



Kingdee International Software Group

2018 Interim Results Announcement

Stock Code: HK 268

16 August, 2018



Business Highlights



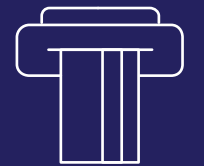
Cloud Market
Update



Cloud Strategy
Update



CFO Report



Appendix



Business Highlights



Cloud Market
Update



Cloud Strategy
Update



CFO Report

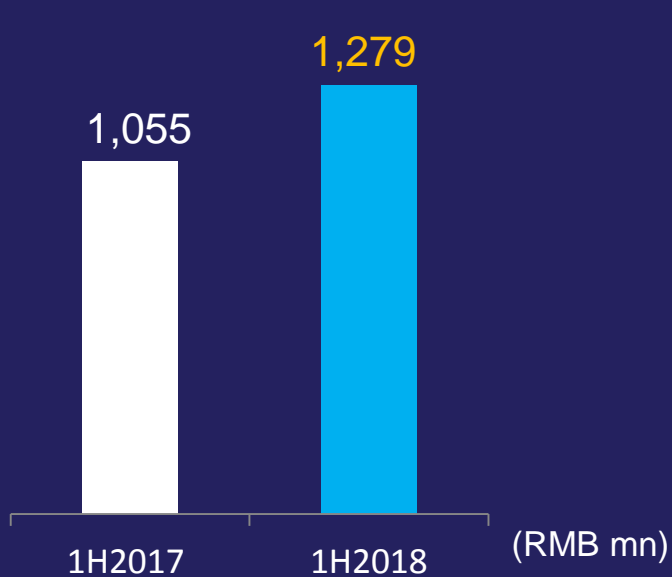


Appendix

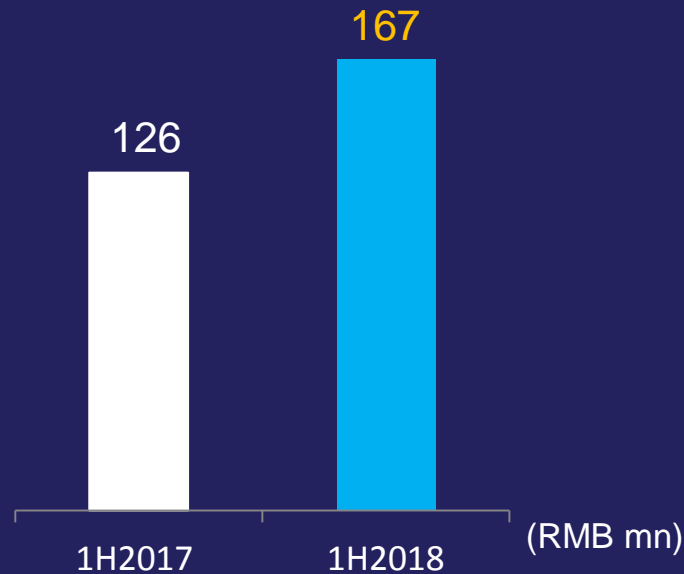
Business Growth Driven by Increased Cloud Mix



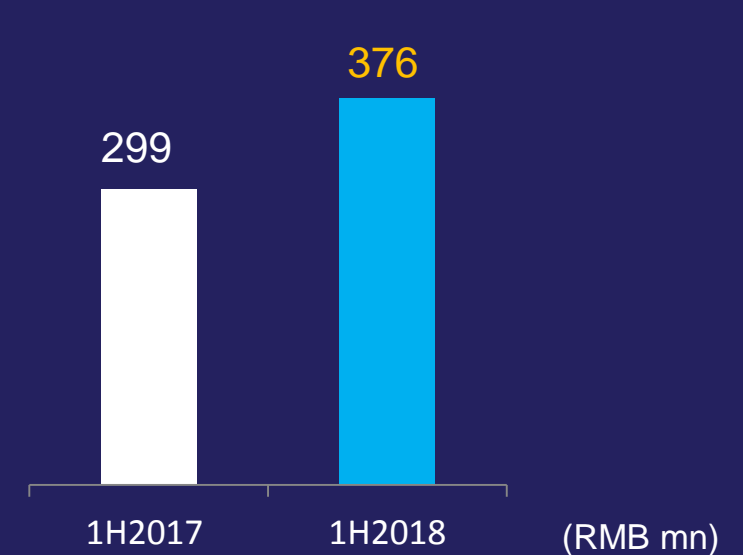
+21.3% YoY
Revenue



+33.4% YoY
Operating Profit



+26.0% YoY
Operating Cash Flow*



* Excluding net cash outflow of the micro-credit business. If including net cash outflow of micro-credit business, the net operating cash flow increased by 14.6%

