Grid Dynamics

GDYN Q3 2024 Earnings Call
Recording Transcript

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

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

Cary Savas, Director, Branding & Communications:
Good afternoon, everyone. Welcome to Grid Dynamics' third quarter 2024 earnings conference call. I'm Cary Savas, Director of Branding and Communications. At this time, our participants are in listen-only mode. Joining us on the call today are CEO Leonard Livschitz, CFO Anil Duradla, and COO Yury Grzlov. Following the 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 in a financial outlook and the answers to some of your questions.Such statements are subject to the risks and uncertainty as described in the company's earnings release and other filings with the SEC. During this call, we will discuss certain non-Gap measures of our performance. Gap to non-Gap financial reconciliations and supplemental financial information are provided in the earnings press release and the 8K filed with the SEC. You can find all the information I 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 reported another solid quarter as positive trends continued to favorably influence our business. Our third quarter results were above our guidance range and exceeded wall-street expectations, both on revenue and non-GAAP EBITDA. More importantly, our revenue and profitability were the highest in the company's history. Similar to the second quarter, we exited the third quarter with a record billable engineering headcount. Customers, both existing and new, are contributing to our strong results, which is a testament to our technology differentiation and delivery excellence. The addition of Argentina-based Mobile Computing enhances our follow-the-sun capabilities and the acquisition of UK-based JUXT elevates our industry expertise in banking and financial services. With both acquisitions, our teams have started working together and I expect them to generate immediate, scalable synergies starting in the fourth quarter.

There are many trends shaping the company, both in the fourth quarter of 2024 and in 2025, some notable ones I will share with you today. As we exit 2024, our long-term targets around the company's growth, profitability, and technical leadership remain unchanged.

Now, coming to the demand environment. Similar to the first half of 2024, demand trends improved across our customers. In the third quarter, we witnessed our customers funding key programs and initiatives. At many of our customers, there is a sense of urgency to complete projects by the end of the year. Numerous initiatives that were held back due to the economic cycle are being prioritized for completion. This is something we witnessed across a wide-range of customers and industries.

In many ways, the foundation of the third quarter demand trends were set up in the first half of the year. If you recall from my last quarter commentary, I highlighted the first quarter was characterized by customers focusing on sharing their outlook and forecasts plans but not aggressively spending. In the second quarter, customers were more willing to release budgets and implement their plans. Bottom line, the positive demand environment that we witnessed in the third quarter was a result of steady improvements over the past couple of quarters, and we expect it to continue into the fourth quarter and beyond.

We set a new record for partnership influenced revenues. Year to date, partnership revenue contribution is 18% of the total revenue. Our focus on hyperscalers paid off, with three of the largest being in the top five for partnership revenue.

As I pointed out earlier, we are thrilled to welcome JUXT and Mobile Computing to Grid Dynamics. Each company brings in a unique set of capabilities. Founded in 2013, JUXT is known for delivering complex end-to-end solutions, from design and user experience, to deep functionality and ongoing managed services. Their specializations in mission-critical platforms and products for leading banks and financial institutions make them a strategically important addition to Grid Dynamics, especially as global demand for reliable, scalable, future-proof data solutions continues to grow. Their focus on risk platforms, structured products, equity derivatives, and financial reporting is highly complementary to our current offerings in financial services, which adds into our portfolio some of the world's largest banks and financial institutions.

The acquisition of Mobile Computing expands Grid Dynamics' global footprint and follow-the-sun delivery model. Founded in 1998, Mobile Computing is recognized as a leader in digital transformation, offering a comprehensive suite of solutions spanning industries including manufacturing, CPG, and financial services. By adding this talented team in Argentina, our clients now have expanded options in the Americas, complementing our established presence in the United States, Mexico, and Jamaica.

During the last earnings call, I shared some insights around vendor consolidation across many of our clients. Over the past 12 months, customers have been scaling back on the number of IT vendors they work with. During the third quarter, the majority of vendor consolidation efforts across customers were completed. Grid Dynamics' technology and operational excellence is highly valued, and this helped us join a short list of strategic partners for those customers.

Now, turning to our AI initiatives. I am pleased to report that our AI capabilities continue to gain significant traction across our customer base. We've substantially expanded our AI portfolio and now have over 30 service offerings and solutions specifically targeting Fortune 500 companies across various industries. These solutions are designed to drive both top-line growth and bottom-line efficiency for our enterprise clients. On the revenue side, we're focused on innovative customer experiences and enhanced marketing, pricing, and product decisions. On the cost side, our solutions center on efficiency improvements and enterprise knowledge management.

What's particularly encouraging is the evolution we're seeing in our AI engagements. While previous quarters were dominated by POCs and user-facing programs, this quarter marked a significant shift as more projects moved into full production environments. Our pipeline of AI opportunities has grown to more than 100 active opportunities, representing a 50% increase from the last quarter. This growth reflects the increasing enterprise readiness to move beyond experimentation to implementation of AI solutions at scale.

Currently, we are seeing particularly strong demand in three key areas of AI: AI-based search, conversational AI, and catalog enrichment. This demand is driven by rapidly evolving customer expectations, as interactions with AI-based assistants become more commonplace in both consumer and enterprise contexts. To support this growing demand, we're expanding our partnerships with hyperscalers, building specialized accelerators based on their foundational models and AI-based services.

