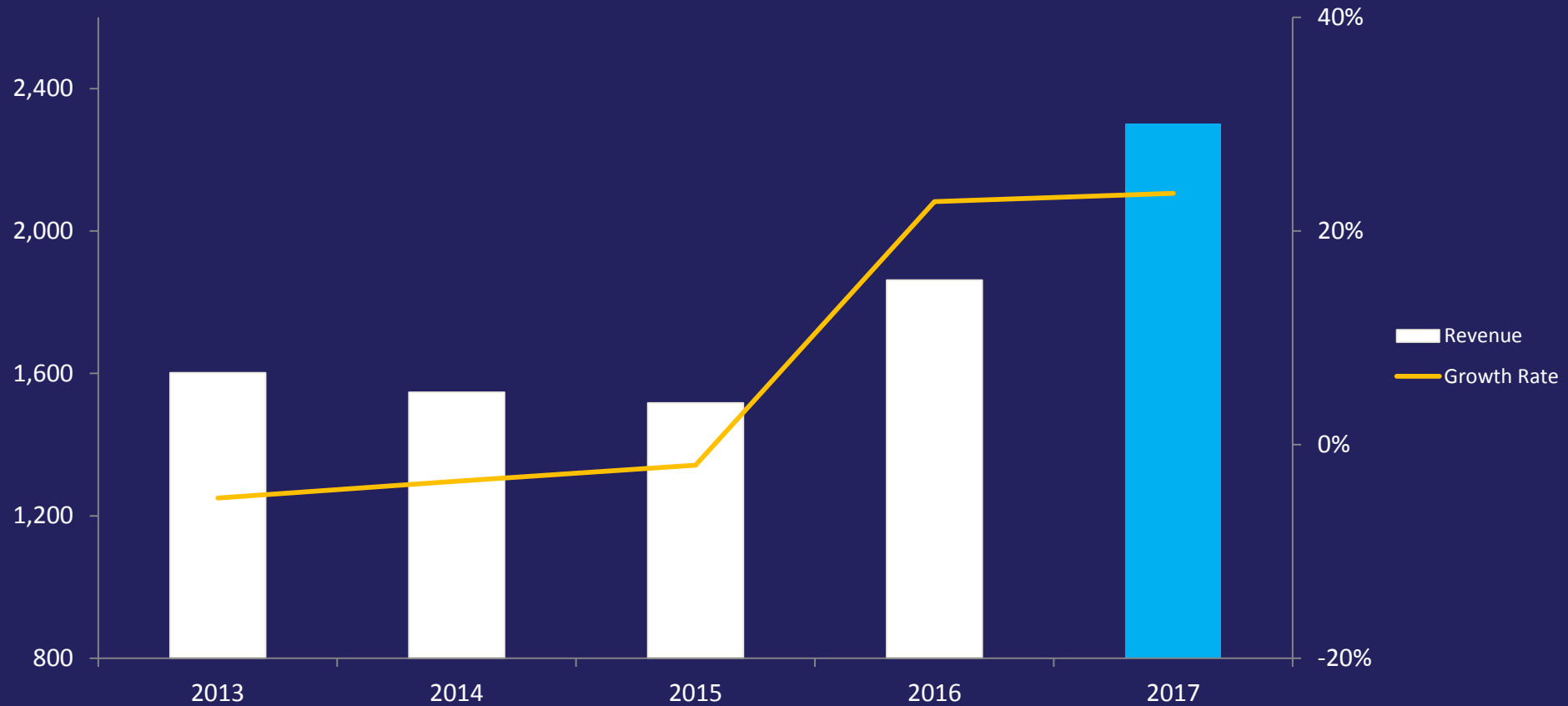
Administrative Expenses

<i>(RMB'000)</i>	2017	2016	Change
Salaries and staff welfare – G&A	130,511	109,803	18.9%
Option & restricted stock expense	47,304	42,219	12.0%
Professional service fee	21,309	27,445	-22.4%
Traveling	7,968	7,184	10.9%
Meeting expenses	6,293	5,578	12.8%
Provision for doubtful debts	38,923	26,653	46.0%
Fixed costs	66,842	57,773	15.7%
Others	1,053	993	6.0%
Total	320,203	277,648	15.3%
Admin. % of Total Revenue	13.9%	14.9%	-1.0pts

Balance Sheet Overview

<i>(RMB'000)</i>	31 Dec. 2017	31 Dec. 2016	Change
Trade and other receivables	319,557	357,918	-10.7%
Cash at bank and in hand	2,651,220	2,426,400	9.3%
Total assets	6,802,058	5,977,314	13.8%
Current assets	3,533,582	2,956,719	19.5%
Borrowings	1,348,529	1,496,271	-9.9%
Trade and other payables	678,120	453,873	49.4%
Total equity	4,043,080	3,536,166	14.3%

