Grid Dynamics

GDYN Q1 2025 Earnings Call
Recording Transcript

Company Participants
• Leonard Livschitz, Chief Executive Officer and Director
• Anil Doradla, Chief Financial Officer
• Eugene Steinberg, Chief Technology Officer
• Vasily Sizov, Senior Vice President, Americas
• Cary Savas, Director, Branding & Communications

Other Participants

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

Cary Savas, Director, Branding & Communications:
Good afternoon, everyone. Welcome to Grid Dynamics' first quarter 2025 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, CTO, Eugene Steinberg, and SVP, Americas Vasily Sizov. Following the prepared remarks we will open the call to your questions.

Please note that today's conference call 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.

I'm delighted to share that Grid Dynamics delivered another strong quarter, exceeding our own outlook and Wall Street expectations on revenue and non-GAAP EBITDA. That was our second consecutive quarter of $100 million in quarterly revenue or more. There were many positive trends, several of which I will highlight on the call today. I'm sure many of you are interested in knowing how the current macro environment is impacting our company. While you're all well aware of the risks and uncertainties with the global economy, in the first quarter, our performance was largely driven by customer-specific trends. In other words, the patterns in the demand from our customers and the resulting monthly billable headcount shaped the quarter, with the ongoing tariff issues having minimal impact. Our laser focus on technology and engineering excellence continues to ensure our success with our clients. Furthermore, the $100 million quarterly milestone would not have been possible without the dedication of our global teams. I am deeply grateful for their outstanding efforts and incredibly proud of what we have achieved together.

Now, let me provide you with some granular commentary around the demand environment. Every year, the first quarter is influenced by a degree of seasonality as our customers are establishing their yearly spend. Consequently, we typically start off slow in January, and as the quarter progresses, business trends improve. Contrary to historic trends, we started January strong in terms of billable positions. That said, in February, we witnessed some changing priorities, as the start of the year impacted some of the clients. In March, we signed several sizable new deals with existing and new customers. These deals spanned across industry verticals that included automotive, financial, and CPG, and these included engagements with Agentic AI, cloud migration, and supply chain applications. Also, for the first time in the company's history, three of our top ten customers are in the financial industry.

After setting record levels in late 2024, the company once again attained its highest-ever billable engineering headcount, a leading indicator of future growth. Our second quarter outlook reflects these trends.

I am pleased to share that our acquisitions are performing well. As I mentioned previously, with both acquisitions, we are anticipating realizing synergies more quickly than with any of our past acquisitions, and I am happy to report that we are well on track in delivering against that goal.

Argentina-based Mobile Computing, acquired in October of last year, enhanced our follow-the-sun capabilities. In the first quarter, we enhanced our sales team and talent acquisition teams to support the incremental demand. Additionally, in the quarter, we successfully integrated engineering teams to support our enterprise accounts based out of the United States.

UK-based JUXT, which was acquired in September of last year, elevated our industry expertise in banking and financial services. Their focus on risk platforms, structured products, equity derivatives, and financial reporting is highly complementary to our current offerings in financial services. Since acquiring JUXT, several global banks based in the US have expressed interest in working with Grid Dynamics. In the first quarter, we initiated several new projects across multiple global banks. We expect this customer to continue ramping their business throughout 2025.

Coming to AI, our AI initiatives continue to gain significant traction across our customer base, with our pipeline of opportunities growing steadily quarter-over-quarter. We're seeing a clear shift from proof-of-concepts to enterprise-scale implementations that deliver measurable business outcomes. Our primary focus areas include AI-based search solutions that consistently open doors to new accounts, Agentic AI platforms being developed for clients in consumer goods and fintech industries, comprehensive knowledge systems for enterprise knowledge management, and AI-enabled productivity tools that enhance software development capabilities. These implementations underscore our ability to move clients beyond basic AI applications to sophisticated solutions that deliver substantial business impact in areas ranging from sales enablement to supply chain optimization and development productivity. Our CTO, Eugene Steinberg, who is on the call today, will provide you more color.

A key element of our 2025 strategy is to ensure that our investments are aligned to the changing needs of the industry. These investments will ensure that our technological leadership is maintained. These include focused CTO-driven teams creating innovative artifacts, training engineers for specific flavors of AI implementation, and newer training resources with our Grid University.

I am happy to report that for 2025, we are maintaining our full-year revenue outlook that we provided to you all in February. We expect the second half to be seasonally stronger in comparison to the first half, and expect the ramp-up of several deals signed recently to assist us in achieving our outlook. We acknowledge the ongoing uncertainty related to the macro environment. We are successfully navigating through the near-term volatility, and the strength of our business is reflected in our Q1 results.

