Grid Dynamics

# GDYN Q2 2024 Earnings Call
Recording Transcript

**Company Participants**
• Leonard Livschitz, Chief Executive Officer and Director
• Anil Doradla, Chief Financial Officer
• Cary Savas, Director, Branding & Communications

**Other Participants**
• Maggie Nolan, Analyst, William Blair
• Bryan Bergin, Analyst, TD Cowen
• Mayank Tandon, Analyst, Needham
• Puneet Jain, Analyst, JP Morgan

**Cary Savas, Director, Branding & Communications:**
Good afternoon, and welcome to Grid Dynamics' 2nd quarter 2024 earnings conference call. I'm Cary Savas, Director of Branding & Communications. At this time, all participants are in listen-only mode.

Joining us on the call today are CEO, Leonard Livschitz; and CFO, Anil Doradla. Following their prepared remarks, we will open the call to your questions. Please note that today's conference is being recorded.

Before we begin, I would like to remind everyone that today's discussion will contain forward-looking statements. This includes our business and financial outlook and the answers to some of your questions. Such statements are subject to the risks and uncertainties as described in the company's earnings release and other filings with the SEC.

During this call, we will discuss certain non-GAAP measures of our performance. GAAP to non-GAAP financial reconciliations and supplemental financial information are provided in the earnings press release and the 8-K filed with the SEC. You can find all the information I have just described in the Investor Relations section of our website. I now turn the call over to Leonard, our CEO.

**Leonard Livschitz, Chief Executive Officer:**
Thank you, Cary. Good afternoon everyone and thank you for joining us today.

Grid Dynamics second quarter results were above our guidance range and exceeded wall-street expectations, both on revenue and non-GAAP EBITDA. We achieved important milestones in the quarter. I am happy to report that our second quarter revenue was the highest in the company's history, and all of it was organic in nature. We also exited the second quarter with the highest billable engineers in the company's history. These strong results were due to strength from both existing and new customers and are commendable given the recent backdrop of the economic cycle. It is a clear testament that our efforts to stay the course and maintain laser focus in delivering value to our clients is paying off. Our stated goals around the company's growth, profitability, and becoming a billion-revenue company remain unchanged. In many ways, our second quarter revenue growth of 4% on a sequential basis reflects the company's differentiation. Last quarter I highlighted the key factors influencing our growth and discussed how we are uniquely positioned across the IT industry. These were; first, our revenues represent a small proportion of our customers' overall spend and therefore the opportunities are significant. Second, the new deals that we are winning are tied to our customers' key areas of focus and in many cases are mission critical. Third, across the majority of our customers, we are seeing their spend levels either being maintained at the current level or increasing, and fourth, the headwinds that we were facing last year were driven by drops at a handful of customers. This trend has reversed and many of those customers have reverted to growth.

There are many exciting trends that are shaping our business, some of which I will share with you today. More importantly, I believe these trends will persist in shaping the company, both in the second half of 2024 and leading into 2025 to a brighter future.

Now coming to the demand environment. Similar to the first quarter, we witnessed improving demand trends across the majority of our customers. Incrementally, last quarter while customers were more focused on sharing their outlook and forecasts plans, this quarter they were more willing to release budgets to implement their plans. We benefited from this trend in the quarter and expect the trends to continue as the year progresses.

Now coming to the third quarter. Trends that I highlighted regarding the second quarter extend into the third quarter. We have already seen that in the month of July as customer activity, engineering billable headcount, and AI activities continue to be robust. We believe these formulate the basis for our continued positive outlook as we look into the third quarter and remainder of 2024.

We are in what I call the post-vendor consolidation environment. As we highlighted over the past two to three quarters, customers have been scaling back on the number of IT vendors they work with. As an example, at one global brand, they plan to reduce the number of IT providers by more two-thirds, with Grid Dynamics being one of the remaining strategic partners. With this customer, and many more in similar situations, there is heightened interest in partnering with IT vendors that are strong in technology and are catalysts for them in achieving their business goals, both on the revenue and cost side. Time and again, our technological and operational excellence has risen to the top.

