

Kingdee International

2017 Interim Results Announcement

Stock Code: HK 268

17 August, 2017



Business
Highlights



Cloud Market
Update



Cloud Strategy
Update



CFO Report



Appendix



Business
Highlights



Cloud Market
Update



Cloud Strategy
Update



CFO Report

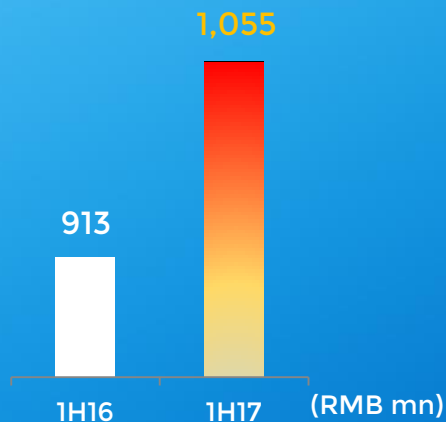


Appendix

Sustainable and Profitable Growth

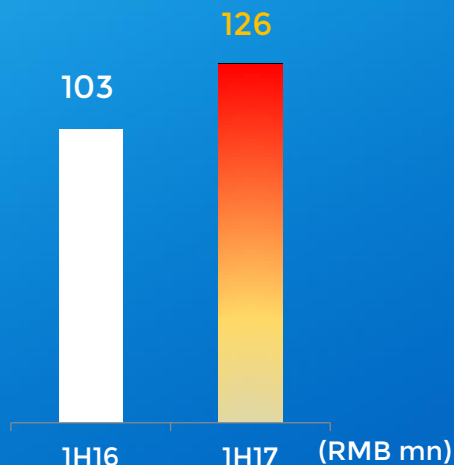
+20% YoY

Continuing Operations Revenue
(Reported Revenue +15% YoY)



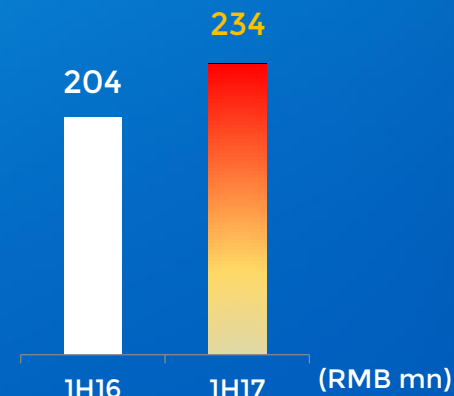
+22% YoY

Operating Profit



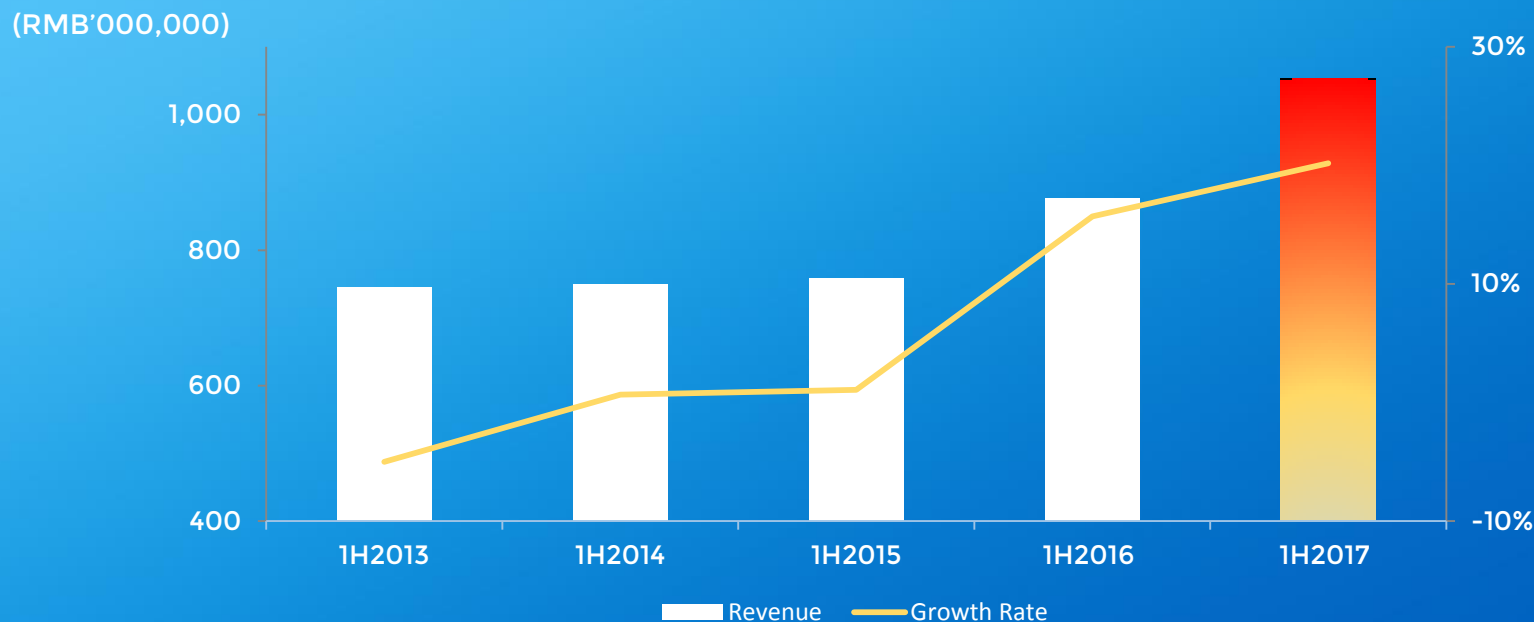
+15% YoY

Net Operating Cash Flow



Reported revenue includes discontinued operations that contributed to revenue in 1H16. The businesses were disposed of in mid-2016.

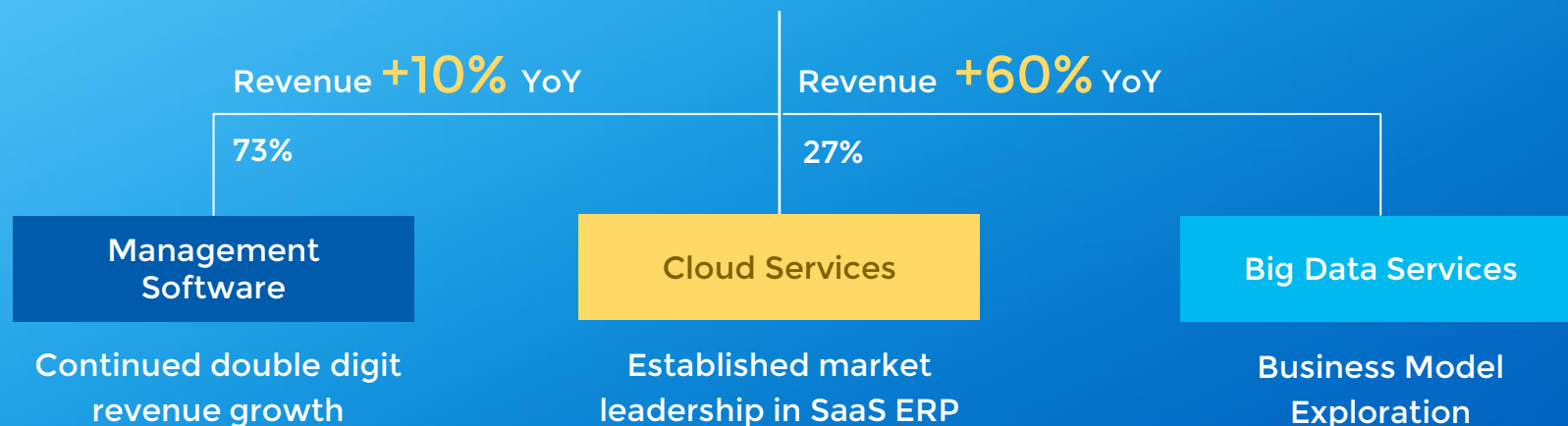
Revenue Growth Continues to Accelerate*



*Note: 1H2016 and 1H2017 revenue presented on continuing operations basis. Other years presented on reported basis. The difference is due to the disposal of certain non-core businesses in mid-2016 which contributed to reported revenue in 1H16.