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

Partnerships. In the first quarter, partnership-influenced revenues represented 16% of our total revenue, and we anticipate this contribution to accelerate throughout the remaining quarters of 2025, mirroring our historic trends. We are experiencing increased traction with all hyperscalers, notably with Google. Our pipeline is robust and includes significant migration and modernization programs, as well as a growing number of data and AI projects. Our Signature sponsorship of the Google Next event proved highly successful. We engaged in several conversations with Google, clients, and prospects, which we expect to translate into expanded revenues.

European Business. We successfully completed B2C multibrand digital commerce replatforming for the European brands of a major global automotive parts distributor. We successfully launched agentic code review and elaboration services as well as a conversational AI as part of a major internal developer productivity initiative at a large investment bank. At a leading global HR solutions provider, we are evaluating readiness to democratize data for business-driven AI initiatives. At a leading meal preparation company, we continue to modernize their operational systems, including the customer service platform and security solutions in collaboration with one of the hyperscalers.

India Expansion. India is one of our top locations, and it continues to attract talent, as our other European locations, especially in AI/Gen AI Data, Cloud, and Cybersecurity. India serves many of our key enterprise customers across Technology, CPG, Retail, Healthcare, and Financial Services industries. India has now emerged as the hub for Multi-Agent, Multi-Modal Platform Engineering, as demonstrated by our recent wins; one of them with a leading multinational beverage company, and the other one is a well-known leader in the FinTech Industry. As part of our global initiative, India has upskilled a majority of its engineers and delivery leaders in AI-Assisted Accelerated Delivery with expertise across the entire value chain of Agentic Digital Platform Engineering at Enterprise Scale.

Internships. Our internship program gained strong momentum in the first quarter. We had a solid performance across all our operating regions. Our internship program typically lasts six months and trains interns in solving real-world problems. In the first quarter, out of the eleven thousand applications received, we selected several hundred gifted individuals. Additionally, many of the interns graduating from our training were placed in billable roles at the clients.

Now, let me turn over the call to Vasily, who will talk about notable projects during the quarter.

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Vasily Sizov, Senior Vice President, Americas:

Thank you, Leonard. I'm excited to share some key highlights from the quarter that showcase the impact of our work.

First, for a leading global technology company, Grid Dynamics developed a project-intelligence tool that automatically consolidates information from various sources into a centralized platform. This tool streamlines project execution by providing a single, intuitive dashboard with real-time consolidated insights. Designed to support over a hundred of internal teams, the tool enables faster issue resolution, accelerates time to market, and enhances overall product quality.

For a leading luxury retail group, Grid Dynamics transformed their search experience by implementing Google Vertex AI Search. This innovative solution delivered immediate and significant improvements across key business metrics: conversion rates increased by 9%, click-through rates by 21%, orders by 3%, and revenue per visit by 9%. Based on these impressive results, we anticipate significant interest in this solution from other clients within our portfolio.

For a leading payments technology company, we modernized a costly legacy banking integration system by transforming it into a cloud-native, microservices platform on Microsoft Azure. This modern architecture significantly reduces the total cost of ownership while delivering the scalability and resiliency demanded by today's banks. With this new platform, continuous deployment pipelines now push new features to production without downtime, enabling the business to keep pace with evolving market demands and regulatory requirements. Additionally, we estimate that our solution reduced the integration cycle duration by 90%, therefore dramatically accelerating customer onboarding and driving faster revenue generation.

For another client, a leading U.S. specialty retailer with over 2,000 stores, we partnered to build a cutting-edge generative AI platform. Specifically, we developed a Retrieval-Augmented Generation pipeline powered by Google Vertex AI. That solution analyzes prior clicks, surveys, and local inventory to recommend the ideal product and bundled offers. We estimate that this platform will drive up to a 10% increase in user engagement and up to a 3% boost in revenues.

Now let me turn this call over to our Chief Technology Officer, Eugene Steinberg.

Eugene...

Eugene Steinberg, Chief Technology Officer:

Thank you, Vasily. Good afternoon everyone.

I am honored to join this call as Grid Dynamics' new Chief Technology Officer. I've been with Grid Dynamics since its founding and helped establish our unique engineering culture and technology practices. I had a privilege to work with some of our best engineers to develop innovative solutions in cloud, commerce platforms, AI, and machine learning for Fortune 1000 clients. As Rajeev transitions to lead our APAC expansion, I'm excited to build upon his foundation and drive our technology strategy forward.