I am also thrilled to announce that in the second quarter Grid Dynamics won four industry awards across a range of categories including most innovative project and best composable ecommerce project, amongst others. This widespread industry recognition reinforces our company as a benchmark of engineering excellence in digital transformation and empowering businesses to navigate the complexities of the modern technology landscape with agility and innovation.

We've expanded our AI capabilities considerably, and now have approximately 30 solutions and service offerings targeting Fortune 500 companies across various industries. These solutions focus on enhancing revenue and reducing costs for enterprises. On the revenue side, our solutions focus on innovative customer experiences and enhanced marketing, pricing and product decisions and on the cost side the focus is centered on efficiency improvements and better regulatory compliance. Our broad offerings position us well to positively impact the business results of our clients.

We are witnessing a significant pickup in customers wanting to engage us on MVPs and pilot programs, beyond the initial POCs. Our sales pipeline continues to show robust growth, with dozens active AI opportunities in progress. Enterprises are increasingly seeking to incorporate AI into their business processes as well as services and platforms.

It's worth noting that we continue to adopt and develop AI tools and best practices to improve the productivity of our own engineers. This goes beyond just coding copilots, extending to tools specifically designed for legacy modernization, test automation, and quick prototyping. These internal advancements not only boost our efficiency but also enhance our ability to deliver cutting-edge AI solutions to our clients.

Let me highlight a few noteworthy GenAI projects from the second quarter. At a top workforce solutions company, we are developing a comprehensive AIOps & Data platform. This platform will host numerous AI applications for job seekers, recruiters, and business owners, significantly enhancing the efficiency and effectiveness of the workforce management process.

At one of the largest US auto parts providers, we are using GenAI to harmonize and enrich large commerce catalogs.This streamlines the product onboarding process. Additionally, it analyzes product attributes, creates consistent product titles and descriptions that resonate with brand value. This leads to enhanced customer experience and higher sales through all channels.

Additionally, for a leading European regulatory compliance firm, we are developing an AI-enabled solution which streamlines the product certification process. This project showcases how AI can significantly enhance efficiency in complex regulatory environments.

With our CTO organization, during the quarter, there was significant activity, both in the AI and non-AI areas. This included the completion of eight programs across AI, Data/ML engineering, commerce solutions, and search. Some of the projects completed include intelligent document processing tailored for the finance industry, conversation powered interior design assistance. Like previous quarters, our architects and CTO team were instrumental in opening new accounts.

In the quarter there were several trends and I want to share some of the notable ones:

1. Logo Momentum: In the second quarter we signed 6 logos, many of them being large enterprises. Of these customers we signed in the quarter, one is a leading North American supplier of home improvement, one is a large American consumer goods company focused on personal and household products, one of the largest global lifestyle companies and a Europe-based large department store chain.
2. Partnerships are at an all-time high at 17% of revenue contribution in the first half of 2024. The quality and quantity of our partnership leads are changing. There are three noteworthy trends that are shaping our partnership business. First, our commitments to technology innovation and engineering excellence has resulted in greater appreciation by global enterprise customers. This has resulted in Grid Dynamics being chosen at many of our partners' Tier-1 customers. Second, our relationships with our partners are evolving. We are now more engaged in strategic discussions with senior management of our key partners. Third, at an operational level we have enhanced levels of collaboration between the sales and marketing teams at Grid Dynamics and our partners. All these have translated into more opportunities that include GenAI initiatives and our entry into new global projects and programs across industry verticals.
3. Delivery Location support: During the quarter we made progress across multiple areas with our global delivery. As we highlighted in the past, our follow-the-sun strategy provides the framework of scaling our global locations. With Bengaluru operationalized, we now have three locations in India fully functional. India is now in our top two countries by headcount and supports multiple accounts with over a dozen of them being key accounts. Our focus on acquiring high-quality talent out of universities and our activities with internships, Hackathons, and Dynamic Talks continued during the second quarter. In Europe, Poland continues to be the anchor point and in Mexico we continue to support our clients seeking near-shore capabilities.
4. Europe Business: With roughly mid-teens of our revenue, Europe continues to be strategic to our growth. Our AI heritage and GenAI expertise continue to attract enterprise customers who are serious about adopting GenAI to enable business process efficiencies and improve customer experiences. At one of our clients, a leader in food and pharma testing, we're starting development of an AI-based Search solution. In addition to our AI wins, we provided a platform modernization roadmap to a major UK-based retailer customer that supports their expansion and we were selected to migrate their existing home-grown eCommerce platform to the cloud. With an existing global auto parts company, we are launching a composable commerce B2C solution, orchestrated using MACH technologies. We expect this effort will continue in Q3 to enable them to consolidate their technology landscape and scale their business.