2017 Interim Business Highlights*

Kingdee 金蝶



*Note: Revenue presented on continuing operations basis. On reported basis, Management Software and Cloud Services revenues were +7.5% YoY and +45% YoY, respectively. The difference is due to the disposal of certain non-core businesses in mid-2016 which contributed to reported revenue in 1H16.

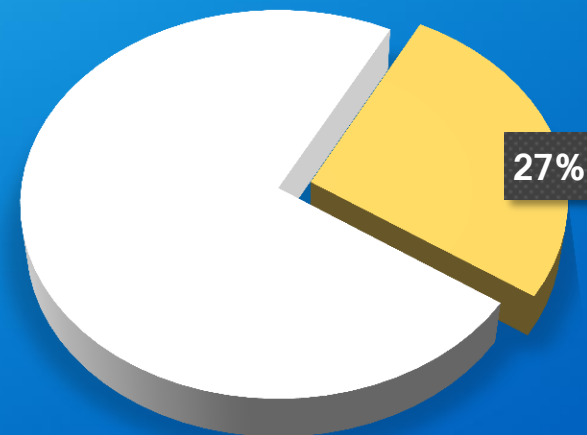
Growth of Cloud Services in 1H17*

Cloud Services in 1H16



+60% YoY

Cloud Services in 1H17



*Note: Cloud revenue presented on continuing operations basis. On reported basis, Cloud Services was +45% YoY and made up 21% and 27% of revenue in 1H16 and 1H17, respectively. The difference is due to the disposal of certain non-core businesses in mid-2016 which contributed to reported revenue in 1H16.



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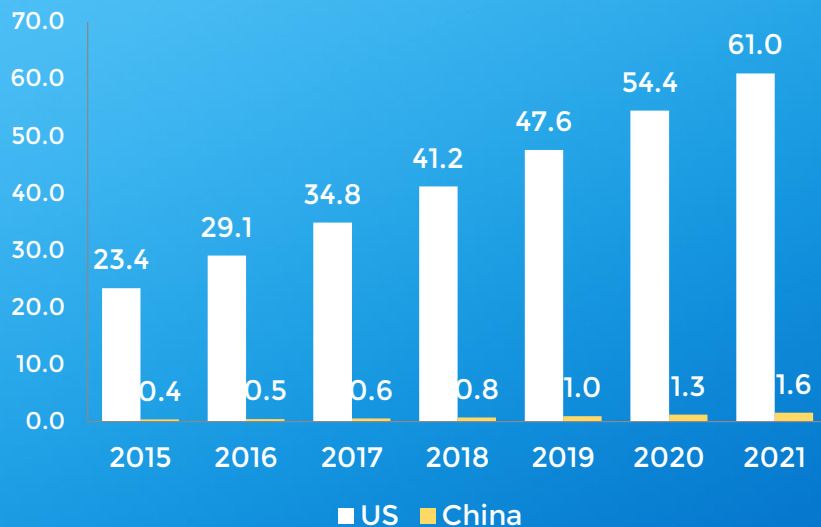
CFO Report



Appendix

Market Leadership in Enterprise SaaS ERP

Billion US\$ SaaS Market: US vs China

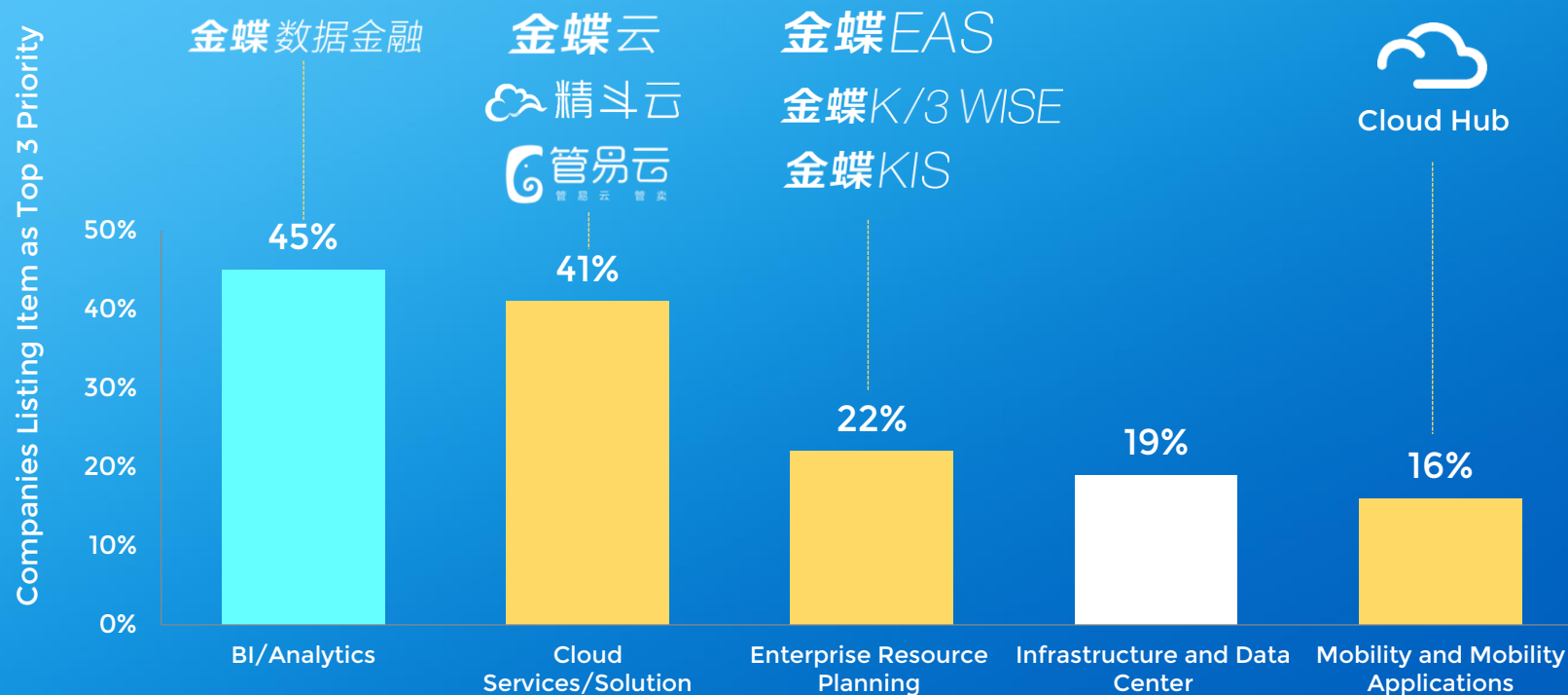


2015-2021 CAGR US: 17% VS China 25%

China Public Cloud Market



Most Important IT Categories for Companies in China



Market leader in 3 of the 5 most important IT investment areas for companies in China