Let me outline five strategic priorities that will guide our technology direction:

First: Industry diversification. While maintaining our strength in Retail and TMT, we're developing AI and data engineering solutions for Manufacturing, Pharmaceuticals, FinTech, and Insurance. We are leveraging our strong horizontal technology capabilities and industry expertise to address specific client challenges and expand into new business domains.

Second: Amplify our offerings with AI. We are implementing our "AI as a spice" strategy – infusing AI capabilities throughout our service portfolio and engineering practices. Our engineering-led approach delivers end-to-end, AI-powered business solutions rather than fragmented experiences. Our GridU learning platform provides AI training for all engineering disciplines, enabling every team member to leverage AI in their work.

Third: Operational excellence through AI. We're applying our AI expertise internally with our in-house Agentic AI platform that drives efficiency while showcasing our capabilities to our customers. This initiative has yielded productivity gains across multiple business functions in talent management, knowledge management, project management, and sales. It also helps to train engineering forces in Agentic AI and demonstrates our AI competency.

Fourth: Strengthening technical leadership. Our CTO mentorship program expands our ranks of "project and account starters" – technical leaders who identify opportunities and grow client engagements. Our global talent network across 19 countries gives us access to exceptional emerging talent that we nurture through focused development programs.

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Fifth: Thought leadership. Our Technology Point-of-View Broadcasting and Dynamic Talks program established Grid Dynamics as the technology partner of choice. These initiatives generate quality leads and partnership opportunities.

What sets Grid Dynamics apart is our engineering-led approach and 8 years of experience in ML and AI development. We've been building advanced analytics and ML solutions since 2017, giving us deeper expertise and proven methodologies for implementing AI at enterprise scale.

We're seeing strong momentum in several key areas:

AI-based search solutions remain a key entry point for new clients. We expand these relationships into broader engagements, including commerce platforms, front-end modernization, data engineering, and catalog enrichment.

Agentic AI platforms represent a major growth area. We are partnering with enterprises in consumer goods and payment industries to develop platforms for creating and deploying AI agents. These systems drive operational improvements and enhance customer experiences.

Enterprise Agentic AI solutions are seeing substantial demand. For example, we recently launched an Agentic AI system for a leading specialty retailer. This system coaches sales associates through AI-powered role-playing to provide product & services knowledge and salesmanship training, and improve customer interactions.

AI-enabled development tools accelerate software delivery through custom tools for legacy systems modernization and end-to-end quality engineering. These engagements often expand into broader digital transformation initiatives.

I'm committed to furthering our spirit of innovation and technical excellence while expanding our capabilities in AI and platform engineering to deliver measurable impact for clients.

Thank you, and let me turn the call to Anil who will talk about financials.

Anil Doradla, Chief Financial Officer:

Good afternoon everyone.

Our first quarter results exceeded our expectations for both revenues and non-GAAP EBITDA. We recorded revenues of $100.4 million, slightly ahead of our guidance range of $98.0 million to $100.0 million. On a year-over-year basis, this represents a growth of 25.8%. Excluding the impact of our recent acquisitions, the year-over-year growth was 10.1%. Both on a quarter-over-quarter and year-over-year basis, there were roughly 38 bps and 26 bps of FX-related headwinds, respectively. Non-GAAP EBITDA came in at $14.6 million, outperforming our guidance range of $12.9 to $13.9 million. In the first quarter, we benefited from timing of revenue recognition with some of our fixed price contracts in line with project milestone completions.

Looking at performance of our verticals: Retail remained our largest vertical, accounting for 31.4% of total revenues in the quarter. Revenues in this vertical grew 28.0% year-over-year, with a slight decline of 3.7% on a sequential basis. The year-over-year growth was primarily driven by strong demand from our specialty retail customers along with contributions from new client engagements.

Finance contributed 24.9% of total revenues for the first quarter of 2025 and became the second-largest vertical. Finance continued its strong performance with revenues increasing 7.9% sequentially and 144.3% year-over-year. The strong year-over-year growth was largely driven by a combination of our recent acquisitions that added global banking customers, along with strength from our fintech and insurance customers. TMT accounted for 23.5% of revenues in the first quarter and remained flat compared to the fourth quarter of 2024. On a year-over-year basis, TMT declined by 1.8%. Turning to the remaining verticals: CPG & Manufacturing represented 10.7% of our revenues in the first quarter. It remained relatively flat on a sequential basis but grew 12.7% year-over-year basis. The year-over-year growth was primarily from our recent acquisition. Other vertical contributed 7.1% of total revenues, remained flat sequentially, and declined 15.1% compared to the same quarter of 2024. The year-over-year decrease primarily came from customers tied to hospitality industry. And finally, Healthcare and Pharma made up 2.4% of our revenues for the quarter.