Internally, we continue to invest in our own AI capabilities. We've made significant strides in improving our engineering productivity through the implementation of AI coding assistants. This enhances our delivery efficiency and ensures our teams stay at the forefront of AI technology implementation.

Now, let me share a few examples of our AI programs at large enterprises:

At one iconic retailer, we've launched an AI solution that streamlines their product catalog management by automatically extracting and harmonizing product attributes from unstructured data, significantly improving operational efficiency and data quality. For one of the largest US auto parts providers, we're implementing an advanced AI assistant that connects customers with store associates through instant messaging. This solution incorporates visual auto parts recognition and conversational part finding capabilities, enhancing both customer experience and operational efficiency. At one of the largest beverage companies, we're developing a conversational knowledge AI platform focused on improving employee productivity by providing intelligent access to corporate knowledge and streamlining internal processes.

These implementations showcase our ability to deliver AI solutions that drive meaningful business outcomes across diverse industry verticals. As we look ahead, we remain confident in our positioning as a leader in enterprise AI implementation, supported by our growing pipeline and expanding partnership ecosystem.

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

Logo Momentum: In the third quarter we signed 6 new logos, which are large enterprises. Of these customers we signed in the quarter, one is a global food products and hospitality distribution company, another is an automotive parts company, and another is one of the largest grocery retailers in Europe.

Partnerships Revenues driven by strategic partnerships have shown sustained growth—contributing 18% of our total revenue in the first three quarters of 2024. In response to this positive trend, we are investing in joint sales and marketing, and collaborating closely with hyperscalers and SaaS providers. These efforts span across critical areas such as digital commerce, application modernization, data platforms, and engineering services, allowing us to tap into an even broader range of opportunities. Additionally, our partners are emerging as critical channels for seizing opportunities in artificial intelligence and generative AI, as demand in these areas continues to rise. To further strengthen our footprint, we are actively deploying our AI and generative AI accelerators across hyperscaler platforms and marketplaces, enhancing accessibility and engagement for clients seeking advanced AI solutions.

India expansion: Our follow-the-sun strategy provides the framework of scaling our global locations. India is now in our top two countries by headcount, and it is an integral part of our global delivery model. Bengaluru, our third location in India, is now scaling its team and has been a successful addition to our Indian operations. We are scaling relationships with India-based GCCs, recently hosting a technology and innovation forum attended by more than a dozen GCCs.

European business: With roughly mid-teens of our revenue, Europe continues to be strategic to our growth. We are increasing our footprint with the European divisions of our large global accounts. We are also expanding our business with joint go-to-market strategies with hyperscalers across all our services.

We are witnessing significant AI adoption trends, with clients engaging us to assess their AI and data platform capabilities in preparation for building AI platforms that will support multi-year business transformations.

A major UK-based retail customer is engaging us not only on e-commerce transformation but also on their cloud migration journey this year. In Q4, we are launching a composable commerce B2C solution for a major auto parts distributor. We are working towards helping them further modernize and consolidate their complex technology landscape into 2025.

During the quarter, Grid Dynamics delivered some notable projects.

A leading global technology company sought a solution to maintain user data in compliance with privacy regulations. Grid Dynamics successfully implemented a consolidated system, enabling centralized monitoring and management of datasets and user workflows. The UI application has been widely adopted across multiple cross-functional teams within the organization. The new system provides business teams with a standardized method to ensure datasets meet current regulatory requirements. It also maintains a comprehensive audit trail for all changes, enhancing transparency and accountability.

A leading financial and investment services company aimed to enhance the search experience on its internal web portal, which serves around 10,000 financial advisors. The goal was to improve search result accuracy by understanding financial advisors' intent and delivering the most relevant information. The solution incorporates a 'do no harm' analysis to ensure reliability. This feature prioritizes accuracy over completeness by withholding results when the system cannot confidently provide correct information. Grid Dynamics implemented this solution leveraging AWS and NVIDIA technology stack.

We recently introduced a contactless payment system for a major US DIY retailer, enabling customers to complete purchases quickly and securely with a tap of their phone or card. This solution enhances the shopping experience by reducing checkout times and minimizing physical contact. The rollout is underway across more than 2,000 stores, with overwhelmingly positive customer feedback. This upgrade underscores the impact of Grid Dynamics' work on our clients' business operations.

We successfully launched passwordless biometrics-based identification that leverages cutting-edge authentication standards to enable users to securely authenticate their online payments using biometric data such as fingerprints and/or facial recognition, in Summer Olympics starting from POC to production in a record time of 6 months.

With that, let me turn the call over to Anil, who will discuss Q3 results in more detail.

Anil …

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

Our third quarter results were solid as we exceeded our expectations, both on revenue and non-GAAP EBITDA. During the third quarter we recognized a record revenue of $87.4 million that was organic and ahead of our guidance range of $84.0 million to $86.0 million. Our non-GAAP EBITDA of $14.8 million exceeded our guidance range of $12.3 million and $13.3 million. The better than expected results were driven by a combination of factors that included strength from existing and new customers and operational efficiencies.

During the third quarter, our retail and TMT were the two largest verticals at 34.1% and 27.7% of our revenues, respectively. Our Retail vertical grew 11.4% and 12.4% on a sequential and year-over-year basis, respectively. On a sequential basis, we witnessed growth from multiple customers in the specialty retail, home improvement space, and department stores.