Small & Micro-sized Enterprises Market

Cloud is driving opportunities for new business models

Increased Consumption Driving New
Retail Business Models

Intelligent Bookkeeping and
Decision Analytics Driving
Demand for AI Services

Demand for Big Data Services
such as Online Finance & Data
Analytics are Increasing



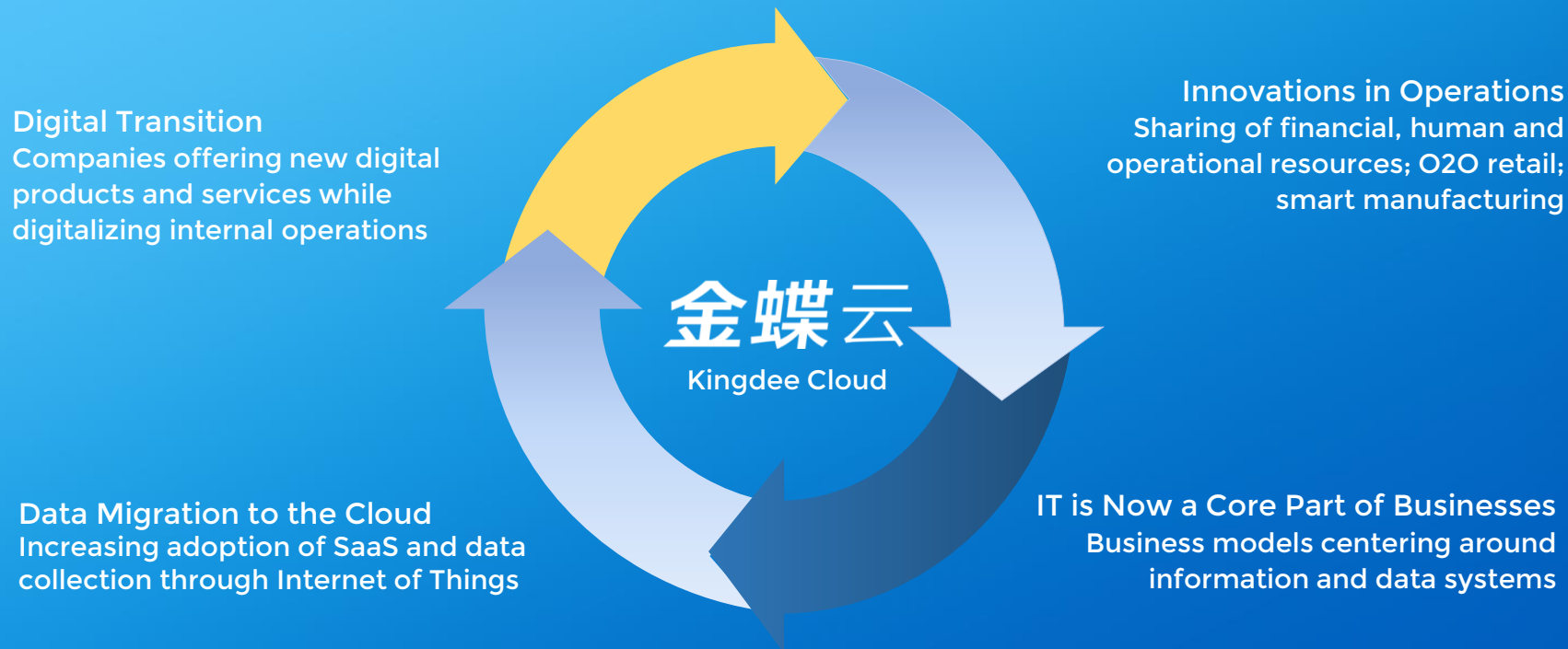
Increased Adoption of
Management Software to
Improve Efficiency

Government Policies Driving
Significant Growth in Number
of Small & Micro Enterprises

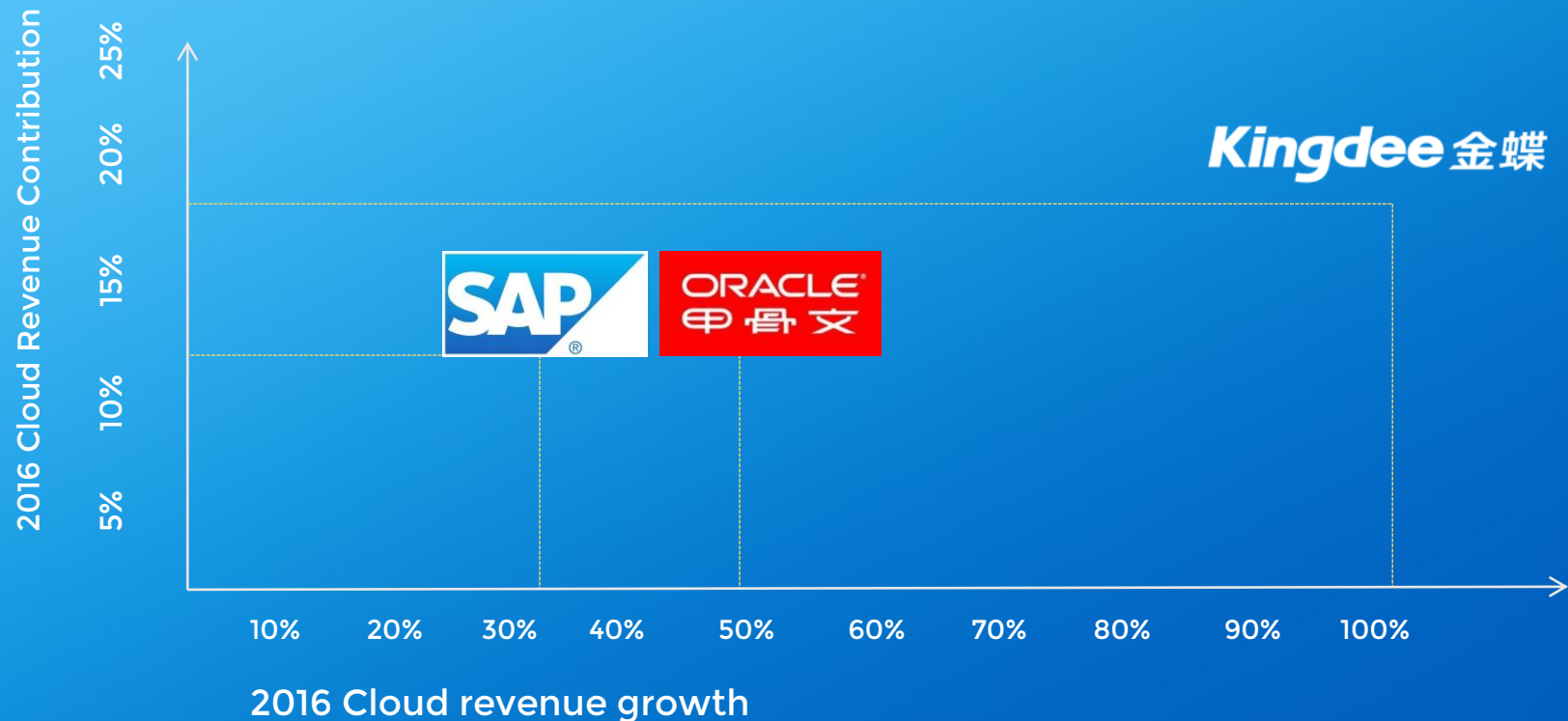
Small Businesses are Moving to
Mobile at an Accelerated Pace