During the quarter, Grid Dynamics delivered some notable projects. At a leading global technology company, we modernized their data analytics platform, including data governance and data pipeline throughput. This ensured compliance with strict data privacy and security regulations. Our efforts led to reduced infrastructure costs and improved overall performance. For a leading home improvement retailer, we modernized their legacy monolithic commerce platform. This opened the path to implement AI-enabled services, such as search, on the Azure platform. For a major CPG brand, we implemented a wholesale order platform for its North America business, significantly reducing manual labor associated with processing and validating orders. This platform integrates order flow data into the client's next-generation ERP system, streamlining operations and enhancing efficiency. For a leading automotive parts supplier, we migrated product data to automotive industry standards and consolidated B2B and B2C search capabilities on a common platform. This will improve overall customer experience and enhance product sales. It is also the first step for the company towards rolling out a conversational AI shopping assistant. For a global footwear brand, we launched 40 country-specific sites in under six months, providing localized features for in-country personalization, shipping, and fulfillment. This achievement was made possible by leveraging the underlying MACH architecture we developed, further extending our long-term relationship with the brand.

With that, let me turn the call over to Anil, who will discuss Q2 results in more detail. Anil ...

###

**Anil Doradla, Chief Financial Officer:**
Thanks, Leonard. Good afternoon everyone.

Our second quarter results were solid as we exceeded our expectations, both on revenue and non-GAAP EBITDA. Our second quarter revenue of $83.0 million was ahead of our guidance range of $80.0 million to $82.0 million and our non-GAAP EBITDA of $11.7 million was ahead of our guidance range of $10.5 million and $11.5 million. The strong results were driven from a wide range of customers across industry verticals.

During the second quarter, our retail and TMT were the two largest verticals at 32.2% and 28.0% of our revenues, respectively. Our Retail vertical grew 8.7% and 2.9% on a sequential and year-over-year basis, respectively. On a sequential basis, we witnessed growth from multiple customers in the specialty retail and home improvement space.

TMT decreased by (3.3)% and (3.6)% on a sequential and year-over year basis, respectively. On a sequential basis, the decline largely came from a couple of factors that included decline in revenue from a technology startup in the security space. Coming to our largest customer in our TMT vertical, it grew both on a sequential and year-over-year basis.

Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing represented 11.9% of our revenue in the second quarter, an increase of 3.0% on a sequential basis and a drop of (9.5)% on a year-over-year basis. Revenues from the top 3 customers in our CPG & Manufacturing vertical grew on a sequential basis. Our Finance vertical was the strongest both on a sequential and on a year-over-year basis. Similar to last quarter, the growth was from customers across the Fintech and Insurance space. Our newly disaggregated Healthcare and Pharma representing 3.8% of our revenues showed 5.0% increase on a sequential and a (14.8)% decrease on year-over-year basis. And finally, the Other vertical represented 9.0% of our second quarter revenue and was down (10.6)% on a sequential basis and up 26.7% on a year-over-year basis.

We ended the second quarter with a total headcount of 3,961 up from 3,892 employees in the first quarter of 2024 and up from 3,862 in the second quarter of 2023. At the end of the second quarter of

2024, our total US headcount was 347, or 8.8% of the company's total headcount versus 8.2% in the year ago quarter. Our non-US headcount, located in Europe, Americas and India was 3,614, or 91.2%.