Historical Revenue Trend



*Note: 2015,2016 and 2017 revenue presented on continuing operations basis. Other years presented on reported basis

Value of Cloud to Kingdee

Increasing Customer Life-Time Value

	Traditional ERP	Kingdee Cloud
Revenue	One-time	Recurring
Service Fee Renewal Rate	20-30%	90%+
Frequency of Customer Contact	One-time	Constant
Upsell Opportunities for Value Added Services	Medium	High
Customer Payment Cycle	Based on delivery	Prepaid
Discounts Offered to Customers	High	Low or None
Opportunities for Price Adjustments	Low	High

Lower Cost Structure

	Traditional ERP	Kingdee Cloud
Maintenance	On-site consultant	Online/Phone
Upgrades	On-site consultant	Online
Costs to Support Legacy Products	High	Low
Customer Acquisition Cost for Upsells	High	Low
Sales Network Operating Leverage	Low	High

Value of Kingdee Cloud for Customers

Advantages of Kingdee Cloud

Complex organizational management
Accounting standards reconciliation
Omni-channel sales management
Amoeba management system support
Smart factory connectivity
...

Minimal upfront investment.
Annual fee only
...

Data stored on Amazon Web Services (AWS) and Huawei centers domestically in China.
AWS has received more than 30 global compliance certifications and accreditations
...

Response within 10 mins.
...



More Powerful Functions



Lower TCO

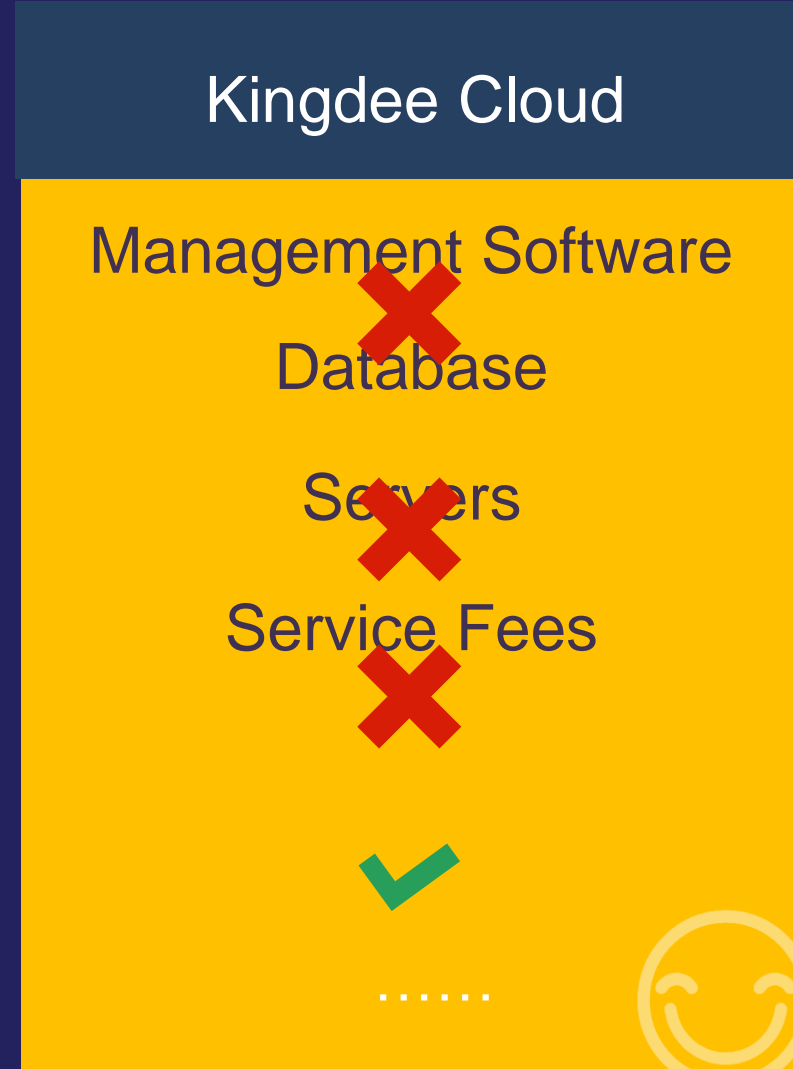
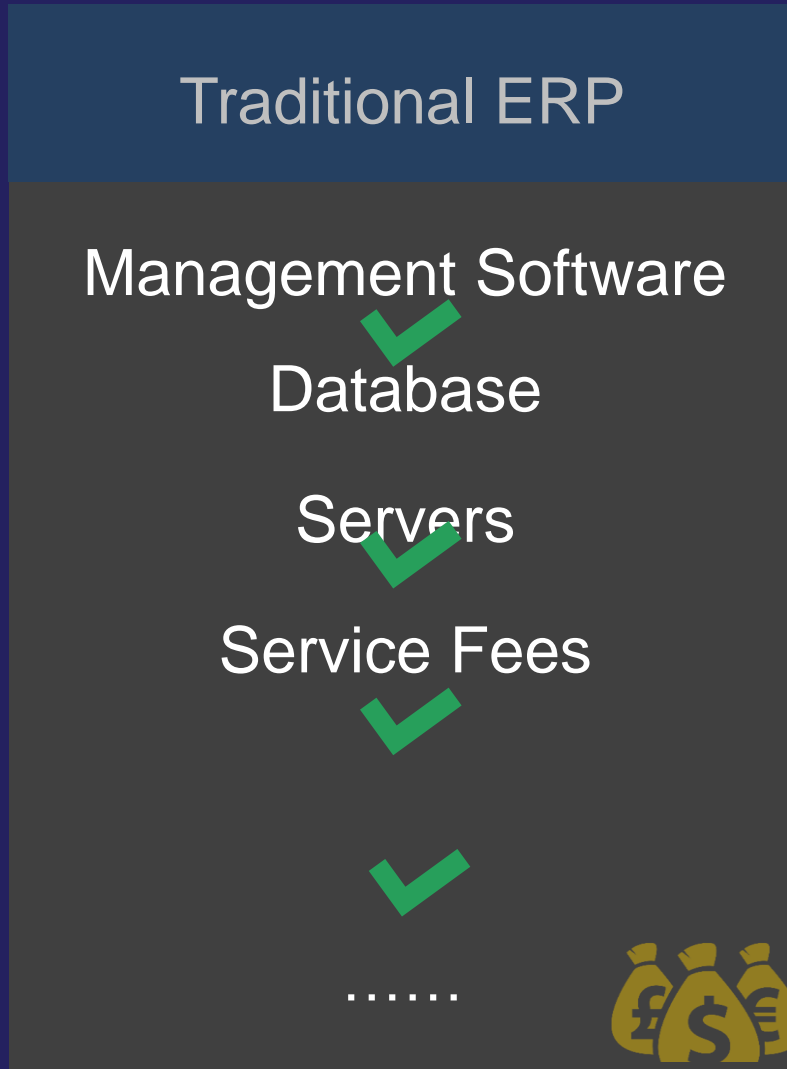