TMT saw an increase of 4.1% and 1.9% on a sequential and year-over year basis, respectively. Similar to last quarter, our largest customers in the TMT vertical, grew both on a sequential and year-over-year basis. Here are the details of the revenue mix of other verticals. Our Finance vertical was the strongest both on a sequential and on a year-over-year basis and grew by 12.7% and 94% respectively. As a result, its share in total revenues increased to 16.2% in the third quarter of 2024. Similar to last quarter, the growth was from customers across the Fintech and Insurance space. Our CPG & Manufacturing, representing 11.2% of our revenue in the third quarter, remained relatively flat on a sequential basis and increased 1.4% on a year-over-year basis. Our Healthcare and Pharma representing 2.9% of our revenues decreased (20.5)% and (26.9)% sequentially and on a year-over year basis, respectively. And finally, the Other vertical represented 7.9% of our third quarter revenue and was down (6.9)% on a sequential basis and up 3.0% on a year-over-year basis.

We ended the third quarter with a total headcount of 4,298 up from 3,961 employees in the second quarter of 2024 and up from 3,823 in the third quarter of 2023. Our recent acquisition of Juxt added 139 employees located mainly in Europe. At the end of the third quarter of 2024, our total US headcount was 345, or 8.0% of the company's total headcount versus 8.4% in the year ago quarter. Our non-US headcount, located in Europe, Americas and India was 3,953, or 92.0%.

In the third quarter, Revenues from our top 5 and top 10 customers were 39.8% and 59.2%, respectively, versus 36.8% and 54.0% in the same period a year ago, respectively. During the third quarter, we had a total of 201 customers down from 208 in the second quarter of 2024 and 224 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 $32.7 million, or 37.4%, compared to $29.6 million or 35.6% in the second quarter of 2024 and $28.2 million, or 36.4% in the year ago quarter. On a non-GAAP basis, our gross profit was $33.3 million or 38.0% up from $30.1 million or 36.2% in the second quarter of 2024 and up from $28.7 million or 37.0% 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 third quarter that excluded stock-based compensation, depreciation and amortization, restructuring and expenses related to the geographic reorganization, transaction and other related costs was $14.8 million, or 16.9% of sales up from $11.7 million or 14.1% of sales in the second quarter of 2024 and $10.7 million or 13.9%, 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 income in the third quarter was $4.3 million or $0.05 per share, based on a diluted share count of 78.8 million shares, compared to the second quarter loss of $(0.8) million or $(0.01) per share, based on a diluted share count of 76.6 million and an income of $0.7 million or $0.01 per share based on 77.3 million diluted shares in the year ago quarter. Our sequential increase in GAAP net income was due to higher gross profit, lower levels of stock-based compensation, and lower provision for income taxes. On a non-GAAP basis, in the third quarter our non-GAAP net income was $8.1 million, or $0.10 per share based on 78.8 million diluted shares, compared to the second quarter non-GAAP net income of $6.0 million or $0.08 per share based on 77.9 million diluted shares and $5.9 million or $0.08 per share based on $77.3 million diluted shares in the year ago quarter.

On September 30, 2024, our Cash and cash equivalents totaled $231.3 million, down from $256.0 million in the second quarter of 2024.

Coming to the fourth quarter guidance, we expect revenues to be in the range of 95 to 97 million. We expect our recent acquisitions contributing 10% of the total revenue. We expect our non-GAAP EBITDA in the fourth quarter to be in the range of $13.5 to 15.5 million. For Q4 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 80 to 81 million.

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

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Questions and Answers

Cary Savas, Director, Branding & Communications:
Okay. 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. And the first question is going to come from Mayank Tandon from Needham.

Mayank Tandon @ Needham:
Oh, great. Thanks. Hi, Leonard. Hi, Anil. Congrats on the quarter.

Leonard Livschitz, Chief Executive Officer:
Thank you.

Mayank Tandon @ Needham:
So let me just clarify. Sorry, I missed your last comment on the contribution from M&A in the fourth quarter. And then I just want to get a sense related, if you strip out the revenue from the fourth quarter in terms of M&A, then can we expect this organic growth to continue in the future quarters, why would it not continue? So any color on your outlook for the next few quarters would be helpful, just given what you had in terms of performance in the last several quarters.

Leonard Livschitz, Chief Executive Officer:
Anil?

Anil Doradla, Chief Financial Officer:
Yes, so Mayank, we said 10%, right? Now, I think the most important thing you have to understand as we go from Q3 to Q4 is that you had...some of the working time, right? The number of hours. The billable headcount will grow from Q3 to Q4.

So, uh, if you look at the underlying foundations, which at the end of the day is driven by billable headcount. Of course, working time moves around right as we're going through the seasonality part of the year into as we exit, you'll see some variations, but the billable headcount, new customers, existing customers are continuing.

Mayank Tandon @ Needham:
Got it. So just to be clear, in terms of the organic trends, it sounds like that can continue based on the demand climate. I'm just trying to get a sense if there's anything on the horizon—in terms of budget flush or companies going through their budgeting process for next year that could maybe change the dynamic in terms of the current organic growth trajectory you've seen quarter to quarter.