In the second quarter, Revenues from our top 5 and top 10 customers were 38.5% and 57.0%, respectively, versus 37.6% and 56.6% in the same period a year ago, respectively.

During the second quarter, we had a total of 208 customers down from 210 in the first quarter of 2024 and 216 in the year ago quarter. During the quarter we added several customers, some of which Leonard referred to in his prepared remarks. The year over year decline in the number of customers was primarily driven by our continued efforts to rationalize our portfolio of non-strategic customers.

Moving to the income statement, Our GAAP gross profit during the quarter was $29.6 million, or 35.6%, compared to $27.7 million or 34.7% in the first quarter of 2024 and $28.3 million, or 36.6% in the year ago quarter. On a non-GAAP basis, our gross profit was $30.1 million or 36.2% up from $28.1 million or 35.3% in the first quarter of 2024 and up from $28.8 million or 37.3% in the year ago quarter. The increase in gross profit, both in dollar and as a percentage on a sequential basis was mainly driven by a combination of higher levels of revenue and better utilization of engineering resources.

Non-GAAP EBITDA during the second quarter that excluded stock-based compensation, depreciation and amortization, restructuring and expenses related to the geographic reorganization, transaction and other related costs was $11.7 million, or 14.1% of sales up from $10.3 million or 12.9% of sales in the first quarter of 2024 and down from $12.0 million  or 15.5%, in the year ago quarter. The increase on a sequential basis was largely due to higher revenues, partially offset by increase in operating expenses. Our GAAP net loss in the second quarter was $(0.8) million or $(0.01), based on a basic share count of 76.6 million shares, compared to the first quarter loss of $(3.9) million or $(0.05) based on a basic share count of 76.2 million and an income of $2.6 million or $0.03 per share based on 75.1 million basic shares in the year ago quarter. Our sequential decrease in GAAP net loss was largely from higher gross profit, lower levels of stock-based compensation, and this was partially offset by provision for income taxes. On a non-GAAP basis, in the second quarter our non-GAAP-net income was $6.0 million, or $0.08 per share based on 77.9 million diluted shares, compared to the first quarter non-GAAP net income of $5.2 million or $0.07 per share based on 78.4 million diluted shares and $7.0 million or $0.09 per share based on $76.9 million diluted shares in the year ago quarter.

On June 30, 2024, our Cash and cash equivalents totaled $256.0 million, up from $249.4 million in the first quarter of 2024.

Coming to the third quarter guidance, we expect revenues to be in the range of $84 million to $86 million. We expect our non-GAAP EBITDA in the third quarter to be in the range of $12.3 million to $13.3 million. For Q3 2024, we expect our basic share count to be in the range of 77 to 78 million and our diluted share count to be in the range of 79 to 80 million.

That concludes my prepared comments. We are ready to take questions.

###

**Questions and Answers**

**Cary Savas, Director, Branding & Communications:**
Thank you, Anil. As we go into the Q&A session of this call, I will first announce your name. At that point, please unmute yourself and turn on your camera. The first question will come from Maggie Nolan of William Blair. Go ahead, Maggie.

**Maggie Nolan @ William Blair:**
Hi! How are you?

**Leonard Livschitz, Chief Executive Officer:**
Good.

**Maggie Nolan @ William Blair:**
Congratulations.

**Anil Doradla, Chief Financial Officer:**
Thanks, Maggie.

**Maggie Nolan @ William Blair:**
So, I wanted to ask about the talent landscape for you all. So you're back to hiring. Some time has passed since you've kind of reorganized the footprint of the business since you started talking about 'follow the sun' as well as the POD structure that you rolled out. So I'm curious how you're thinking about managing margins from here on kind of an account-by-account basis, now that you have all these different pieces in place and how we might start to see that manifest in the P&L?