Medium & Large-sized Enterprises Market

Businesses are built around IT systems



Leading Global Peers in SaaS Transition

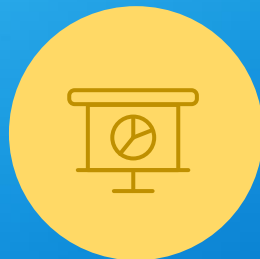




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Appendix

Kingdee Cloud ERP is now

金蝶云

Kingdee Cloud, Ignite the Potential of Enterprises



Finance Cloud



Human Resources
Cloud



Mobile Office
Cloud



Supply Chain
Cloud



Omni-channel
Marketing Cloud



Manufacturing
Cloud

Kingdee Cloud Market Positioning

Tencent 腾讯



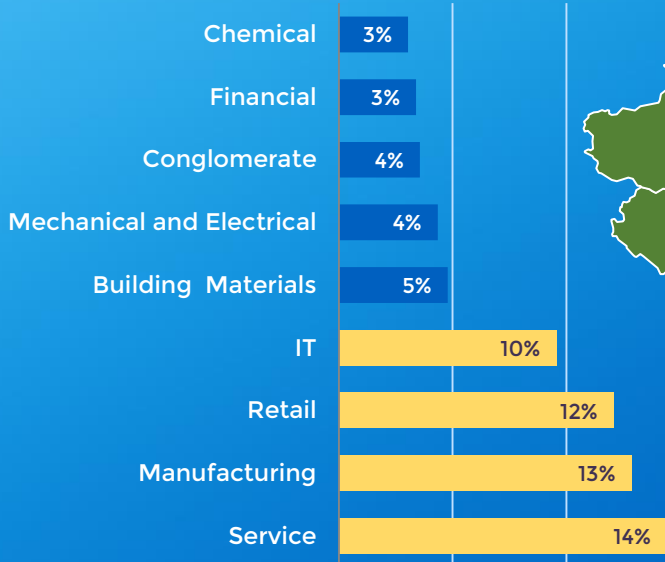
Expanding Kingdee's Addressable Market

Kingdee Cloud Market Performance

Client Base

- New customers predominately from new economy sectors
- Previous clients of Jingdou Cloud or KIS or competitors
- Previous Kingdee customers who have new management or operational requirements

Industry



- Guangdong 36%
- Shanghai 12%
- Shandong 6%
- Zhejiang 5%
- Beijing 5%
- Jiangsu 5%

Customer Geographical Breakdown

Costal regions currently leading SaaS ERP adoption

Kingdee Cloud Customer Case Study: OfO

Finance

One-stop financial solution
for 100+ global offices

Connected with mobile
office for improved
efficiency



Supply Chain

>100 Cities: Complete
value chain control from
material procurement to
assembly of bicycles to
market deployment

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) 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

Traditional ERP

Management Software ✓
Database ✓
Servers ✓
Service Fees ✓
.....


Kingdee Cloud

Management Software ✗
Database ✗
Servers ✗
Service Fees ✓
.....