Improved Data Protection



Faster and More Convenient Support

New SaaS Payment Model



Average
Cost Savings

70%

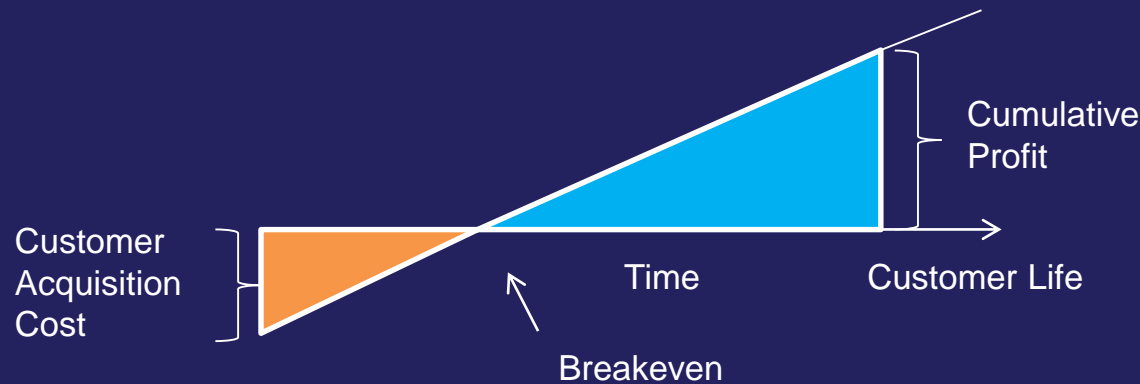


Based on total cost savings over 5-years

SaaS Economics

SaaS Lifetime Unit Economics

Customer Acquisition Cost, Average Cost of Service, and Attrition drive long-term economic value



Unit Lifetime Value Drivers

Customer Life:

Expected paying life of a customer. Defined as a function of attrition

Lifetime Value(LTV)