**Leonard Livschitz, Chief Executive Officer:**
Well, you just answered the question, right? So, managing the margins account per account for the key accounts is what really it comes down to right now. As you can see from the hiring perspective, we continue to hire across all the regions where we execute the 'follow the sun' program. Follow the sun. There is definitely an emphasis on India. India continues to expand. We still put a lot of effort into Europe, but we are doing a little bit more, I would say smart hiring because we're again adding more interns for the program, which we bring junior engineers, we promote within. And, as the projects have stabilized and grown with a POD solution offering, we're able to expand on the breadth of the teams, and when you have deeper projects, you can actually manage your cost efficiency within the teams as well. But then the short answer is, yes. The key is to manage profitability per key client.

**Maggie Nolan @ William Blair:**
Thank you. And then you also talked about, maybe an increased willingness of customers to either maintain or even increase their spend. I'm wondering if there is a notable change in the scope of projects, type of projects, duration of projects, as you see that resurgence of willingness to spend. And any thoughts you might have on why this is slightly different from some of your competitors in the space?

**Leonard Livschitz, Chief Executive Officer:**
Well, the...Sorry, there was some noise there. Sorry about that.

So I think that fundamentally when we talk about our differentiation, it’s always been key for Grid Dynamics to be focused on technology projects. And when we do technology projects, the scope is around solutions which greatly impact the sales. So, there is...If you notice a big part of my conversation was about AI—it's not about just being fashionable. But it's also we have a possibility to implement the number of the internal solutions which we continue to roll out, which I also noted from the...Just the proof concept state point to the implementation of the broader base.

So yes, technology still stays the core focus. We have quite broadened the number of platforms which we use for innovative AI projects, starting from the...you know, open source products to specialized solutions to the private models building the copilots together with their clients. And also as we expand our partnerships, there's a deeper breadth of, again, the implementation of those projects with their clients. So just to summarize: technology focus, breath of AI moving from the conceptual stage to more implementation, and certainly reputation which comes with that over the years of Grid Dynamics managing various data aspects of our clients.

**Maggie Nolan @ William Blair:**
Great thanks. Leonard and Anil. Congrats again.

**Leonard Livschitz, Chief Executive Officer:**
Thank you so much, Maggie.

**Anil Doradla, Chief Financial Officer:**
Thank you.

**Anil Doradla, Chief Financial Officer:**
Can we go to the next question?

**Cary Savas, Director, Branding & Communications:**
Hello. The next question goes to Gates Schwarzmann from Citi. Please go ahead, Gates.
Gates. Are you there?

**Anil Doradla, Chief Financial Officer:**
OK, we'll come back to him, Cary. Why don't we go to the next?

**Cary Savas, Director, Branding & Communications:**
We will come back to him. The next question comes from Brian Bergen of TD Cohen. Brian, please go ahead.

**Bryan Bergin @ TD Cowen:**
Hi, guys, thanks. Good to see you. I wanted to start on the guidance here, so nice to see the sequential performance in the 2Q, and then what's implied in the 3Q, the continuing momentum there.

As you develop the 3Q plan and consider kind of the balance of the year into 4Q, can you kind of just share some perspective on whether there was a thought of reinstating that full-year outlook? I'm asking just curious as a signal around overall business visibility.

**Anil Doradla, Chief Financial Officer:**
So. Brian, this is a very good question, because this is a constant discussion, I think, let me leave a couple of thoughts here. Number one is that things are improving. So the likelihood of me installing a full-year guidance is higher than what it was maybe a month ago, 2 months ago, or 3 months ago. So we're moving in that right direction. Look, we tend to be conservative. When we're ready for it, we will put it out. But the bias internally is for full-year guidance. Leonard's inclination is to try to give as much visibility as we can for the street. So, that's what we're working on. So, at the right time, we will go on and put it, but definitely, we have more of a bias to get to that point.

**Bryan Bergin @ TD Cowen:**
Okay, okay, that makes sense. And then just on the new logos, can you speak to some of the pace of the scaling of these larger enterprise logos? You've had good momentum in each quarter here, signing several. For those that are ramping faster too, can you maybe speak to some of the trends in those new relationships that may be common?