Anil Doradla, Chief Financial Officer:
So look, you know, there is nothing changed. From a, you know, what I call some abnormal or artificial movements So the trends that we're seeing, it points to more fundamental. As we get into next year, obviously, we will talk next year. We don't guide beyond a quarter, but our underlying results, which was 5% sequential growth, there's an acceleration in quarter over quarter, right? This is all driven by fundamentals. It was not driven by budget flush. It is not driven by some artificial behavior in the organic business. It is across the board, as Leonard pointed out, both from our existing customers and new customers.

Leonard Livschitz, Chief Executive Officer:
So, Mayank, I'll add one more point just to make sure it's clear. October is a great month. We are very confident. We have numbers, right? But we don't write yet all the details. The conservatives in a guidance is driven by two factors. As you know, December has certain furloughs, certain holidays. We want to be a little bit more careful. And also the revenue coming from the new customers will be unique, and I'm sure we'll talk more with other guys

We'll be asked similar questions, and that's driven by the fact that we started to collaborate even before we closed. This is different from the previous acquisitions we had. So not sure how much resolve will be in Q4, but Q1 will see the additional revenue due to the synergy. So we're bullish on both fronts.

Mayank Tandon @ Needham:
Got it. Can I squeeze one more in?

Anil Doradla, Chief Financial Officer:
Sure.

Mayank Tandon @ Needham:
So just want to get some perspective on pricing. It's been a point of debate In the services industry, just given some of the demand headwinds. Are you seeing pricing stabilize, maybe even uptick a little bit? Any color around what your conversations are like with clients around pricing?

Leonard Livschitz, Chief Executive Officer:
All right, I'll take this one. So first of all, so we have Yury Gryzlov today. He's not only our COO, but he also runs Europe. So I will tell you a little bit about US because next time I'll bring Vasily Sizov here but Gryzlov will give you a few color on Europe.

Fundamentally, we do see a bit of improvements in terms of the pricing performance. With new clients, also related to this, obviously, more engagements on the technology side. We'll talk more about, hopefully, again, other people ask questions about how technology drives the differentiation in new business for Grid Dynamics. Those colors are on a growing business, upgrading business. You talk about the more traditional legacy business pretty much stable. So you can see the, again, Q3 was good every way you say. So the proof is their pudding. There's a Q4, there's Q1 - You know, seasonality always works there. And we'll need to be on the rise as we go toward the middle of next year significantly, right? For now, we enjoy the run. We see good stable pricing. We see new improved pricing, and at least in US. Let Yury speak for the first time. Anil and I talked for 20 times together already. So Yury?

Yury Gryzlov, Chief Operating Officer:
Yeah, I think I just wanted to add that it's the same in Europe. I think that, as Leonard just mentioned, the pricing has been stable and we don't see those fluctuations anymore so it's pretty much you know business as usual as we as we see right now. And then we'll see if, you know, Q4 and Q1 next year.

Mayank Tandon @ Needham:
Congrats on the quarter. Good to hear.

Yury Gryzlov, Chief Operating Officer:
Thanks, Mayank.

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

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

Cary Savas, Director, Branding & Communications:
The next question comes from Puneet Jain of JP Morgan. And just give me a second and I'll get the cameras going. Okay. Super.

Cary Savas, Director, Branding & Communications:
We can't hear you, Puneet.

Anil Doradla, Chief Financial Officer:
Hang on a second.

Cary Savas, Director, Branding & Communications:
Go ahead, Puneet.

Anil Doradla, Chief Financial Officer:
No. You're still on mute. You're still unmute yourself. Okay. You're muted here, right? Yeah, he's unmuted.

Cary Savas, Director, Branding & Communications:
Go ahead, sir. We can't hear you. Okay, we can come back to you.

Anil Doradla, Chief Financial Officer:
No, no, no, hold on. Give him a second. Okay, I think we're going to come back to him. Hold on.

Cary Savas, Director, Branding & Communications:
Did he mute himself? He took him off camera. Okay.

Anil Doradla, Chief Financial Officer:
Oh, here we go. Give it a try again. All right. So why don't you, Puneet, why don't you do one thing-just dial in through the mobile, you know, and then we'll get back to you. But just call in. You don't have to do the video. So Cary, let's just go to the next one, and Puneet just call in, or call me. I'll put you on speakerphone here.

Cary Savas, Director, Branding & Communications:
Okay, then the next question comes from Bryan Bergen of TD Cohen. Please turn on your camera, and I'll make sure you're...

Bryan Bergin @ TD Cowen:
Hi, guys. Hope you can hear me.

Leonard Livschitz, Chief Executive Officer:
Yeah, yeah.

Bryan Bergin @ TD Cowen:
All right, very good. Let's talk about demand recovery. So you conveyed a sense of urgency here from clients before your end. It's definitely different from what we've heard from peers. Just as far as the urgency to complete deals, are there any particular types of programs or subsets of clients that are demonstrating that behavior, or is it more broad-based? And just as you think about that dynamic, are there any implications from that as we think about just the early 25 spend potential in those types of accounts?

Leonard Livschitz, Chief Executive Officer:
Hi, Brian. Yeah, always good questions. So, I don't want to get too broad on that scope of the clients not everyone is in this accelerated mode to spend. We know there's some case it would people like to kind of flush their old budgets and all this stuff. But that's a minor minority. What happened was when it relates to new activities. And it's not just AI. AI, it's a good excuse to spend more money from the, you know, when your wardrobe wants you to be more aggressive. It's the efficiency and capability. And what do I mean by efficiency and capability? There are more demands right now from very broad base of the customers to have a better reach with lower costs. So basically, working on various LLMs and co-pilots and all the programs just demonstrated to the clients what could be done with the good data? But data needs to be properly analyzed. It needs to be properly adjusted. There needs to be proper formatting. So they start getting to understand that this is not just a magic bullet which turned their business into a hugely profitable enterprise. So they opened the coffers for longer term activities. And the focus is on applications. not just proof points that some models work. When it comes to AI assistance, of course, it's clear. It's about, you know, conversational part.