1H2018 Business Highlights



Revenue **+20%** YoY

Revenue **+26%** YoY

72%

28%

Management Software

Cloud Services

Big Data Services

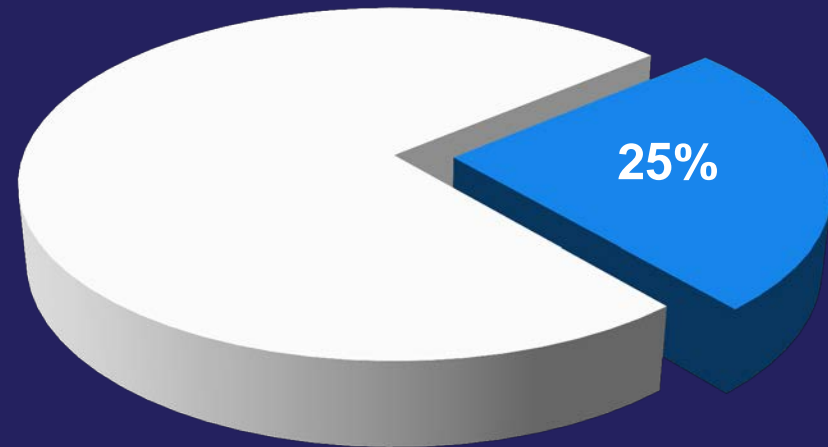
Sustained Double-digit
Revenue Growth

Established Market Leadership in
Enterprise SaaS

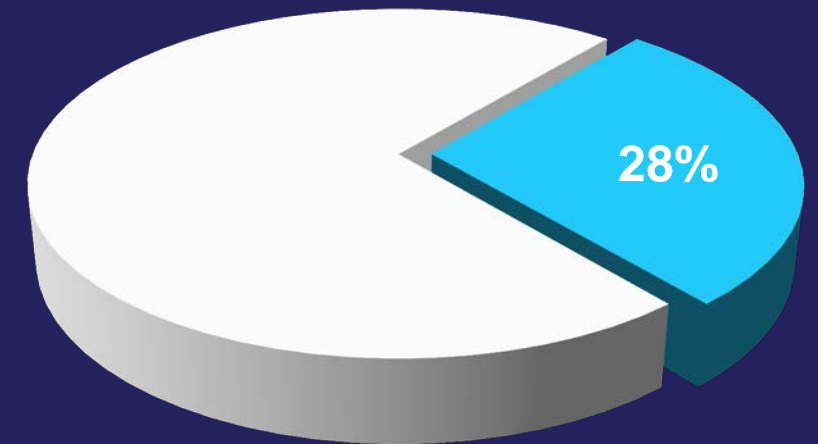
Monetization Model
Exploration

Growth of Cloud Services in 1H2018

Cloud Services in 2017



Cloud Services in 1H2018



Estimated 2H2018 Cloud Services Revenue up by **60%+**

Cloud Services Mix in 2018 : **30%+**



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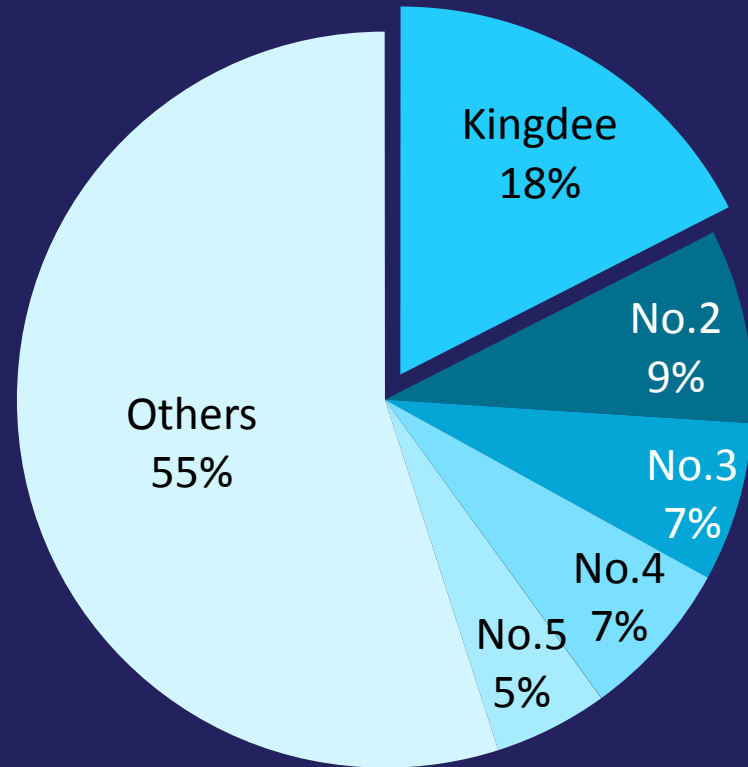


CFO Report

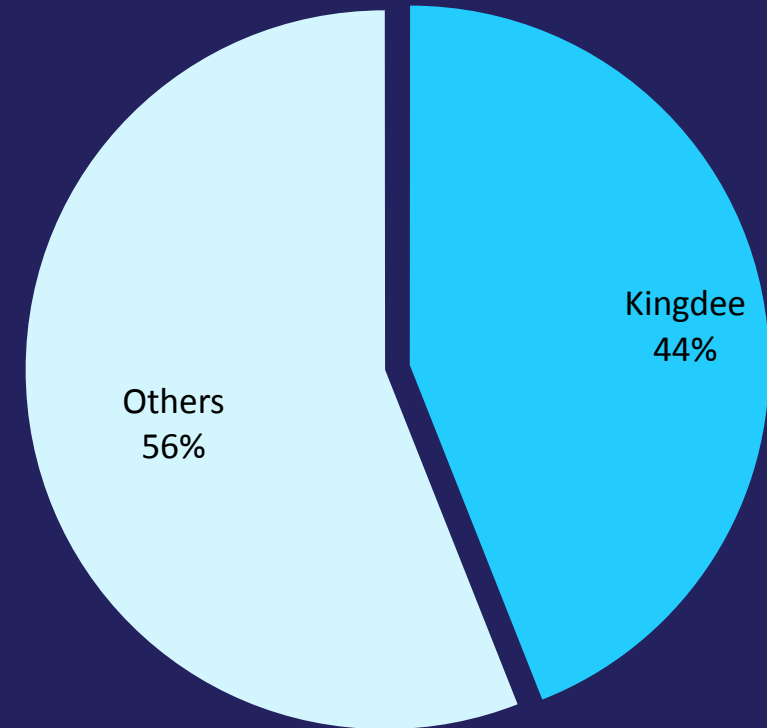


Appendix

Market Leader in China's Enterprise SaaS Market



No. 1 in China's SaaS ERM Market in 2017: **18%**



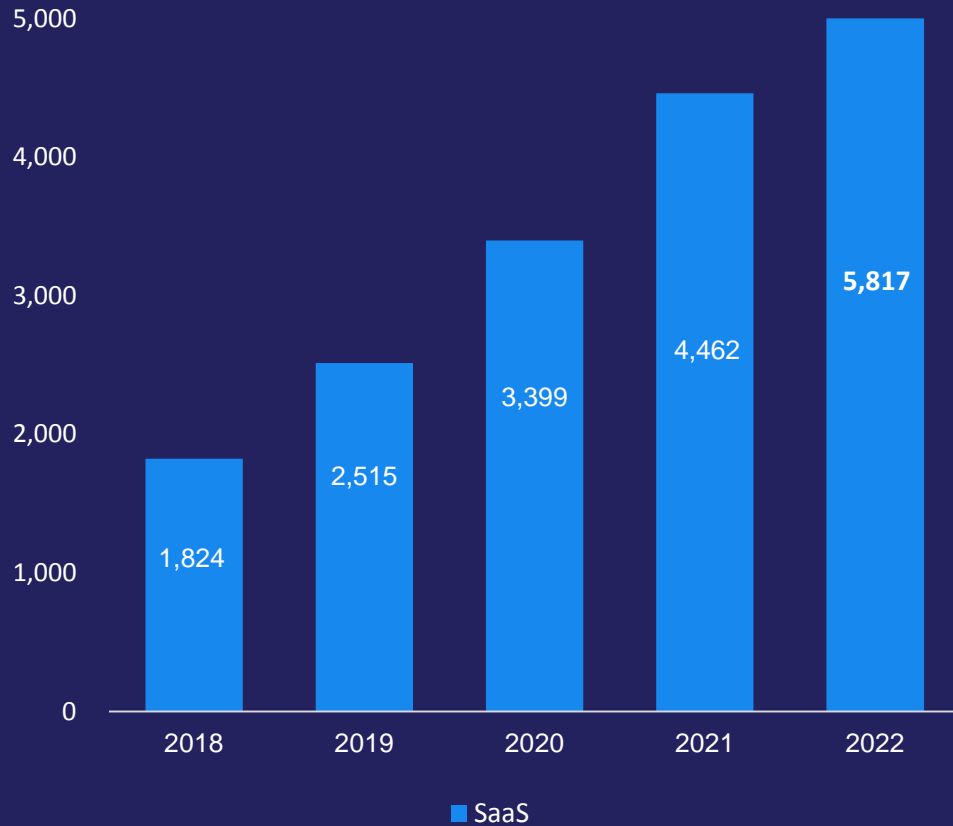
No. 1 in China's SaaS Financial Management Applications Market: **44%**