Average
Cost Savings

70%



Based on total cost savings over 5-years

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

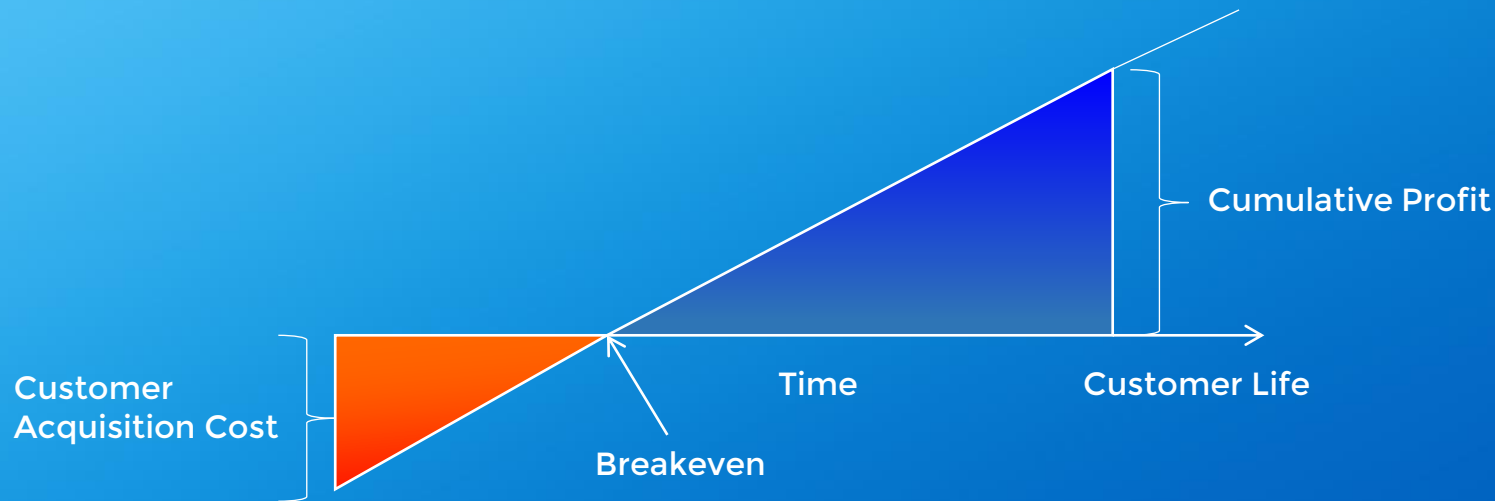
Lower Cost Structure

	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

Understanding Short and Long-term Impact

Short-term margin pressure

Higher long-term customer value and margins

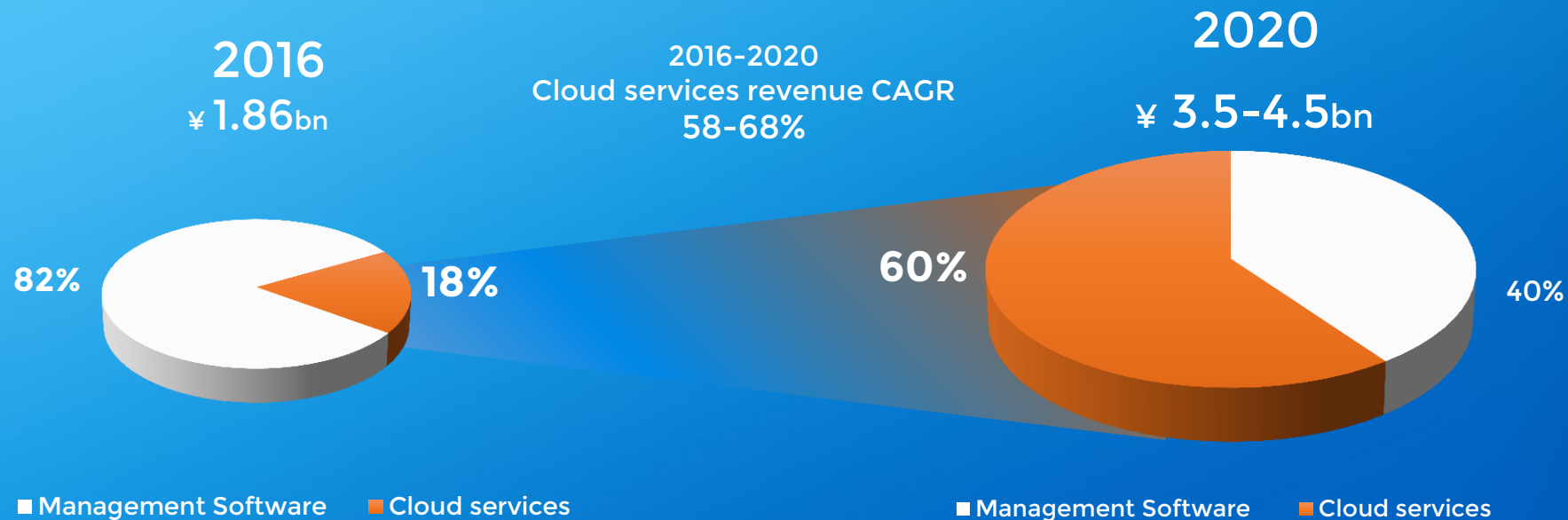


Growth Translates to Profit



Targeting 6-8x Cloud Revenue Growth from 2016-2020

Cloud revenue contribution



Focused on Long-Term Revenue Growth



Revenue growth remains top priority for SaaS



Key metrics shifting to cash flow, retention rate



SaaS transition to weigh on margin expansion in short-run



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

Improving long-term cash flow & margins



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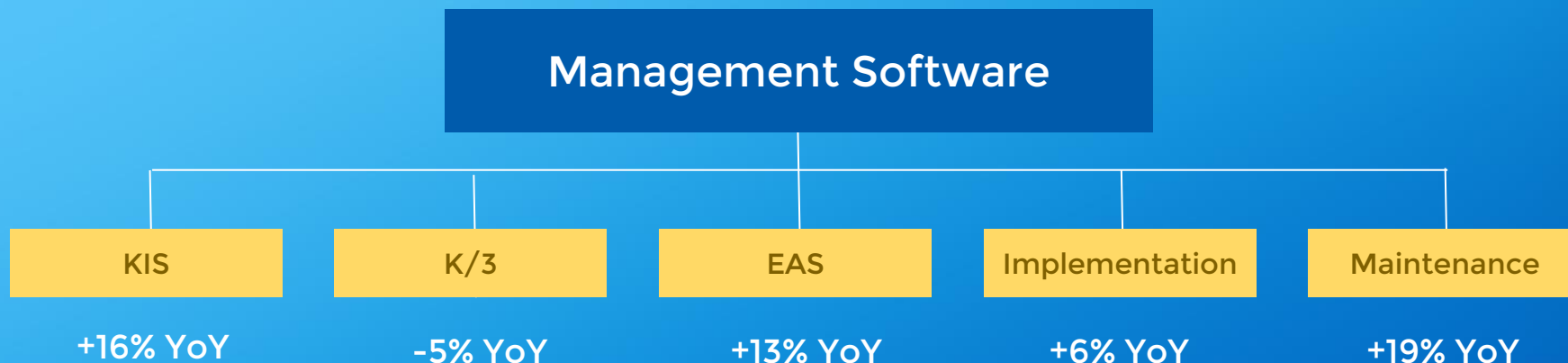


CFO Report



Appendix

Management Software Business Review*



Continued Strength from Large and Small Enterprises

KIS revenue +16% YoY as small enterprise market remained robust

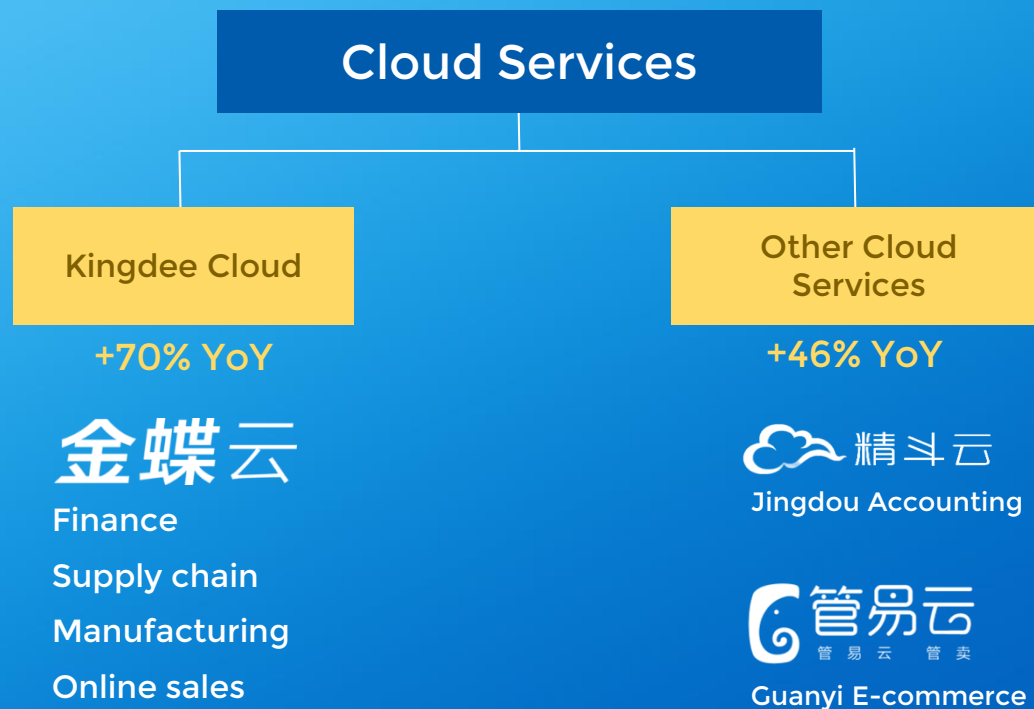
EAS revenue +13% YoY as upgrade demand from large enterprises remained strong

Services revenue saw double-digit growth due to demand from EAS customers

Management software operating margins remained stable YoY

*Note: Revenue presented on continuing operations basis. On reported basis, Implementation and Maintenance revenues were +5% YoY and +14% YoY, respectively. The difference is due to the disposal of certain non-core businesses in mid-2016 which contributed to reported revenue in 1H16.

Cloud Business Review*



*Note: Cloud revenue presented on continuing operations basis. On reported basis, Other Cloud Services revenue was -14% YoY due to disposal of non-core businesses in mid-2016 which contributed to reported revenue in 1H16.