**Leonard Livschitz, Chief Executive Officer:**
Well, the story is not any different from the years of growth, Brian. When we engage with a client on a rapid scale, and I'm talking with a rapid scale, usually, there is a familiarity with Grid Dynamics from the past. So when you sign the logo where you come from the I would say, new relationships or partnerships, typically the projects start relatively small. So it's still land and expand, right?.

Usually, it's from a highly technical field. Basically, the big enterprises approach Grid Dynamics on referrals to become their technology partners. In a couple of instances, they thought that help from very large and reputable firms, perhaps, they didn't find that reflection of the specific needs, or maybe focused, I would say, attention. And we rapidly picked it up. And you know, we're kind of shifting our relationship with the clients also to understand their business models. So it helps to be technically astute, but also a bit more business savvy.

But a couple of instances where we had the leadership of the clients kind of known us for a long time. And those are kind of the best of thrust because you don't need to prove yourself anymore. You basically get to the point that you're given business based on your past performance, but you have to rapidly adopt and deliver. And there are a couple of such incidents that have happened.

As we grow, you know, we've been around for 18 years, those incidents are more common.
So three cases. The new relationships as well as partnerships—they grow from technology up, the existing relationships rapid scale in terms of the major implementation across multiple fields.

**Bryan Bergin @ TD Cowen:**
Okay, it's helpful. Thank you very much.

**Leonard Livschitz, Chief Executive Officer:**
Of course.

**Anil Doradla, Chief Financial Officer:**
Thanks, Brian.

**Cary Savas, Director, Branding & Communications:**
Thank you, Brian. The next question comes from Mayank Tandon at Needham. Mayank, please unmute yourself and you can start your video.

**Anil Doradla, Chief Financial Officer:**
Did we just lose Mayank? I just saw him...

**Mayank Tandon @ Needham:**
I'm here. Can you guys hear me?

**Anil Doradla, Chief Financial Officer:**
There you go. Yes, Mayank, we can hear you.

**Mayank Tandon @ Needham:**
I'm trying to restart my video, but let's see.

**Anil Doradla, Chief Financial Officer:**
Oh, there you are.

**Mayank Tandon @ Needham:**
Here I am. All right. Great. Thank you for taking my question. Good evening, Leonard and Anil. Congrats on the quarter. I wanted to ask you on the revenue growth for the third quarter. And as you look ahead, could you unpack the growth in terms of headcount additions, utilization, how much more room do you have to expand it? And also pricing, is there more leverage on the upside or is pricing basically running flattish at this time?

**Leonard Livschitz, Chief Executive Officer:**
Okay. Well, unpacking is the privilege of Anil. So obviously, he will unpack in such way you will never understand what he has unpacked. But let me try to focus on the key areas, because it's a very fundamental question, right? So, I don't see a rapid increase of the pricing per client. In some instances, they do. But there is – it's not about increasing the price. It's about fair value for the solutions. So when you go T&M, it's – seldom. But when you go into the project base, when you offer a customer complete proposals, that does happen, some of the impact, because again, it's ROI. At the end of the day, it's the total amount of dollars, looked at how much business, how competitive our clients stay.

So the unpacking part is there's no miracle there. Nobody – the demand is still to the point we have to be smart about pricing, but we see some of those improvements definitely. The other thing is balancing the teams, as I mentioned when Maggie asked the question, bringing these broader, vertically integrated organizations created a higher, I would say, utilization of the broader-based people. You know, when you are starting projects, and Bryan asked this, how you and who grows and how that impacts, you typically start it with very experienced people, right? And that is not the best margin solution unless you build the broader capabilities with all the clients and we see those broader capabilities coming into play. So if I summarize some of the unpacking of the growth, demand is definitely present to Grid Dynamics. When we purely focus on one area, then maybe, there's no lack of big change of the financial performance. But where we're expanding now into multiple areas, we see the efficiencies. And the efficiency comes with a pyramid of talent, which is, even during the most [indiscernible] downturns, we did not slow down on the internship program, on the training program, on the internal university programs. So, those kind of things picked up. And of course the investment in R&D, when we build more than 30 solutions, they're not just 30 solutions, some of them, it almost like auction, you know, Mayunk. People say I did 100, I did 200 and something, 5,000, you know, we are more conservative. When we talk about a solution, it's a fundamental actionable set of rules. We drive immediate customer implementation. And when you talk about Fortune 500, that brings that kind of implementation to both performance and financial efficiency. I hope I gave you a little bit of flavor enough, but…