We ended the first quarter with a total headcount of 4,926 up from 4,730 employees in the fourth quarter of 2024 and up from 3,892 in the first quarter of 2024.

At the end of the first quarter of 2025, our total US headcount was 354, or 7.2% of the company's total headcount, versus 8.5% in the year-ago quarter. Our non-US headcount, located in Europe, Americas, and India, was 4,572, or 92.8%.

In the first quarter, Revenues from our top 5 and top 10 customers were 35.6% and 56.6%, respectively, versus 39.6% and 55.3% in the same period a year ago, respectively.

During the first quarter, we had a total of 204 customers, down from 211 in the fourth quarter of 2025 and 210 in the year ago quarter. 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 $37.0 million, or 36.8%, compared to $37.0 million or 36.9% in the fourth quarter of 2024 and $27.7 million, or 34.7% in the year ago quarter. On a non-GAAP basis, our gross profit was $37.6 million or 37.4% compared to $37.6 million or 37.5% in the fourth quarter of 2024 and up from $28.1 million or 35.3% in the year ago quarter. Non-GAAP EBITDA during the first quarter that excluded interest income/expense, provision for income taxes, depreciation and amortization, stock-based compensation, restructuring, expenses related to the geographic reorganization, and transaction and other related costs was $14.6 million, or 14.5% of revenues down from $15.6 million or 15.6% of revenues in the fourth quarter of 2024 and up from $10.3 million or 12.9%, in the year ago quarter. The increase on a year-over-year basis was largely due to higher revenues, partially offset by increase in operating expenses.

Our GAAP net income in the first quarter was $2.9 million or $0.03 per share, based on a diluted share count of 87.8 million shares, compared to the fourth quarter net income of $4.5 million or $0.05 per share, based on a diluted share count of 83.8 million and net loss of $3.9 million or $0.05 per share based on 76.2 million diluted shares in the year ago quarter. Our sequential decrease in GAAP net income was due to higher levels of operating costs, including stock-based compensation.

On a non-GAAP basis, in the first quarter our non-GAAP net income was $10.0 million, or $0.11 per share based on 87.8 million diluted shares, compared to the fourth quarter non-GAAP net income of $10.3 million or $0.12 per share based on 83.8 million diluted shares and $7.6 million or $0.10 per share based on $78.4 million diluted shares in the year ago quarter.

On March 31, 2025, our Cash and cash equivalents totaled $325.5 million, down from $334.7 million on December 31, 2024.

Coming to the second quarter guidance, we expect revenues to be in the range of $100 to $102 million. We expect our recent acquisitions contributing roughly 12% of the revenues. We expect our second quarter non-GAAP EBITDA to be in the range of $12.5 million to $13.5 million. For Q2 2025, we expect our basic share count to be in the range of 84 to 85 million and our diluted share count to be in the range of 88 to 89 million.

For 2025, we are maintaining our full-year revenue outlook of $415 to $435 million that we provided in February. The revenue outlook represents a growth of 18.4% to 24.1% on a year-over-year basis. At the midpoint of $425 million, we expect our 2025 revenues to grow by 21.2% on a year-over-year basis.

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

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Questions and Answers

Cary Savas, Director, Branding & Communications:
Cary Savas: 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 comes from Bryan Bergin of T.D. Cowen.

Bryan Bergin @ TD Cowen:
Hi guys! Good to see you. Thank you.

I'll kick on. Why don't we try digging in more on client behavior? If we can dig in as far as clients activity through the month, I know, Leonard, you had some of that commentary, but then into April, can you go into more detail as it relates to the pace of client decision making?

And then just on the margin, kind of that deferral cancellation question. Obviously, you guys affirmed the outlook for the year, so it sounds good. But if you could give more detail on that behavior, it would be helpful.

Leonard Livschitz, Chief Executive Officer:
Leonard Livschitz: I'll answer the first part, and I'll have Anil to comment on that margin. So, as I mentioned about the clients in general. You know, we just finished April, so we're going to finish data for three months of the Q1 and so more information about April as well. Obviously, it's a very fluid situation, but right now we haven't seen any major impact on the recent economic political activities. Our clients obviously exhibit some cautious in terms of the long-term projections, but in general, the projects, especially the projects of strategic importance for our clients, continue uninterrupted. Saying that we don't know what's going to be happening soon with additional impacts. But I tell you that with my personal conversation with the leadership of the clients, and my executive team conversation with other executive-level clients, pretty stable and confident. So that's pretty much the best way I can do. I'm sure you'll have some follow-up questions, but let's Anil address the margins.