Source: IDC Semiannual Public Cloud Services Tracker, 2017 H2

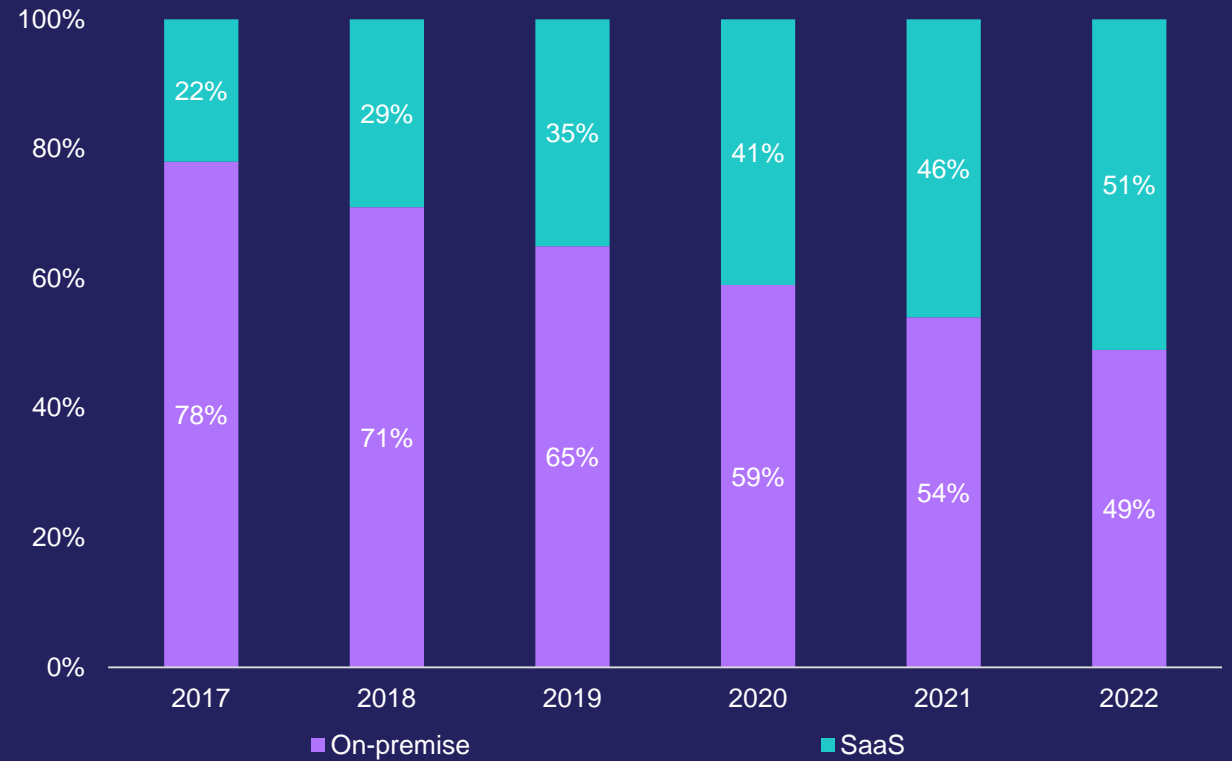
China Public Cloud SaaS Market Forecast



China Public Cloud SaaS Market Forecast 2018-2022 (US\$m)



2017-2022 China ERM (OP VS. SaaS) Market share and Forecast



2017-2022 CAGR: 4%

2017-2022 CAGR: 34%



Source: IDC Semiannual Public Cloud Services Tracker, 2017 H2

Kingdee Cloud Supports Government Policies in Corporate Cloud Migration



Kingdee Cloud is shortlisted by the municipal governments as the recommended corporate cloud services provider



-  shortlisted by local government
-  pending local government's review

In Hunan province, more than 50% of enterprises in the first benchmarking list are using Kingdee Cloud

<The guidelines by the State to encourage cloud policy for the enterprises (2018-2020)> (<推动企业上云实施指南(2018-2020年)>) was announced by The Ministry of Industry and Information Technology in August 2018



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Appendix

Product to Platform



Kingdee Cloud

Innovative Model for Enterprise Management

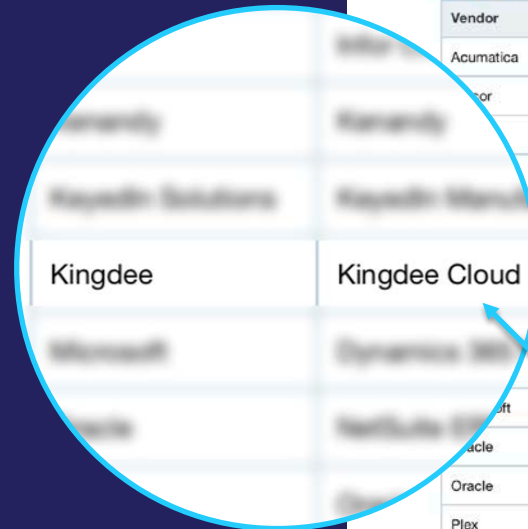


Kingdee Cloud Galaxy

Kingdee Cloud Galaxy

"The Only Chinese Enterprise Shortlisted in the Gartner 2018 Market Guide "

We Made History!!



Gartner

Table 2. Target Customer Size (as Reported by the Vendor)

Vendor	Application	Small	Midsize	Large
Acumatica	Acumatica Cloud ERP	X	X	
Epicor	Epicor ERP	X	X	X
IFS	IFS Applications		X	X
Infor	Infor LN CloudSuites		X	X
Infor	Infor M3 CloudSuites		X	X
Infor	Infor CloudSuite Industrial	X	X	
Kenandy	Kenandy		X	X
KeyedIn	KeyedIn Manufacturing	X	X	
Kingdee	Kingdee Cloud		X	X
Microsoft	Dynamics 365 for Finance and Operations, Enterprise edition		X	X
NetSuite	NetSuite ERP	X	X	
Oracle	Oracle ERP Cloud		X	X
Plex	The Plex Manufacturing Cloud	X	X	X
Priority Software	Priority	X	X	
Pronto Software	Pronto Xi	X	X	
QAD	QAD Cloud ERP		X	X
Ramco	Ramco ERP Suite	X	X	
Rootstock Software	Rootstock Software		X	X
SAP	Business ByDesign		X	
SAP	S/4HANA Cloud		X	X
TOTVS	Protheus	X	X	X

Source: Gartner (March 2018)

The Choice of Global Enterprises



 金蝶云 × Omni-channel Cloud

48.3%
Smart Sales Rate

74%
O2O Rate

46%
VIP Consumption Rate





金蝶云



Global Real-time Enterprise

7

Languages

Chinese

English

Spanish

Japanese

...