When we talk about transforming, for example, vector search to Vertex AI, and many other features. It's just a much broader base. So we see a lot of activities data related. As well as customers right now having a little bit more confidence generally industry-wide, right? So there's a little bit more planning going on. So you're absolutely right. Most of the activities on the spend usually comes around February, April timeframe. That's usually when we see this uplift. Last year, it actually was pushed more to April-May, but this year, we see it started as early as the mid of the third quarter.

Bryan Bergin @ TD Cowen:
Okay. Okay. That's helpful. If we shift to profitability now, if revenue improvement continues to materialize, do you expect to see a commensurate improvement in margin or are there offsets that we need to consider here just near term, such as needing to scale the bench? Just key inputs and takes as you go into 4Q here on the profitability front?

Leonard Livschitz, Chief Executive Officer:
Sure. Very good. So Anil will give you numbers in a second because, you know, you always like numbers.

Bryan Bergin @ TD Cowen:
Really good. Yeah.

Leonard Livschitz, Chief Executive Officer:

And you interview him after the meeting, by the way. He has everything for you, Brian. But I want to go a little bit on, you know, the more fundamental philosophical skill because it's important. So we're adding new regions. You know india becomes a big part but even more technology solutions and we're adding more accelerators When you have more...at home, house developed codes. Your efficiency is high, right? And you bring the ROI to the client, so you get a little bit better margin on it.

Now, again, third quarter was somewhat unique from the overall billability perspective you know very well. And when we went to July, we almost were at 40, 20, the magic number. So we felt the taste of the target. Now, this is not, and I bet October is going to be very good as well. But it's not just the bench. So bench is a function of our long-term visibility. So there's always a swap of the bench, but there is a training of enormous army of the AI-related specialists. And it comes from the internships, Grid Dynamics University, and then Grid Dynamics Labs.

We expend more investment into our own AI labs for various functionality. Our partnerships with the hyperscalers and NVIDIA and a few other guys are taking more space. So this is non-linear investments, which I can allow myself to do even maybe not giving you immediate short-term this glorious 2040, because I see the return. Return on robotics. It's not BBS, it’s true robotics or automation for various clients, how to improve their production efficiency, AI systems. So we do balance, we would break down how Bench is contributing and how innovation is contributing and how skill set modernization is contributing. But overall, of course, if we don't get efficiency longer term while we're in this game, right? You like me and all the shareholders want to see the profit at the end of the day.

Bryan Bergin @ TD Cowen:
Any other...

Anil Doradla, Chief Financial Officer:
Yeah, Brian, just adding to what Leonard said, you got the gist of it, but this is something that, you know, we highlighted in a couple of quarters ago, right? So there are three, four factors that we're working on, right? As Leonard pointed out, we're doubling on internship programs. So, you know, so the cost optimization from you know that point of view helps us. We're scaling India too. The nature of our programs from TNM going to pod to fixed price, that also helps.

And Leonard and Yury just pointed out the pricing environment is improving. So all these things put together point to the underlying fundamentals of our business improving. Now, that has to be judged against what Leonard pointed out, investments for growth. So that's the thing. But again, what I want to convey is the underlying you know price cost you know, element, is improving in our business.

Leonard Livschitz, Chief Executive Officer:
Correct.

Bryan Bergin @ TD Cowen:
Okay. Okay. Yeah, growth investments are appreciated there for sure. The AI commentary, last question here. The AI commentary as far as actually scaling now beyond kind of the the POCs and the science projects. As you are scaling, are there any changes to the contracting structures or more of the same, you know, getting more productivity incremental volume of work. Just talk to us about that nuance as these programs are becoming bigger.

Leonard Livschitz, Chief Executive Officer:
Yes. So there's no magic bullet there either, right? So the customers are still a bit shy from between technology visionaries who say, let's have performance-based compensation, outcome-based compensation versus fixed bits and TNMs. It happens on a very rare occasion because most of the

time, those programs, when they wrap up into the production implementation, they're part of the bigger initiative. So we're trying to actually, it works favorably for both sides. But it's still a limited base. Now, as we become smarter. And we do more homegrown stuff. There's maybe a somewhat change to our model offering as well.

But I know how you guys are cautious about when a service company starts throwing some different models of compensation, right? So we're still being there, but we certainly offered our clients, various methods which make it a little bit more performance based, not often to be compared. But we see that those solutions actually result in more efficiency to the client immediately.

So hopefully I can give you a better news that we do get more performance-based outcome in the upcoming quarters.

Bryan Bergin @ TD Cowen:
All right. Very good. Thanks for all the detail.

Leonard Livschitz, Chief Executive Officer:
Sure.

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

Cary Savas, Director, Branding & Communications:
Thanks, Bryan. Thank you for your questions, Brian. The next question comes from Maggie Nolan of William Blair. Maggie, please turn on your camera and unmute your mic.