Kingdee Cloud Highlights

金蝶云

No. 1 Cloud ERP in China

>70%

YoY Revenue
Growth

>90%

Retention Rate

>3500

Customers

>80%

YoY Customer Growth

Jingdou Accounting Highlights



**No. 1 Accounting Cloud
in China**

>55%

YoY Revenue
Growth

>70%

Retention Rate

>125K

Paying Customers

>50%

YoY Paying Customer
Growth

Guanyi E-Commerce Highlights



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

>45%

YoY Revenue
Growth

>70%

Retention Rate

>5800

Customers

>25%

YoY Customer Growth

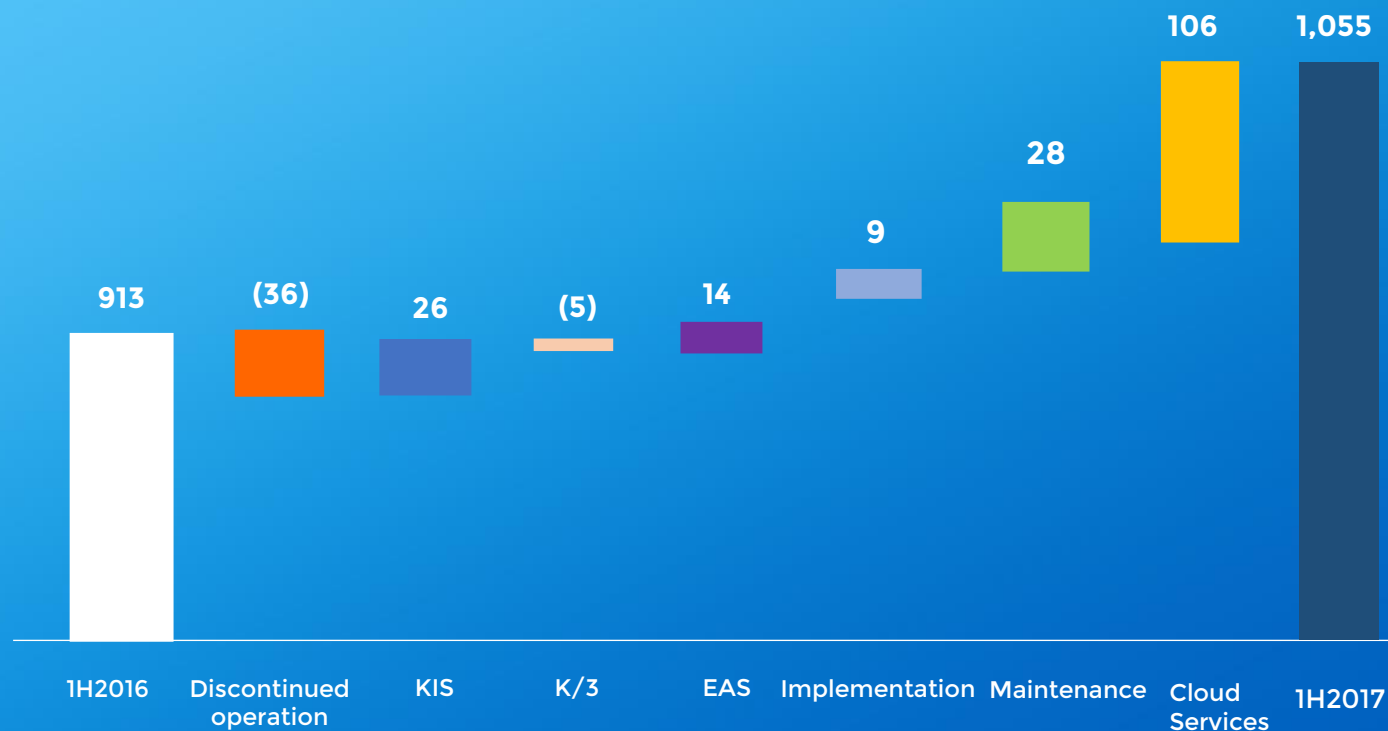
Financial Highlights

<i>(RMB'000)</i>	1H2017	1H2016	Change
Revenue	1,054,658	913,204	15.5%
Cost of Sales	-209,712	-188,687	11.1%
Gross Margin	80.1%	79.3%	+0.8pts
Total Operating Expenses	-846,698	-754,375	12.2%
Other Income & Gains	127,252	132,470	-3.9%
Operating Profit	125,500	102,612	22.3%
Operating Margin	11.9%	11.2%	+0.7pts
Finance Costs- net	-14,057	-17,480	-19.6%
Tax Expenses	-5,206	41,629	NM
Net Profit - equity holders	106,435	134,834	-21.1%
Net Profit Margin	10.1%	14.8%	-4.7pts
Diluted EPS(cents)	3.640	4.386	-17.0%
Stock-Based Compensation	26,341	32,057	-17.8%
Tax effects and adjustments*	-3,293	-55,007	-94.0%
Non-GAAP Net Profit	129,483	111,884	15.7%
Non-GAAP EPS(cents)	4.520	3.863	17.0%

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%

Continuing Operations vs. Reported Revenue Reconciliation

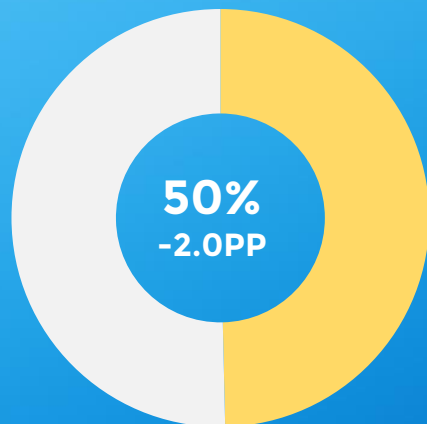


(RMB'000,000)