46

Countries

11,030

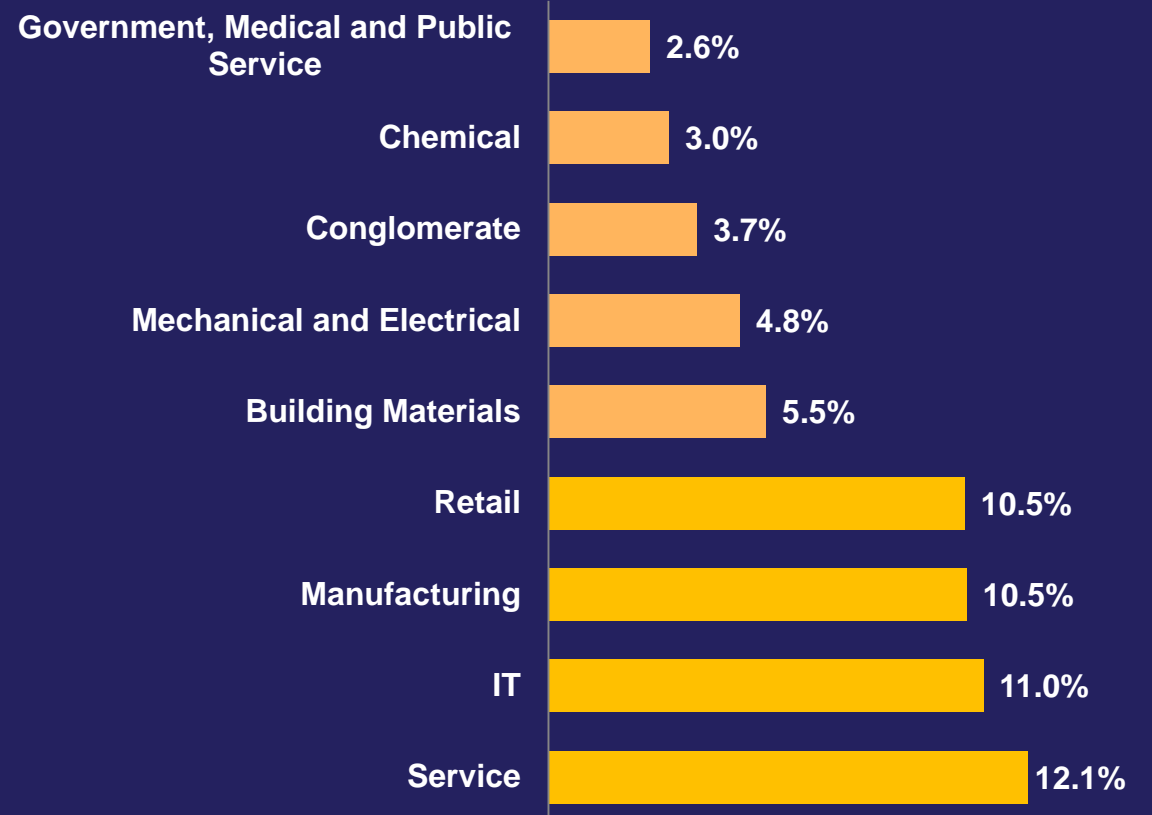
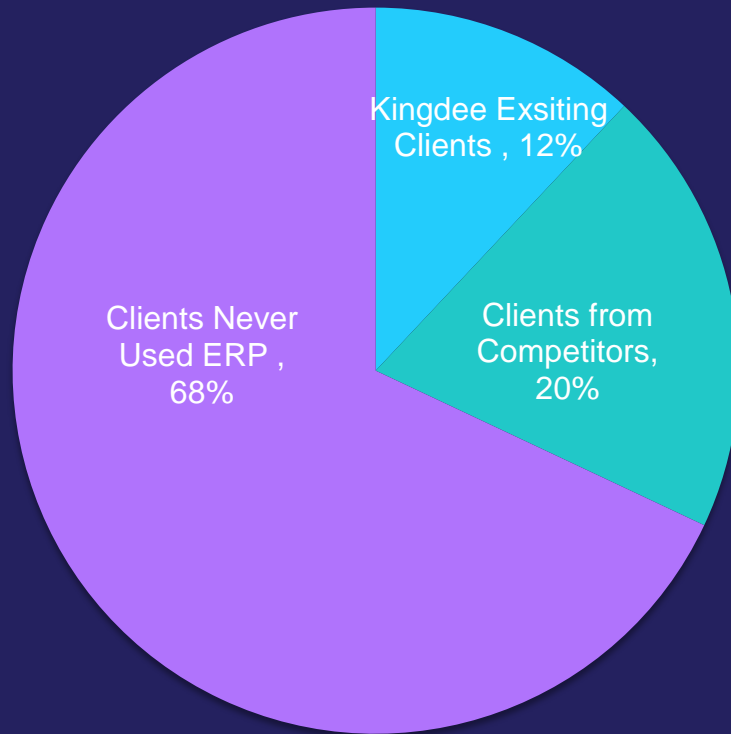
Daily Active Usages

Overseas



Kingdee Cloud Galaxy

The Most Comprehensive Cloud ERP Solution in the Market



88% of Kingdee Cloud Galaxy customers are new to Kingdee

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

New Economy Sectors are Major Users of Kingdee Cloud

Kingdee Cloud Cosmic

Cost Driven to Innovation Driven



BEFORE

Cost Driven

- Capital Cost
- Management Cost
- Operating Cost
- Opportunity Cost

NOW

Innovation Driven

- Strategy Innovation: Ecosystem
- Management Innovation: Collaboration
- Operating Innovation : Platform oriented
- Product Innovation : Service oriented

Three Innovative Technologies

- Flexibility
- Distributed architecture
- Micro-services
- Modularized services
- Multi-tenants

- Preset model
- Modelling
- Customized Cloud services

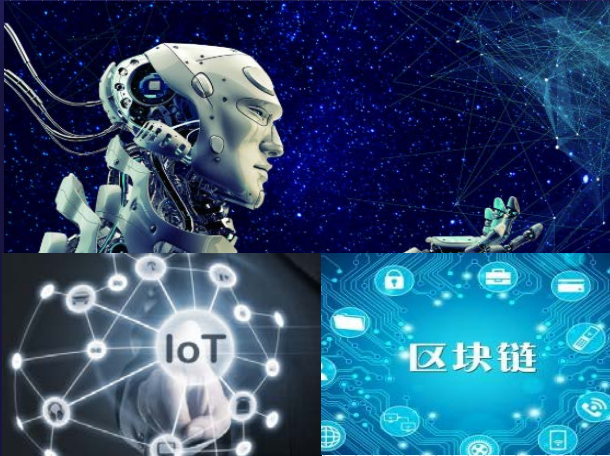
- Automated bookkeeping
- Speech recognition
- Image recognition
- Deep learning

Cloud Native
Technology Architecture

Original Dynamic
Domain Model

Corporate
AI Platform

Case : Huawei Construction



Corporate IT Demands are Changing

- The IT development pushes enterprises to upgrade their system
- Enterprises are eager for new IT tools and new management practices



Huawei IT Revolution :

- Moving IT tools to the Cloud
- Providing services by IT tools
- Improving users' experience



Kingdee Cloud Cosmic :

- Support the next 5-10 years IT demand
- Shifting from EAS to Kingdee Cloud Cosmic



Huawei Construction Department

- * Industrial base in planning & construction: 11
- * # of users in Huawei: about 5,000
- * Modules being used: Procurement bidding management, contract management, dynamic cost management, material management, business review and decision support, HR management, etc.



- Light development platform of Kingdee Cloud Cosmic: low code size, hot swapping, distributed storage , microservice framework , flexible adjustment