Cumulative value of \$1 annual fee over expected life (LTV=\$1/attrition)

Customer Acquisition Cost (CAC)

Cost to acquire \$1 annuity

Average Cost of Service (ACS):

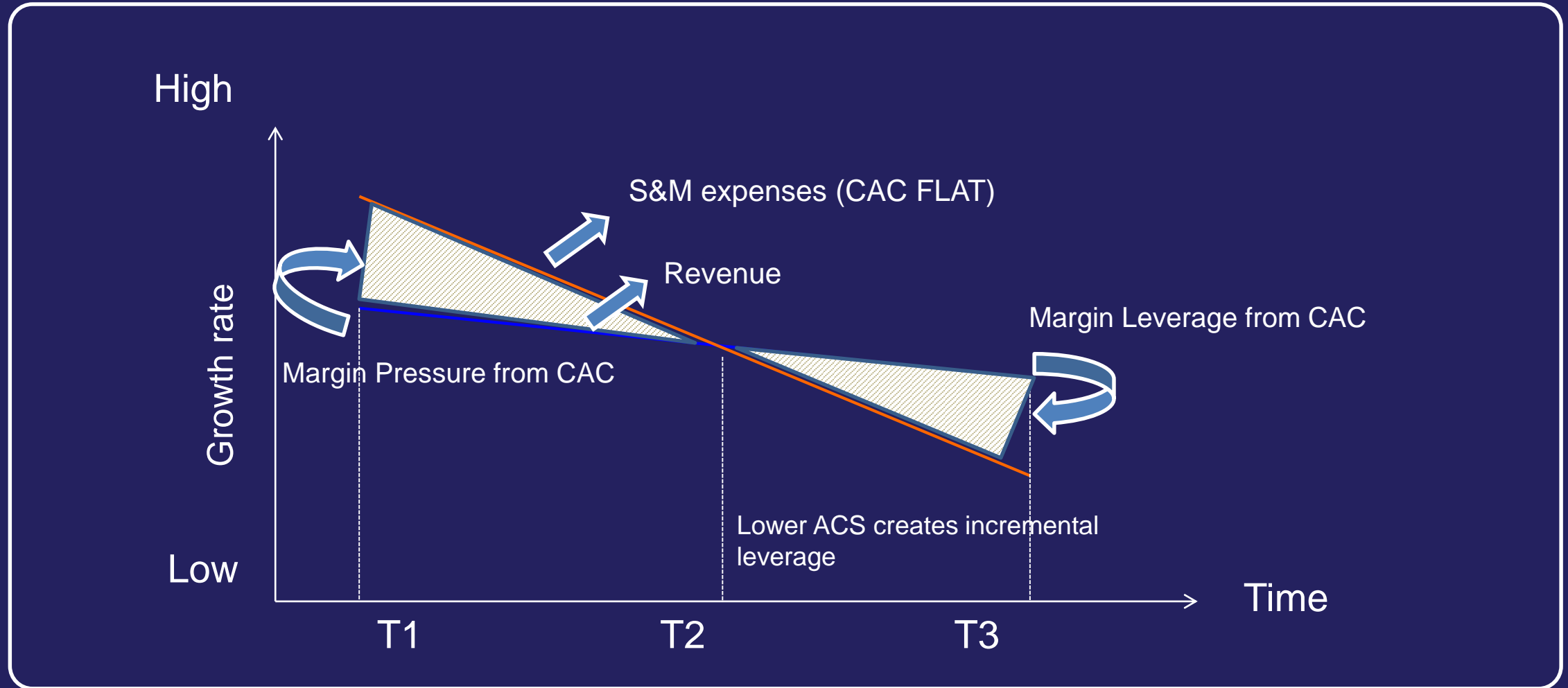
Cost to serve \$1 annuity over Customer Life

Growth and Operating Margin are linked

EXAMPLE:FOR ILLUSTRATION ONLY

	ABC Corp	XYZ Corp	
	Growth Priority	Margin Priority	
Beginning Revenue	100	100	
Less Attrition	(10)	(10)	Attrition: 10%
Plus New Business	90	10	
<hr/>			
= Ending Revenue	180	100	
Less CAC	(68)	(8)	Customer Acquisition Cost : 0.75
Less ACS	(126)	(70)	Average Cost to Service: 0.70
<hr/>			
= Operating Profit	(14)	23	
Current Op. Margin	(7%)	23%	
Growth	80%	0%	
Lifetime Unit Margin	22.5%	22.5%	(LTV-CAC-ACS)/LTV

SaaS Long-term Economics



Thank you!



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