Reported revenue up 15.5% YoY. Continuing operations basis revenue up 20.3% YoY

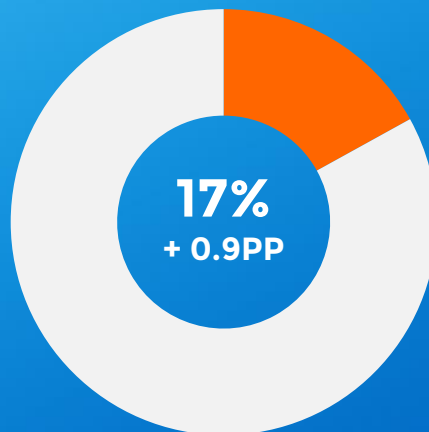
Operating Expense Breakdown

S&M
as a % of total revenue



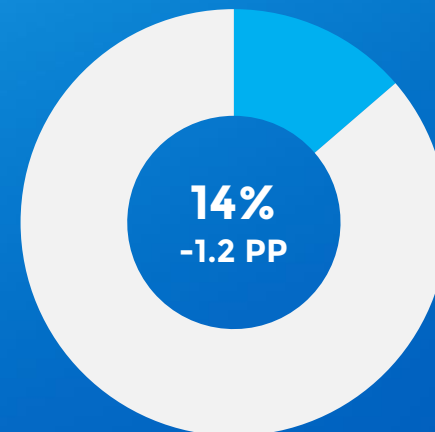
RMB 523mn

R&D
as a % of total revenue



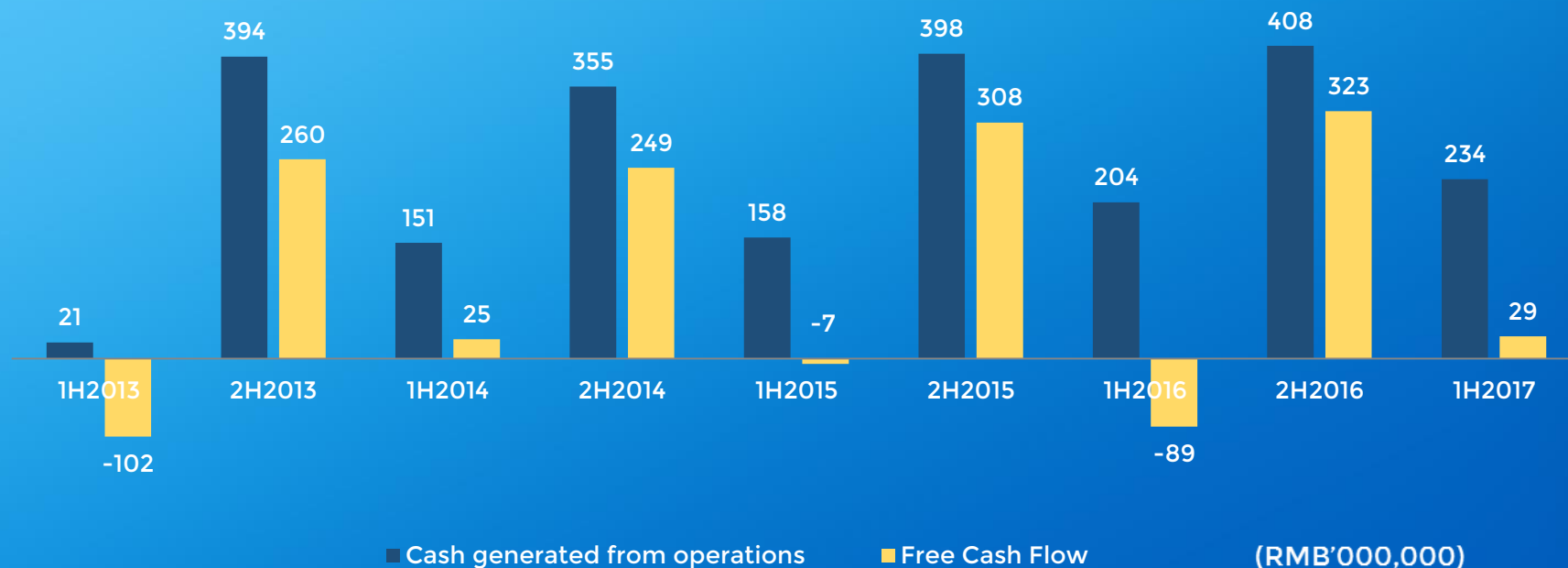
RMB 179mn

G&A
as a % of total revenue



RMB 144mn

Operating Cash Flow & Free Cash Flow*



*Note:
 Free cash flow = Operating cash flow - I Purchases of property, plant and equipment I - I Purchases of intangible assets I + I Cash paid for software parks I

Financial Summary

Cloud Momentum Continues to Sustain

Cloud revenue grew 60% YoY in 1H17 and made up 27% of total revenue

Kingdee Cloud revenue made up 17% of total revenue, up 70% YoY

Cloud loss margins continue to shrink as business gains scale

Management Software Continues to See Double-Digit YoY Revenue Growth

Demand for KIS and EAS products continue to drive solid revenue growth for the management software business

IT procurement behavior for Chinese enterprises is changing, and software and informational systems are becoming a core part of business purchases for companies

Management Software margins remained stable YoY

Financially Strong

Cash and cash equivalents of ~RMB2 billion provides ample buffer against economic volatility

Operating cash flow continued to improve, up 15% YoY, driven by prepayments from SaaS customers and improved receivable controls

Company remains open to opportunities to return value to shareholders through programs such as share repurchases

Prudently evaluating strategic investment opportunities to further drive growth and supplement existing businesses



Business Highlights



Cloud Market Update



Cloud Strategy Update



CFO Report



Appendix

Investment Highlights

A Leader in enterprise resource planning (ERP) and enterprise Cloud service in China

- Market leader with over 6.6 million ERP and Cloud customers in China
- Help companies of all sizes manage their businesses for more than 20 years
- A growing ecosystem of over 2,000 partners in China

Favorable long-term growth drivers in key market segments

- ERP, CRM, Accounting, HR, Ecommerce, Enterprise Internet Services
- SaaS ERP and accounting products for companies of all sizes
- Technological change and customer demand driving sustainable future growth

Market-leading Cloud & mobile Internet services and product roadmap

- #1 market share in Cloud-based ERP and accounting software and services
- Industry leading partners including JD.com and Amazon Web Services
- Broad range of horizontal and industry vertical solutions
- Continuous innovations with new functionalities and new products

Solid foundation for success

- Tremendous cross-selling opportunities in existing customer base
- Focus on growing recurring revenues from subscription, maintenance and support
- Significant opportunity for operating leverage

Total Revenue by Segments (Reported)

<i>(RMB'000)</i>	1H2017	% of Total Revenue	1H2016	% of Total Revenue	Change
Management Software business	771,836	73.2%	718,294	78.7%	7.5%
- Sales of software license	420,687	39.9%	392,223	43.0%	7.3%
- Implementation	170,622	16.2%	162,933	17.8%	4.7%
- Maintenance	175,441	16.6%	153,549	16.8%	14.3%
- Others	5,086	0.5%	9,589	1.1%	-47.0%
Cloud services business	282,822	26.8%	194,910	21.3%	45.1%
Total	1,054,658	100.0%	913,204	100.0%	15.5%

Total Revenue by Segments (Continuing Operations Basis)

<i>(RMB'000)</i>	1H2017	% of Total Revenue	1H2016	% of Total Revenue	Change
Management Software business	771,836	73.2%	700,149	79.9%	10.2%
- Sales of software license	420,687	39.9%	379,419	43.3%	10.9%
- Implementation	170,622	16.2%	160,639	18.3%	6.2%
- Maintenance	175,441	16.6%	147,256	16.8%	19.1%
- Others	5,086	0.5%	12,835	1.5%	-60.4%
Cloud services business	282,822	26.8%	176,484	20.1%	60.3%
Total	1,054,658	100.0%	876,633	100.0%	20.3%

Software License by Segments (Reported)

<i>(RMB'000)</i>	1H2017	% of Total Revenue	1H2016	% of Total Revenue	Change
KIS	181,131	17.2%	155,568	17.0%	16.4%
K/3	101,282	9.6%	106,486	11.7%	-4.9%
EAS	122,145	11.6%	107,992	11.8%	13.1%
Others	16,129	1.5%	22,177	2.4%	-27.3%
Total software license turnover	420,687	39.9%	392,223	43.0%	7.3%

Software License by Segments (Continuing Operations Basis)

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K/3	101,282	9.6%	106,486	12.1%	-4.9%
EAS	122,145	11.6%	107,992	12.3%	13.1%
Others	16,129	1.5%	9,373	1.1%	72.1%
Total software license turnover	420,687	39.9%	379,419	43.3%	10.9%

Total Revenue by Sales Channel (Reported)

<i>(RMB'000)</i>	1H2017	% of Total Revenue	1H2016	% of Total Revenue	Change
Management Software business	771,836	73.2%	718,294	78.7%	7.5%
- Direct sales	118,136	11.2%	106,816	11.7%	10.6%
- Indirect sales	302,551	28.7%	285,407	31.3%	6.0%
- Services	346,063	32.8%	316,482	34.6%	9.3%
- Implementation	170,622	16.2%	162,933	17.8%	4.7%
- Maintenance	175,441	16.6%	153,549	16.8%	14.3%
- Others	5,086	0.5%	9,589	1.1%	-47.0%
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Management Software business	771,836	73.2%	700,149	79.9%	10.2%
- Direct sales	118,136	11.2%	94,012	10.7%	25.7%
- Indirect sales	302,551	28.7%	285,407	32.6%	6.0%
- Services	346,063	32.8%	307,895	35.1%	12.4%
- Implementation	170,622	16.2%	160,639	18.3%	6.2%
- Maintenance	175,441	16.6%	147,256	16.8%	19.1%
- Others	5,086	0.5%	12,835	1.5%	-60.4%
Cloud services business	282,822	26.8%	176,484	20.1%	60.3%
Total	1,054,658	100.00%	876,633	100.0%	20.3%