**Mayank Tandon @ Needham:**
Sure. Very helpful. As a quick follow-up, Leonard and Anil, I wanted to also dive into the clients where you have top 5, top 10. Where do you see them in terms of penetration? Is there more headroom to grow within these clients or do you think the growth is going to really come from your non-top 10 as we look beyond 2024 into 2025 and further?

**Leonard Livschitz, Chief Executive Officer:**
Well, let me start. We just went through our internal executive reviews because, you know, it's good on a semi-annual basis kind of assess where you are. So, we just finished it. Our strategy comes threefold: the top clients; the second most potential clients, meaning the large companies where our footprint is still smaller; and the new innovative clients coming either through the hunting or the partnerships, right? And as you look at our breakdown, no matter what we do, there is still concentration, right. And this is different form of shape, not the same as was some years ago, we're more diverse on an industry basis, but still, we have heavy hitters. And with those heavy hitters, you need to make sure you lead with them 24/7. Because our success and their success is so tightly coupled, when some of them went down in the past quarters, it hurt them, it hurt us. We're carefully selecting the companies together with the client, which not only kind of inspired to grow and have funds to grow, but the market dynamic for their own markets help them. So, that's from the top tier.

From the second tier, we have growth with every account potentially, because if you are – you only have this some millions of dollars and those are large clients, then it's our responsibility to offer them, competitively, something which makes their business more successful, and this is where we double down on technology penetration. So the first group was 24/7, the second one, very selective. And, you know we have those green shoots already started to fruition, which means some of them take off, some of them don't and that we need to understand why not.

And the third group, we are spending disproportionate amount of attention to partnerships, because those logos are amazing but the scope of projects are limited. So we have enough trust with our partners that we can work with them on their own implementations, but also look in parallel to something completely unrelated and incompatible with their mission, but help us and direct clients to grow together. So together, that's kind of focused. It's a one, two, three.

**Mayank Tandon @ Needham:**
Perfect. Thank you so much, Leonard. Thank you, Anil.

**Leonard Livschitz, Chief Executive Officer:**
Of course.

**Anil Doradla, Chief Financial Officer:**
Thank you.

**Cary Savas, Director, Branding & Communications:**
Thank you, Mayank. Appreciate your questions. The next question comes from Puneet Jain of JPMorgan. Go ahead, Puneet.

**Leonard Livschitz, Chief Executive Officer:**
You're on mute.

**Anil Doradla, Chief Financial Officer:**
Puneet, I think you're on mute.

**Cary Savas, Director, Branding & Communications:**
Puneet. Go ahead, sir. Your audio is not connected, sir.

**Anil Doradla, Chief Financial Officer:**
All right. Let's see.

**Puneet Jain @ JP Morgan:**
All right. Let's try...

**Anil Doradla, Chief Financial Officer:**
Oh, there you go..

**Puneet Jain @ JP Morgan:**
All right. I just asked all my questions. What's the answer then? Anyway, so great quarter. So last couple of years, you have added like around 50, 60 enterprise customers. Some of them, for example, the one in financial services have done really well. But give us like the state of union for the rest of the enterprise clients that you added, or some of them like the – specifically the ones that might still be somewhat under scale. Like what's keeping them from ramping up and what the potential is at those clients?

**Leonard Livschitz, Chief Executive Officer:**
You're basically expanding on the previous question with Mayank about the second group, right, not the top one. Everybody boasts about successes, what happened with the quiet group, right, the silent majority? Okay. well, that's why we had this very deep account-by-account review, and because again, there are not a huge number of them. There are maybe 25 to 30 of those clients who kind of stuck in this position of kind of transitioning from 2, 5, 10 to 5, 10, 20, but still, more between 5 and 10 instead of 10 and 20. This is exactly where the, I would say, the thrust is. Because once you pass a certain level of capacity in a relationship, you suddenly become the preferred supplier. And in that age of consolidation, which we also mentioned, staying relevant, you have to be useful not just to one team but to many. So from that perspective, we selected about half of those clients because you can't run after everyone, right? Which they're from different industries but they have a couple of major, I would say, factors.