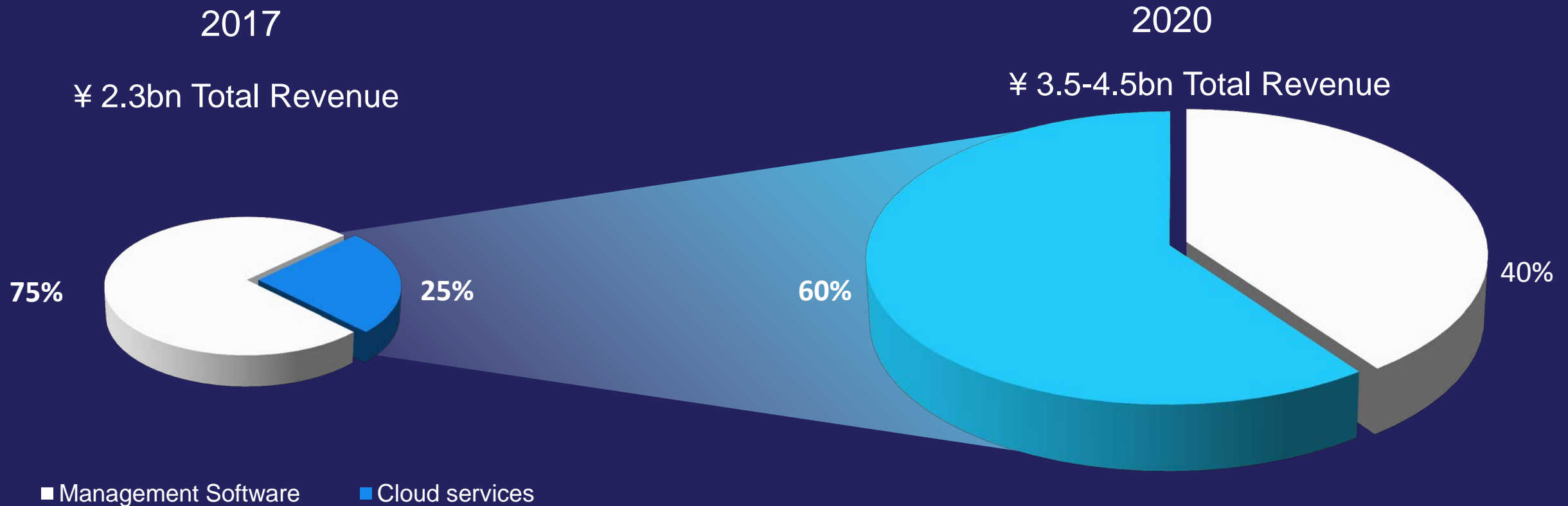
Kingdee Cloud Cosmic Platform



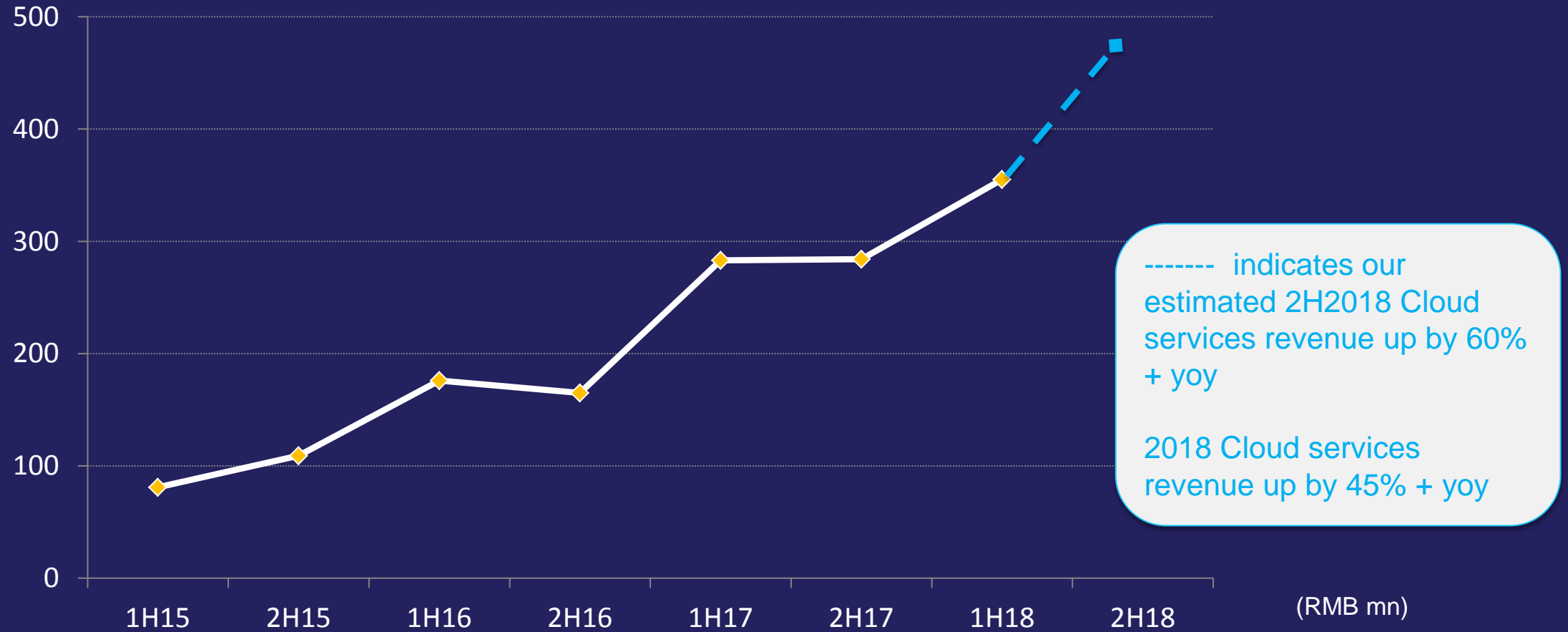
Our Target

Cloud Target to Reach 60% of Total Revenue by 2020

Cloud revenue contribution



Cloud Services Revenue Trend



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

Accelerating Innovation & Investments to Enhance Enterprise Cloud Ecosystem

Launched the first AI financial assistant in China and set up R&D center in Seattle, US



Strategic cooperation with Huawei in areas including cloud computing and AI



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



Strategic cooperation with China Greatwall for Proprietary and Controllable Applications





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Management Software Business Review



Management Software



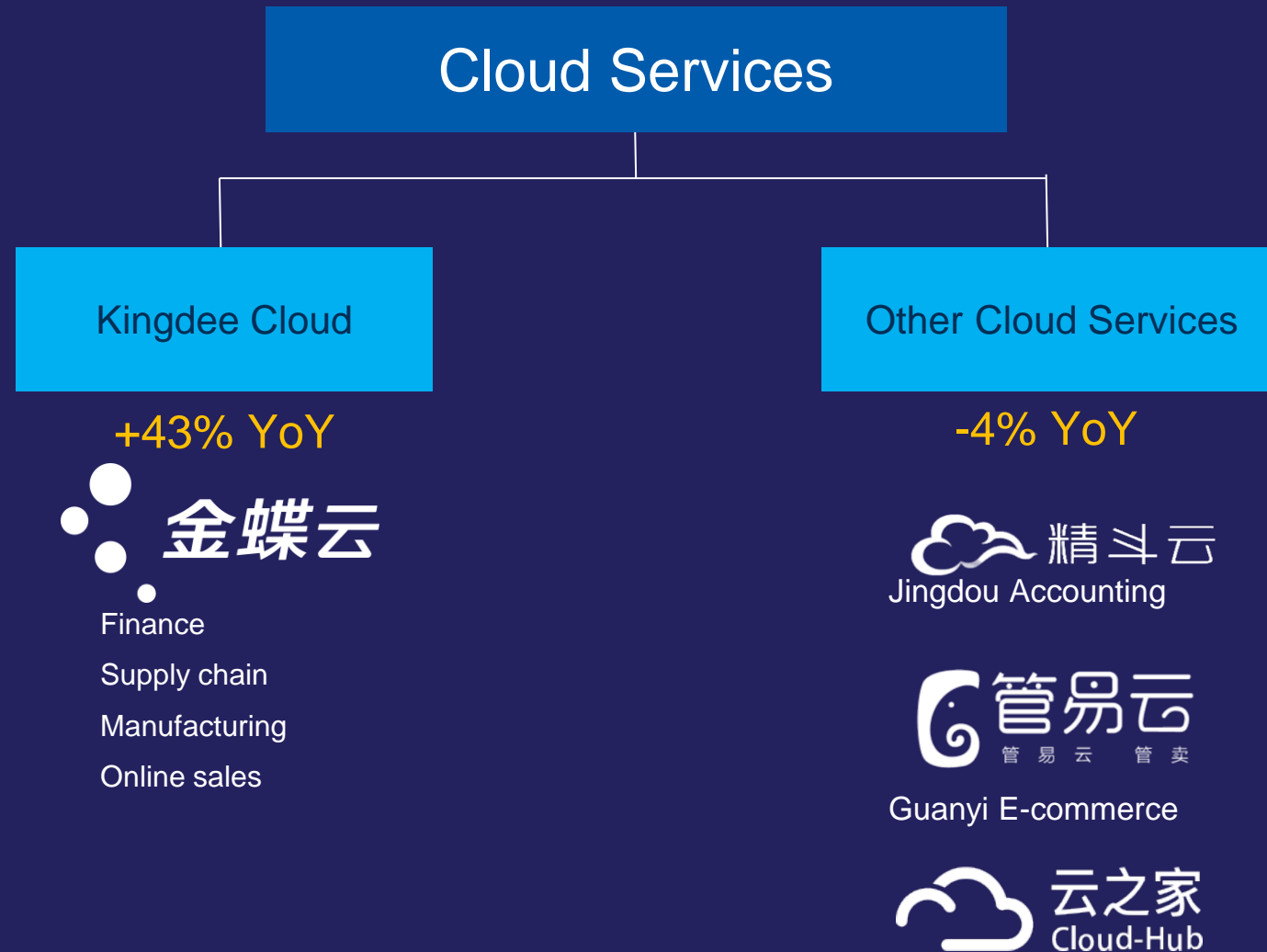
KIS revenue +14% YoY as small enterprise market remained healthy