Other Gains

<i>(RMB'000)</i>	1H2017	1H2016	Change
VAT refund	79,697	77,077	3.4%
Government projects	11,256	10,473	7.5%
Rental income - net	32,004	34,769	-8.0%
Others	4,295	10,151	-57.7%
Total	127,252	132,470	-3.9%
VAT % of Total Revenue	7.6%	8.4%	

Selling & Marketing Expenses

<i>(RMB'000)</i>	1H2017	1H2016	Change
Advertising and marketing	83,873	75,625	10.9%
Sales promotion	56,231	50,388	11.6%
Salary of sales persons	244,860	216,479	13.1%
Project cooperation fees	80,889	73,241	10.4%
Traveling	19,160	15,287	25.3%
Fixed costs	29,367	27,556	6.6%
Others	9,101	13,074	-30.4%
Total	523,481	471,650	11.0%
S&M % of Total Revenue	49.6%	51.6%	-2.0pts

R&D Expenses

<i>(RMB'000)</i>	1H2017	1H2016	Change
Salaries and staff welfare	158,265	126,665	24.9%
Option & restricted stock expense	8,166	9,617	-15.1%
Fix costs	10,196	8,323	22.5%
Travelling costs	1,708	1,560	9.5%
Others	629	583	7.9%
Total	178,964	146,748	22.0%
R&D % of Total Revenue	17.0%	16.1%	+0.9pts

Administrative Expenses

<i>(RMB'000)</i>	1H2017	1H2016	Change
Salaries and staff welfare – G&A	81,782	68,924	18.7%
Option & restricted stock expense	18,175	22,440	-19.0%
Professional service fee	9,411	6,154	52.9%
Traveling	1,684	1,422	18.4%
Meeting expenses	1,158	384	201.6%
Provision for doubtful debts	15,130	15,482	-2.3%
Fixed costs	13,333	12,256	8.8%
Others	3,580	8,915	-59.8%
Total	144,253	135,977	6.1%
Admin. % of Total Revenue	13.7%	14.9%	-1.2pts

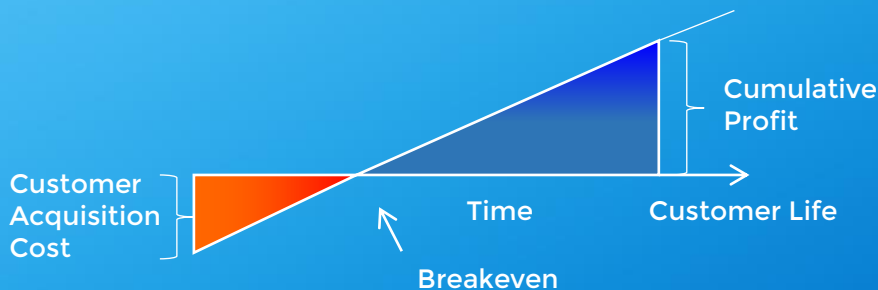
Balance Sheet Overview

<i>(RMB'000)</i>	30 Jun. 2017	31 Dec. 2016	Change
Trade and other receivables	356,344	315,241	13.0%
Cash at bank and in hand	1,962,785	2,087,145	-6.0%
Total assets	5,904,067	5,977,314	-1.2%
Current assets	2,875,038	2,956,719	-2.8%
Borrowings	1,448,569	1,496,271	-3.2%
Trade and other payables	419,258	453,873	-7.6%
Total equity	3,551,893	3,536,166	0.4%

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 ($LTV = \$1 / \text{attrition}$)

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

= Ending Revenue

180

100

Less CAC

(68)

(8)

Customer Acquisition Cost : 0.75

Less ACS

(126)

(70)

Average Cost to Service: 0.70

= Operating Profit

(14)

23

Current Op. Margin

(7%)

23%

Growth

80%

0%

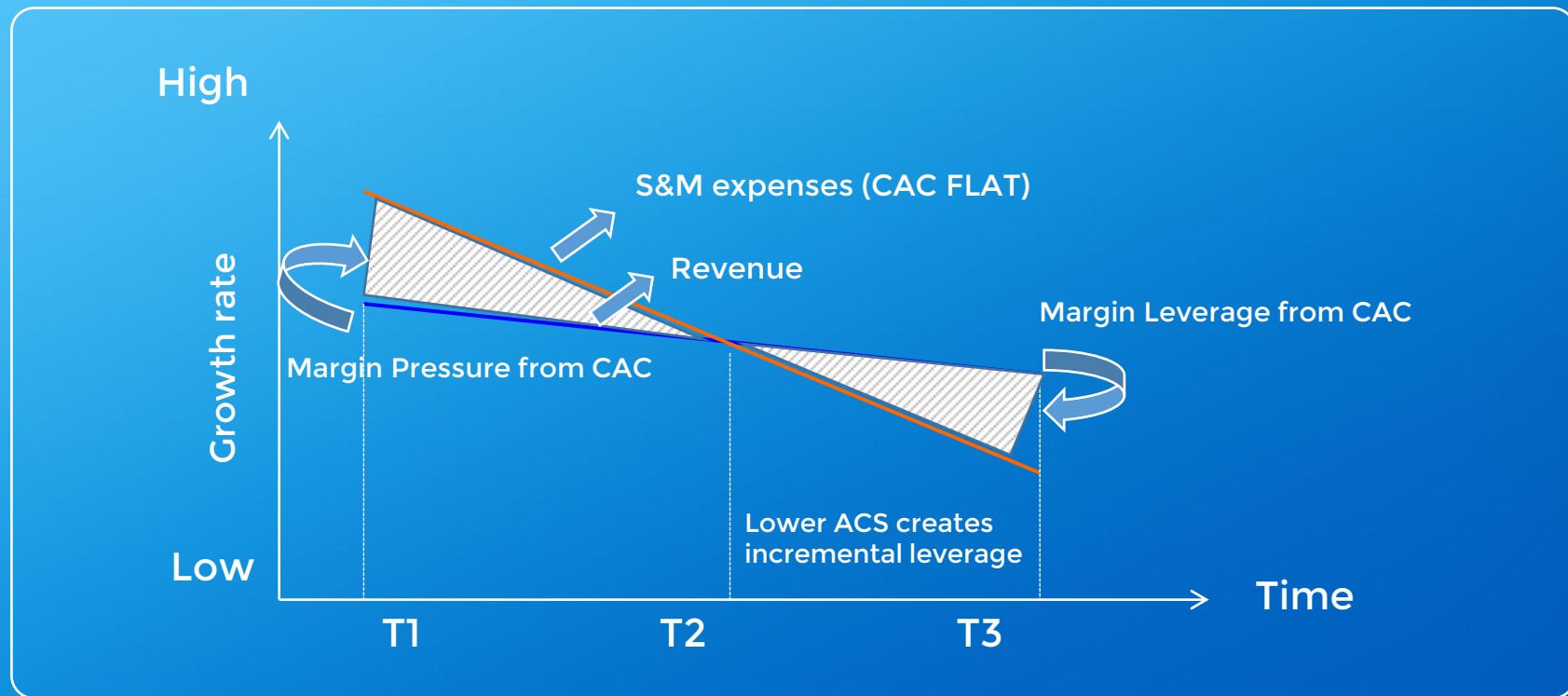
Lifetime Unit Margin

22.5%

22.5%

(LTV-CAC-ACS)/LTV

SaaS Long-term Economics



Kingdee

感謝

ありがとう

ขอบคุณ

Thanks

terima kasih

谢谢

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