Maggie Nolan @ William Blair:
Hi, how are you?

Leonard Livschitz, Chief Executive Officer:
Good.

Maggie Nolan @ William Blair:
Trying to get my video on here.

Anil Doradla, Chief Financial Officer:
Good.

Maggie Nolan @ William Blair:
Nice quarter. Congratulations.

Anil Doradla, Chief Financial Officer:
Thank you.

Maggie Nolan @ William Blair:
I wanted to ask a little bit about the end markets. And I know you gave some commentary for this quarter, but any thoughts on how your verticals might trend as you exit this year and then over the course of next year, are there particular areas where you anticipate growth is going to come from?

Leonard Livschitz, Chief Executive Officer:
Okay, well, I'll start and maybe Yury will share. I mean, Europe maybe slightly different to some extent. And definitely, in India with GCCs, we have some more dynamic so the three drivers for our business

today pretty much are in chains, right? So it's a TMT, CPGs. and retail. The notable addition to the growth vertical is actually various financial services, payment systems, and fintech. The other guys like manufacturing and you know life sciences and others are a little bit behind behind now the there is addition of insurance and other things to BFSI. And with acquisition, as a matter of fact, in Europe, and that's what when Yury will talk about, there's a very big potential upswing on top tier financial institution.

I think what is actually happening is very interesting. The dynamic of additional shift on the verticals, now it's coming from our partners. Particularly, with the very notable hyperscaler, who we are doing a lot of initiatives together. So what happened is they see our successes in one or two industries, and they are kind of passing the baton to their sales people in adjacent industries.

So the horizontal capability around knowledge of the major factors. And the major factors is a cloud behavior, cloud migration various AI initiatives.

And now even going into the, at least in the early stages, we're going to today into the various application specific, which is basically, connected devices and everything around it. That creates the potential. So we are actually retuning. It's more about sales, right? Because engineering services are more or less expendable. And then there is specialization in new tools. So we're investing in part of the partnerships with the industry-specific software providers.

And that training has been happening actually from Q1. So we'll see that dynamics early next year. But that's pretty much. So the big players are still there. The new players come in existing industries, but expanding one, the biggest notable expansion, I would say, is fintech. And Yury, could you just more.

Yury Gryzlov, Chief Operating Officer:
Yes, yes. just to add on fintech, I think that, again, our distribution of industries in Europe are pretty much the same, have been stable. But obviously with the addition of JUXT, right, that we just acquired I think that brings us into, you know, kind of expanded into fintech and and banking and financial services overall. So JUXT, as you know, as Leonard mentioned earlier today, they are specializing in data-intensive systems for banking and financial services. And that's, you know, it's a highly complementary area to what we are offering in this field. So from that perspective, I think we will see the immediate synergies and opportunities to go beyond that and offer their capabilities to our existing clients and obviously adding more clients in this area. But at the same time, transitioning to the US as well is very, very important because while, again, this acquisition accelerates the growth in Europe, but we see a very high potential of immediate expansion into the largest US financial institutions as well. So I think that's pretty exciting. So we'll see the shift, I think, in Europe in particular because of the size. But that will be Q4 and beyond.

Maggie Nolan @ William Blair:
Perfect. That makes sense. Thank you. And then, Anil, you mentioned balancing investments as we're thinking about profitability. Where are we in the investment cycle? You've made some investments in recent past in the sales force. How do you feel the return is on those? Are those folks ramping up nicely? You know, how are you thinking about your ability to add new logos As the demand environment recovers? Are you well set up to scale the business from here? Are there additional investments ahead?

Leonard Livschitz, Chief Executive Officer:
Very good. So the biggest investment which pays off as a technology investment. That makes us differentiated. Remember, we always talk about Grid Dynamics being kind of a canary in the lean times and the good times. And when our technology capabilities align with the market upswing, then it creates a double whammy and we grow faster. So technology capability is bespoke. Partnership capability, there's a significant investment, which is, again. in the process.

As a matter of fact, the good news is, our partners demand us to invest. You know and they're kind of really vigorous about making sure we balance our investments with the solutions they provide and certification associated with it so that's going on. In terms of the new logo acquisitions in a traditional way, right? It's still a lot of new opportunities come because remember, again, we work with very large Fortune 500 companies as the most comes from either referrals, that's still the best way. Industry is dynamic, so that works well. Or in the clients where our technical solutions implementations of the applications become reachable and they want to do something very rapidly. And that's where Salesforce is needed. The good news about our Salesforce, especially in the US, We're positioned well virtually in every region. But the rate of return so far is more driven by individual clients. rather than a blend area, I can say that you want X amount of productivity in certain you know southeast And that's what I'm getting. Now we have investments in all the areas. So what we do with the sales force and account management force, the main investment is to make sure once we get into the first programs, the execution is flawless.

And because people are in rush right now as the client said to do something. who spend more time deliberately on defining a statement of works, defining the milestones. Because getting new clients is no longer a problem for us. how to make this 5, 10, 20 million dollar revenue works driven by flawless execution. Today is not only on engineering, as you've always been. Engineering has to be great, delivery has to be great. But for account management and front-facing organization, you seek time and align with their clients. So we're adding more consultancy on the architecture side. We're adding more account management specialized with an engineering background and understand coming from the execution background before. We train delivery management guys to watch not just the timeline, but changes in the scope. Now, I'm giving you a lot of kitchen for a very small question, but it's not about acquisition about right now, but rapidly scaling those top guys with the existing capabilities.