EAS revenue +29% YoY as large enterprises continued to increase investments in software

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

Management software segment saw YoY margin expansion driven by scale

Cloud Business Review



Kingdee Cloud Highlights



No. 1 Cloud ERP in China

43%

YoY Revenue Growth

>80%

Retention Rate

>7500

Customers

>110%

YoY Customer Growth

Jingdou Accounting Highlights

30%

YoY Revenue Growth

>70%

Retention Rate



**No. 1 Accounting Cloud
in China**

>160K

Paying Customers

>28%

YoY Paying Customer
Growth

Guanyi E-Commerce Highlights



No. 1 E-Commerce Cloud
in China

-17%

YoY Revenue Growth

>70%

Retention Rate

>7000

Customers

>20%

YoY Customer Growth

Financial Highlights



<i>(RMB'000)</i>	1H18	1H17	Change
Revenue	1,279,103	1,054,658	21.3%
Cost of Sales	-253,230	-209,712	20.8%
Gross Margin	80.2%	80.10%	+0.1pts
Total Operating Expenses	-1,010,389	-846,698	19.3%
Other Income & Gains	151,966	127,252	19.4%
Operating Profit	167,450	125,500	33.4%
Operating Margin	13.1%	11.90%	10.0%
Finance Costs– net	2,746	-14,057	NA
Tax Expenses	-11,139	-5,206	114.0%
Net Profit – equity holders	169,777	106,435	59.5%
Net Profit Margin	13.3%	10.10%	31.4%
Diluted EPS(cents)	5.32	3.64	46.2%
Share-Based Compensation	49,365	26,341	87.4%
Tax effects and adjustments*	-6,171	-3,293	87.4%
Non-GAAP Net Profit	212,971	129,483	64.5%
Non-GAAP EPS(cents)	6.95	4.52	53.8%

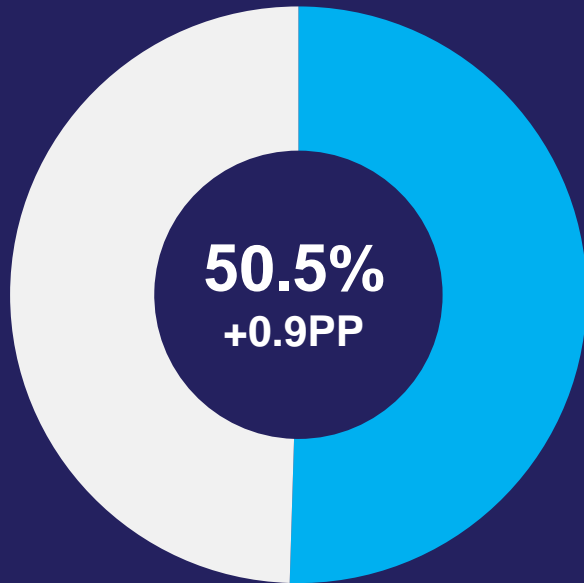
36 Note: The Group believes that providing non-GAAP financial measures may prove useful to investors and enable investors to evaluate financial results in the same way management does