First of all, we have an alignment on technology roadmap. With all the greatness of technology, technology by itself, even AI, makes zero value unless it's fully supported and expanded and kind of planned for with the clients, right? They need to have mindset, they need to have capability, they need your willingness, business cases, and patience, right? It's very easy to do proof-of-concepts. And then they kind of report to the top management saying, okay, we've done it. It's not business. So with about half of those clients, I would say a dozen and a half or something like that, we want to go much deeper to actually engage into the more business case studies, answering ourselves and then the question is, why not? We're not changing our business at all. We're not doing like, BPOs or any kind of low-end services. So for us, expansion, it means how to proliferate the data business, the cloud business, assessment of cyber securities, learning from the – that horrible lessons of the IT challenges which happen on the clouds, how to create mission-critical solutions with all the predictable models but still relevant to them. So that group, which we're going to continue to focus on, that's where the, I would say, short-term growth comes from.

**Puneet Jain @ JP Morgan:**
Okay, no, that's very helpful. And then you have like about $250 million in cash on the balance sheet. And in the press release I noticed that you talked about like most of the growth or all the growth is organic now, meaning that it's been more than a year since you last did an acquisition. So talk to us about your use of cash priorities over the near term, and what are you looking for in potential M&A targets?

**Leonard Livschitz, Chief Executive Officer:**
Yes, yes. So the person you don't see in the room, because he's kind of behind the scene, is our Head of M&A Group, right? So, I'm not going to put him on the stage and tell him what to do because he may tell you way too much that we want to tell you. But I think that the level of engagement is tremendous right now. I think there are a couple reasons for this. First of all, remember the geographic, we talk about technology with clients and geography. I think the stars are kind of aligned. We have all the geography we're looking for, all of them right now. And technology is pretty decent. I would not say we're going to make a breakthrough. If everybody can make a breakthrough, then why would companies exit, right? They need to have – we found the companies which need to have help from the, strangely enough, call me a big brother, I mean, we're still a fairly modest-sized company, but from technology perspective, we're quite formidable. And they're passionate about to continue the journey as a part of the bigger teams. Now, I can't tell you when the day is going to come. What did you say about us going for an annual report? You're more inclined to do now than before.

**Anil Doradla, Chief Financial Officer:**
Than a month ago...

**Leonard Livschitz, Chief Executive Officer:**
It sounds like we're all waiting for Feds to change the rate. So, I'm also inclined to be very positive in the next couple of weeks and months, but you have to be very patient. And the reason we're very bullish on it, is because I think we found the rhythm. That it was very important, because when we look at the past four acquisitions, we look at the value where we need to bring in 2025 and on. And I think the company, when you go through this period of the slowdown, it matures. You know, like the old saying, if you can't find a job, go ahead and extend your education, right? So, it's kind of worked for the last 12 months. I believe we're on a very good path now.

**Puneet Jain @ JP Morgan:**
That's good to know. Thank you.

**Anil Doradla, Chief Financial Officer:**
Thank you, Puneet.

**Leonard Livschitz, Chief Executive Officer:**
Thank you.

**Cary Savas, Director, Branding & Communications:**
Ladies and gentlemen, this concludes the Q&A session of our call today. I will now turn it over to Leonard for closing comments.

###

**CLOSING COMMENTS**

**Leonard Livschitz, Chief Executive Officer:**

Thank you everybody for joining us on the call today. Our message today is consistent with the commentary over the past couple of quarters – steady improvement in Grid Dynamics' business. Visibility is getting better, customers are more willing to put their plans into spend, and more importantly, customers are laser focused on evaluating the technological competencies of their IT partners. I am excited about all the opportunities in the second half 2024 and 2025. Looking forward to giving you all updates in the next earnings call. Thank you