Maggie Nolan @ William Blair:
Understood. That makes a lot of sense. And then you've just, I mean, you've transformed the business so much even since becoming public. You've become incredibly global as a company, and you continue to have that at the forefront of your acquisition strategy and imperatives. So I'm wondering, you know, how this global expansion has impacted conversations with your clients, maybe comment on how adding Argentina, for instance, as a delivery location has impacted conversations with clients.

Leonard Livschitz, Chief Executive Officer:
All right. Well, nearshoring has been always on a list of our clients, right? And for many of them especially, and it is a merit of nearshoring now, being a global company, I assume the clients are in the United States. Because if the customer in Europe, there's a different nearshore. The customers now in India is nearshoring. And now we have customers in Latin America, right? But if we talk about our traditional US business. They rush in, and then they want to have the same quality, the same performance and the same conversation as they've had with their US colleagues. Well, it's not always happened that way, right? And, you know, in our case, our Mexican team is very good. In the past, it was appreciating for a long time now, It's a bit declining. There was not as much productivity when you want good people. Good people cost you money no matter what. System solutions an approach that matters. So what happened, you know, we started, as you know, in Mexico, we started in Jamaica. Now we have first green shoots in Canada, some consultants. We're not opening an office yet, but that's not impossible because we have new clients in Canada. But Argentina is kind of unique. For a long time, it was, you know, there's a very, very successful, our, you know, peer in the industry. I mean, they may not like us to call them peers, but I treat them as peers who come from Argentina and they're doing a great job. They extended in Colombia. Now they're investing into India and Eastern Europe, right?

And for that matter, I always had a strong affinity to the culture, to the education, to people in Argentina. It's just very close, and the connection with them, it's also strong with the European organization. So I see that our clients, again, remember I mentioned we started working on an integration in advance. So with the clients from JUXT, we're talking about our positioning for a while already. But with the clients in the US, we obtain an approval for expanding in Argentina before the ink dried on the contract. So once we finish the acquisition, there is already a demand coming for a supply from the Argentinian organization.

Which is pretty cool.

Maggie Nolan @ William Blair:
Thank you for taking my questions.

Leonard Livschitz, Chief Executive Officer:
Thanks, Maggie

Maggie Nolan @ William Blair:
Of course. Thank you.

Anil Doradla, Chief Financial Officer:
Thank you, Maggie. Let's try. Puneet.

Puneet Jain @ JP Morgan:
All right, I hope you can hear me now.

Anil Doradla, Chief Financial Officer:
We can hear you. Yes.

Puneet Jain @ JP Morgan:
Awesome.

Anil Doradla, Chief Financial Officer:
What happened? You tell us.

Puneet Jain @ JP Morgan:
This was the student. I don't know. My laptop doesn't like me.

00:54:55.000 --> 00:54:56.000
Yes, exactly. This person

Leonard Livschitz, Chief Executive Officer:
Maybe because, man, happy Diwali, maybe because you should not be working today, but it's a day of prosperity for all of us, right? So let's make it prosper.

Puneet Jain @ JP Morgan:
This was a sign. This was a sign. Maybe my wife did something here. But anyway, very strong quarter. So let me ask about overall demand like many peers like you have reported, they all are talking about the rebrand. Your tone, your growth rates definitely indicate like that things are better now than what they were six months ago. So what’s driving this separation in growth rate for you like you grew like about 13%. year on year this quarter, right? So what driving this separation and growth for you versus many of your digital peers.

Leonard Livschitz, Chief Executive Officer:
So I mentioned before a few things. The AI solutions open the door for bigger implementations. So that's obviously, but I'm sure you sit through many, many earnings calls and I guarantee you that my

good friends from other companies, regardless where they are, tell the same story, right? And, you know, I read one of the reports yesterday. We were talking about 100, you know, early engagement, people talk about thousands. Size matters, right? The reality is, we are a truly technology partner. and as we mature and grow and become more global, more people learn about us early. Remember about this concentration, right? So, you know, the reality is we still have some of it. The top clients to some extent, you know, may actually invest more with us because they trust us more, especially when it's innovative projects. But we see some rapidly increasing demand from certain clients, which are new, much faster. And the reason is the ramp up happens is because they put more bets on us. What I told Maggie. We need to make sure we have not only flawless execution, but a very well-established expectations. People rush to have some result. And it's all about applications. You know probably well, and trust me, we live through that the customer wants to do something immediate. And we are kind of pulling back and we're talking about a longer roadmap Once they appreciate what we do, and it happened not just Q3, it's happened even earlier. They're more comfortable to lay larger dollars in front of us. So to some extent, it's still size, but more important is in the times of investment of technology, we ramp up quicker and we are more in a strategic critical applications for the business.

You know, because it's very important. People always say, okay, you go fast, you fall fast. We'll see how next turn cycle goes. But I think we're holding our line pretty well. Because we're having this stream of technology innovation into the larger execution. And also, Anil mentioned, probably before to you as well, some of the clients who measure to decline in 2023, are now, also in a rebound. So that helps too. So it's a combination of the facts. I don’t know Yuri if you want to mention something notable in Europe?