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

Operating Expense Breakdown

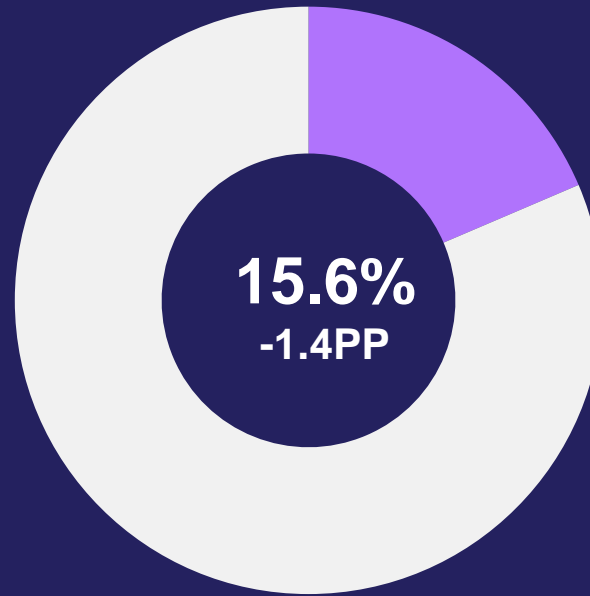


S&M
as a % of total revenue



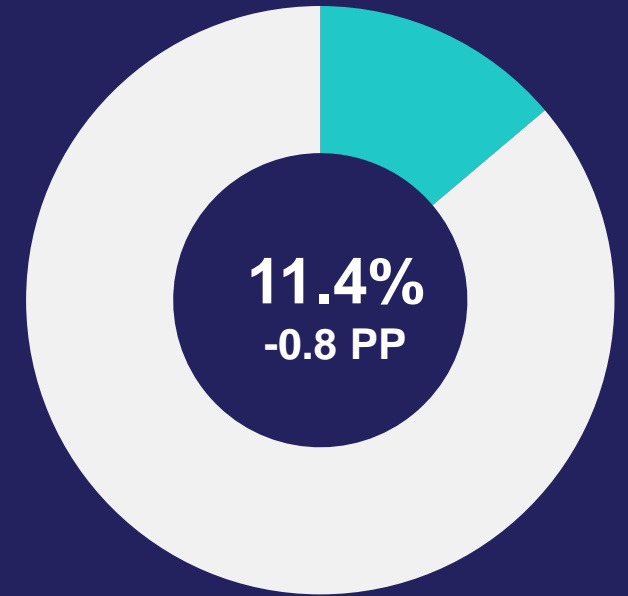
RMB 646mn

R&D
as a % of total revenue



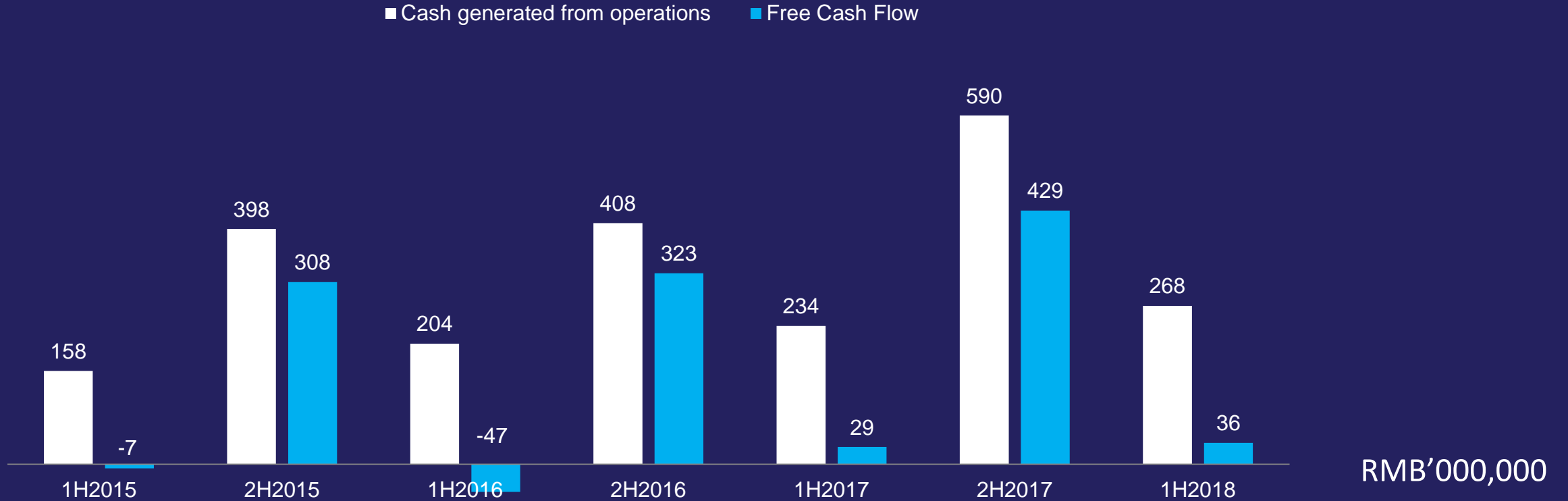
RMB 200mn

G&A
as a % of total revenue



RMB 146mn

Operating Cash Flow & Free Cash Flow*



*Note:

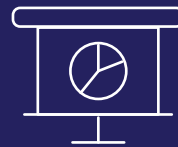
Free cash flow = Operating cash flow – | Purchases of property, plant and equipment | – | Purchases of intangible assets | + | Cash paid for software parks |



Business Highlights



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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 offered and product maturity vs. competitors
- Broad direct sales and distributor networks
- Launch of Kingdee Cloud Cosmic further fosters the depth and width of Cloud services

Market-leading Cloud Ecosystem with Industry-leading Partners

- Industry-leading partners including JD.com, Amazon Web Services, Huawei and China Greatwall
- Continuing to expand product and services offered 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 Rmb2.4bn+ 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 offered through investments, and potential share buybacks and dividends

Total Revenue by Segments

<i>(RMB'000)</i>	1H18	% of Total Revenue	1H17	% of Total Revenue	Change
Management Software business	923,955	72.2%	771,836	73.2%	19.7%
- Sales of software license	500,055	39.1%	420,687	39.9%	18.9%
- Implementation	205,483	16.1%	164,935	15.6%	24.6%
- Maintenance	212,867	16.6%	181,128	17.2%	17.5%
- Others	5,550	0.4%	5,086	0.5%	9.1%
Cloud services business	355,148	27.8%	282,822	26.8%	25.6%
Total	1,279,103	100.0%	1,054,658	100.0%	21.3%

Software License by Segments

<i>(RMB'000)</i>	1H18	% of Total Revenue	1H17	% of Total Revenue	Change
KIS	205,765	16.1%	181,131	17.2%	13.6%
K/3	115,461	9.0%	101,282	9.6%	14.0%
EAS	157,282	12.3%	122,145	11.6%	28.8%
Others	21,547	1.7%	16,129	1.5%	33.6%
Total software license turnover	500,055	39.1%	420,687	39.9%	18.9%

Total Revenue by Sales Channel

<i>(RMB'000)</i>	1H18	% of Total Revenue	1H17	% of Total Revenue	Change
Management Software business	923,955	72.2%	771,836	73.2%	19.7%
- Direct sales	148,483	11.6%	118,136	11.2%	25.7%
- Indirect sales	351,572	27.5%	302,551	28.7%	16.2%
- Services	418,350	32.7%	346,063	32.8%	20.9%
- Implementation	205,483	16.1%	164,935	15.6%	24.6%
- Maintenance	212,867	16.6%	181,128	17.2%	17.5%
- Others	5,550	0.4%	5,086	0.5%	9.1%
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Other Gains



<i>(RMB'000)</i>	1H18	1H17	Change
VAT refund	84,708	79,697	6.3%
Government projects	16,035	11,256	42.5%
Rental income - net	34,877	32,004	9.0%
Others	16,346	4,295	280.6%
Total	151,966	127,252	19.4%
VAT % of Total Revenue	6.6%	7.6%	

Selling & Marketing Expenses



<i>(RMB'000)</i>	1H18	1H17	Change
Advertising and marketing	127,799	83,873	52.4%
Sales promotion	53,820	56,231	-4.3%
Salary of sales persons	297,501	244,860	21.5%
Project cooperation fees	105,902	80,889	30.9%
Traveling	21,508	19,160	12.3%
Fixed costs	29,985	29,367	2.1%
Others	9,216	9,101	1.3%
Total	645,731	523,481	23.4%
S&M % of Total Revenue	50.5%	49.6%	+0.9pts

R&D Expenses



<i>(RMB'000)</i>	1H18	1H17	Change
Salaries and staff welfare	170,358	158,265	7.6%
Option & restricted stock expense	15,861	8,166	94.2%
Fixed costs	10,652	10,196	4.5%
Travelling costs	2,135	1,708	25.0%
Others	717	629	14.0%
Total	199,723	178,964	11.6%
R&D % of Total Revenue	15.6%	17.0%	-1.4pts

Administrative Expenses



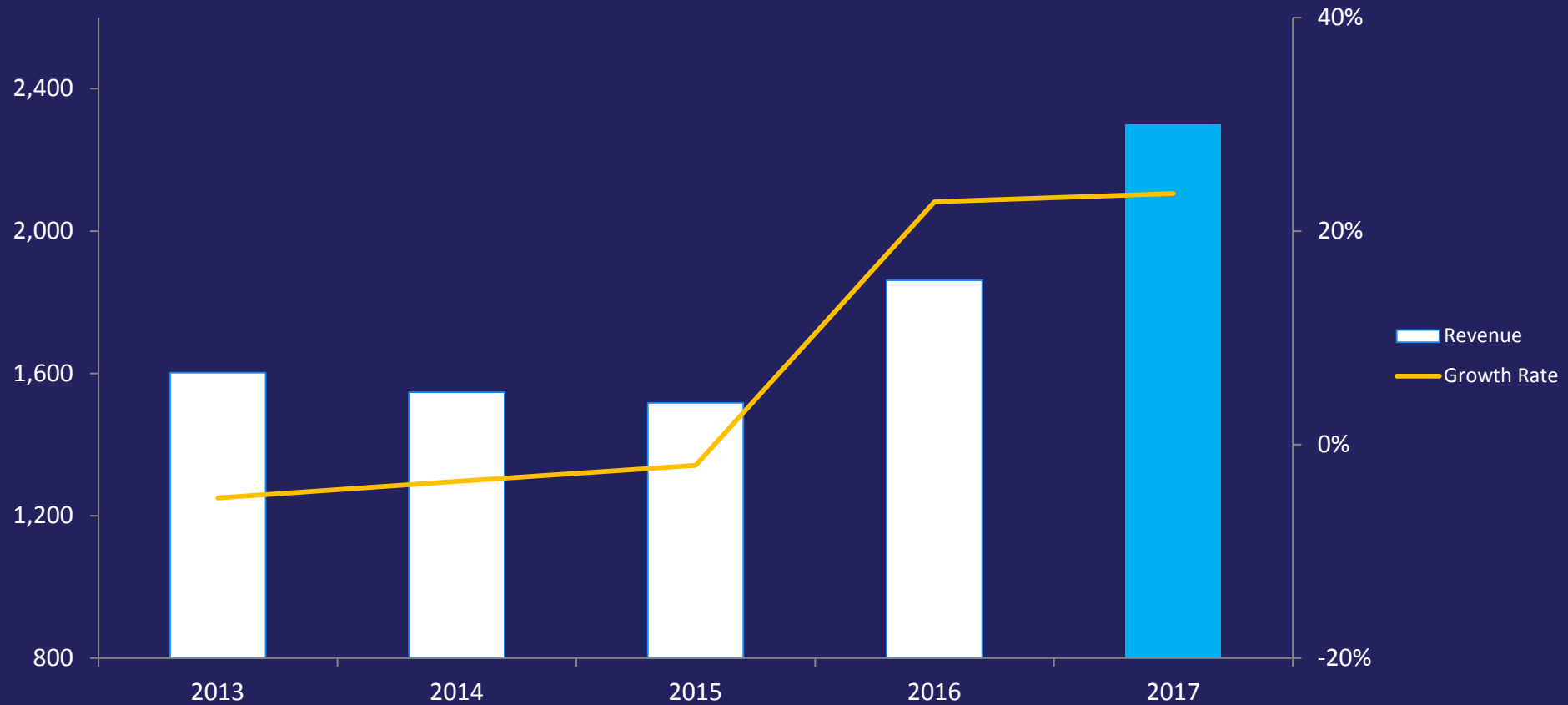
<i>(RMB'000)</i>	1H18	1H17	Change
Salaries and staff welfare – G&A	86,159	81,782	5.4%
Option & restricted stock expense	30,008	18,175	65.1%
Professional service fee	9,424	9,411	0.1%
Traveling	1,921	1,684	14.1%
Meeting expenses	1,198	1,158	3.5%
Fixed costs	13,723	13,333	2.9%
Others	3,649	3,580	1.9%
Total	146,082	129,123	13.1%
Admin. % of Total Revenue	11.4%	12.2%	-0.8pts