Yury Gryzlov, Chief Operating Officer:
No, I think it's, yeah, it's pretty much aligned with what Leonard mentioned. I just want also to add that the inorganic strategy as well, right? Every time when we're looking at those companies and, you know, those two that we just acquired. no exceptions. I think that we are always trying to understand if they can bring some nonlinear value to us, right? In terms of like our GigaCube strategy, technology expertise, you know, footprint expansion and things like that. I think it's also very, very important. And if you look at those and, you know, as Neil mentioned, right, they're contributing some amount of, you know, revenue already. I think it's very important for us to stay focused. And if we go too broad, then we will kind of fall into the same category of many bigger players, but if we stay focused, I believe that's the key. And the other thing I think worth mentioning, the GCCs is not just ultimate definition of India. It's also Europe. So some of our big US notable clients trust us with a strong position in European organizations as well.

So in India, it's a big thing. The Bangalore office was the best investment of recently and you know all we're doing is fighting for talent and to some extent, you know, successful because people are curious about us and there's a good you know, having three major areas good but we also have a very large pull from the GCCs in India. But recent pull from, you know, they don't even call themselves GCCs, but from the big clients that are engineering organization in Europe becomes quite valuable as we continue to balance growth in Europe with the growth in India.

Puneet Jain @ JP Morgan:
And let me ask on that, how are clients deciding between like the work that should go to like a vendor like yourself, especially like a digital vendor like yourself, versus their in-house operations. I understand like you're working more with GCC is there. But like how like the work allocated between GCCs and vendors

Leonard Livschitz, Chief Executive Officer:
Yeah, so working with the US centers of excellence It's definitely easier than with GCCs in India. I mean, this is perfect because we have very smart, not like US guys are not smart, but the people who naturally have been brought in for GCCs in India, they're doing a pretty good job themselves.

But remember, when you have a client base recruiting, and you have a supplier-based recruiting, there are very two different tasks. So there are some very notable clients, which may go very broad.

And the competition is very fierce. When it comes to suppliers, they know the job will stay for one client with another client with a third client. So some of the GCC guys, what they're saying is, we want to give you a partial work and we say, look, we need to be cooperating so that we want to send project work as well, we're not a staffing company.

There was a bit of a discussion on that, but over time they give us more because they feel we're part of the team. You know, sometimes we work in their offices, there's a big, by the way, reverse back to the office thing so a little bit remote is not as helpful but also the competition for the specific talent when we double down on the fewer narrow but extremely deep expertise, driven by the technology experts locally then they open up. But I agree with you. You know, we just finished a really nice tech conference in Bangalore. More than a dozen GCC guys send their participants. There were more than 30 technical and business executives. This is the first one. So I'm sure next year we'll have a bigger one. And these guys don't come just to write the notes. There's a lot of active discussion. So let's give us a bit of a testament with respect to their capabilities.

Puneet Jain @ JP Morgan:
Yeah, no, that's good to know. And thanks for the answer. Like the clients, Leonard, you talked about like the client spending on AI projects, like they're getting ready for AI projects, investing in data and all that. Does this represent incremental spend which should result in overall increase in budget for clients? Or are they just like reclassifying or shifting budget from one area to spend in this.

Leonard Livschitz, Chief Executive Officer:
Well, they're both, right? Some people are mesmerized by a demonstration from, you know. Elon Musk having robots walking on the stage, right? Not everybody knows exactly what goes into that, and I will leave it at that level. But it gives you the perspective of level automation which goes into the foundation of our society. And that's very critical for some of the clients because they're revolutionizing the things around our daily work. You know consumer work, recruiting you know assistance AI assistance so robotics just start changing. There are a few of them. They're experimenting, obviously, but there's a big cost in the regulatory stuff. But most of the guys, what they expend in application science. They want to be very, very specific. I have this number of General AI cases. I want to improve it. I have this... Veterinary Clinic. I want to increase the throughput. I want to, you know, as you know, pets don't speak. So there's a lot of things we go around that. Some clients saying, look, you know. We would like to have a lot more bundle inventory.

And the wealth management system, we are revolutionizing the conversational AIs, you know, basically video search assistance and putting the data together. So it's a lot more with the fewer capabilities, but people would like to have a repetitive So those drips now has a mainstream of the new larger implementations where this big world of dreamers are doing more as a proof of concepts. But both are important because the impact of the dreamers is significantly larger over time. And we talked about our investment into AI. We can't compare with the big guys. But there's certain areas where we believe it's fundamental and we're going to continue to hone and shift the offering for the future. Because it's not traditional. It's not only that particular software development skill. And if we need to cannibalize some of the business, we will. But right now, the revenue comes from the applications. And the future business positioning comes from those tectonic shifts.

Puneet Jain @ JP Morgan:
That's great. Thank you.

Leonard Livschitz, Chief Executive Officer:

Grid Dynamics

Thank you so much. Thank you, Puneet

Cary Savas, Director, Branding & Communications:
Thank you Ladies and gentlemen, this concludes the Q&A session for today. And now I'll turn it over to Leonard for closing statements. Just give me one second.

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CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer:
Thank you everybody for joining us on the call today. Today's results reinforce our strengths and unique position within the AI and digital transformation industry. Grid Dynamics approaches the end of 2024 with strong momentum across our business and we are set up well for a solid 2025.

There are many reasons to be optimistic of our future, and I'm confident of Grid Dynamics solid execution. I'm looking forward to updating you all during our next earnings call. Thank you.