Balance Sheet Overview



<i>(RMB'000)</i>	30 Jun. 2018	31 Dec. 2017	Change
Trade and other receivables	317,951	319,557	-0.5%
Cash and deposits	2,465,644	2,651,220	-7.0%
Total assets	6,995,619	6,802,058	2.8%
Current assets	3,457,520	3,533,582	-2.2%
Borrowings	223,963	1,348,529	-83.4%
Trade and other payables	384,962	678,120	-43.2%
Total equity	5,354,261	4,043,080	32.4%

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%	80%+
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

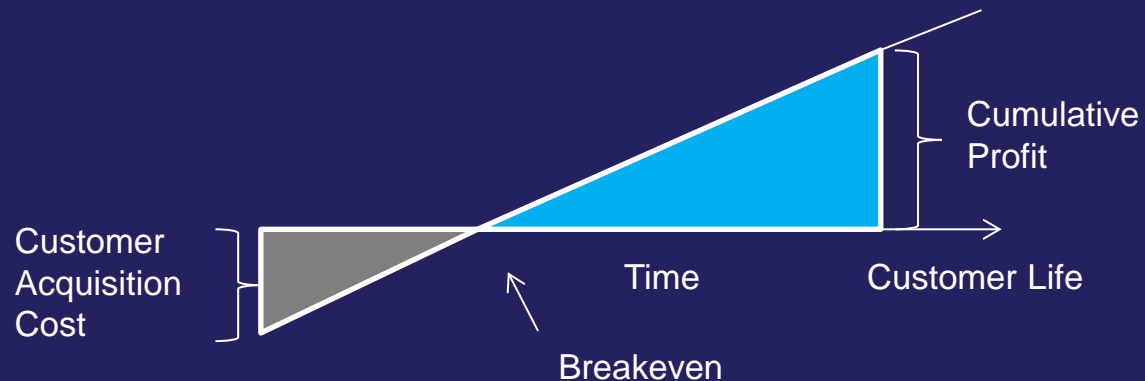
Lower Cost Structure

	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

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):

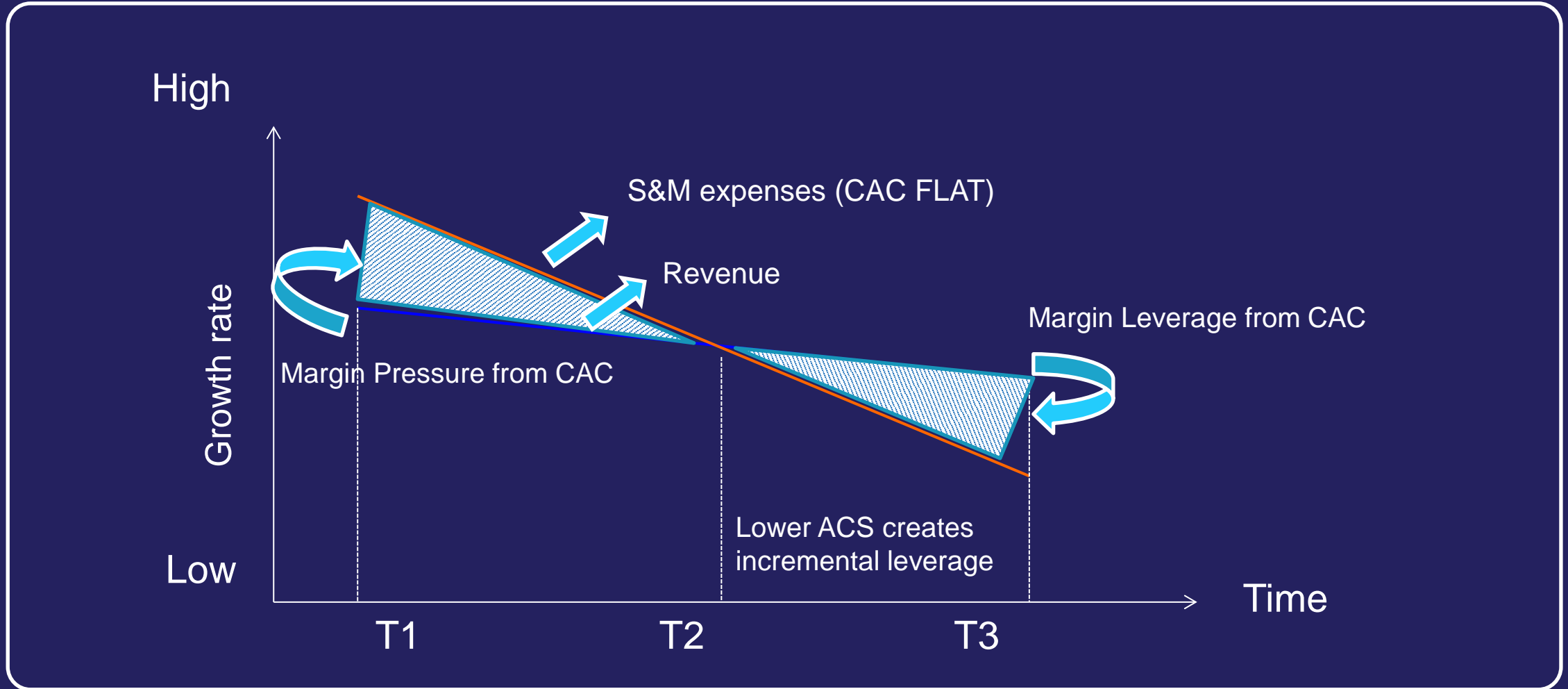
Cost to serve \$1 annuity over Customer Life

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





感謝 ありがとう
Thanks
ขอบคุณ
terima kasih
谢谢





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