Anil Doradla, Chief Financial Officer:
So Bryan, you said some deferrals. So can you, I'm trying to understand, are you talking about...Let's see, can you just go through that?

Bryan Bergin @ TD Cowen:
Yeah, sure. I didn't mean kind of like deferred expenses. I was talking more so about project deferrals or anything like that, which it doesn't sound like you're experiencing, which is good. Maybe, though, I will follow up, Leonard, a little bit on the guidance for the year. So just based on what you do see for 2025 and the growth guidance midpoint that you have, how much of that work is in hand, so to speak? So contractually committed? You mentioned some of these deals you've signed that will ramp. Can you just talk to that dynamic as far as contractually committed versus pipeline conversion that you may need to get still.

Leonard Livschitz, Chief Executive Officer:
Yeah, I mean, you know, our business dynamics well. Contractually committing only works if there is a, you know, the more stable business, right? So obviously all the budgets which we're talking about they are been committed, right so there is a there is a longer term arrangement on the deliverables. We seldom do a few months projects anymore. It's not like five, 10 years ago. So, all the programs, especially on the re-platforming, on implementation of the AI technologies, on moving forward with you know various cloud solutions, you know, recently agentic AI is a little bit different, but they're all part of the longer term plan. And the plan comes from the business decisions.

Again, the business decisions have been made for 2025. And that's kind of the result in a good January—unseasonally good January. We've seen a little bit of a February, it's kind of a reaction to some of our clients as you know some of the retail, CPG-related clients, they have the adjustments because most of them the fiscal year starts in February. But overall, the ramp up which we expected in March continues into April, and planned to May as well. So as far as annual guidance, right, I think, there are a couple of important points I have to mention. We haven't been in a guidance world for a full year for a very long time.

And you guys have been asking us, when are we going to build the confidence? So we shared the confidence in our guidance with a high level of conservatism when we did it a quarter ago. That concern is still present, but maybe not to the same level of conservatism as a quarter ago. So we have still a pretty good run in terms of the understanding how we're going to arrive with the numbers. And I'm talking about the business. We're not just observing today, but we know not just in a pipeline, but in execution stage, right? When we'll see a little bit more dynamics between May and July, it will give us a little bit more factual assessment where we're going to be. The confidence is there, but ultimately we're not reading on a you know the coffee grounds, which is based on what the world is and where we are. So we're not really naive in terms of what's going on around us, it's just been a little bit smaller, more nimble, more technology-focused on the customer revenue creation. Well, maybe a little bit more confidence than some others.

Bryan Bergin @ TD Cowen:
Okay. Okay. That's clear. That's helpful as it relates to the initial outlook you gave. Understand that. One more for you. Just as it relates to hiring. So nice to see the record billable employee base. Talk about your hiring intentions here in 2Q and maybe for the balance of the year. How are you thinking about that versus balancing utilization and bench optimization?

Leonard Livschitz, Chief Executive Officer:

Well, look, the hiring machine, as you know, with Grid Dynamics, it's been pretty consistent. We've been blessed not to go through a lot of rationalization up and down depending on the flavor of the day. So we've been very consistent with the internship program, with the Grid Dynamics University, with Grid Dynamics Labs, with rotation of technology, with expansion of technology. So the technical talent is harder to acquire, but tend to stand longer if the projects are there, right? So obviously, region to region depends.

There's no secret. There's certain regions you need to put a little bit more effort to build that stability. But in terms of expanding the hiring, it's never been a big issue with us. It's just relevance of technical skills. And what we do, Bryan, many, many times more now, we really don't demand and depend on the market capability from hiring of the specialty talent but internal kind of polishing and honing the skills as they present. Because as you know, dynamics of the technology stacks change quite fluidly. That helps us to kind of stay strong with a streamline of hiring.

Bryan Bergin @ TD Cowen:
Okay. Okay. Makes sense. Thank you for all the detail.

Leonard Livschitz, Chief Executive Officer:
Of course.

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

Cary Savas, Director, Branding & Communications:
Thank you, Bryan. And the next question comes from Puneet Jain of JP Morgan. Please turn on your camera and unmute yourself. Thank you.

Puneet Jain @ JP Morgan:

Hey, thanks for taking my question and a very nice quarter. So I understand like the macro environment like it's uncertain. But are you seeing any change in your client behavior, maybe, especially like in the retail vertical, TMT vertical, Apple being largest customer there. Are you seeing like clients could be prioritizing more cost-cutting deals instead of revenue generating? Any change that you have seen in last one month verses in Q1.

Leonard Livschitz, Chief Executive Officer:
I'm going to answer your question in generic, but I will have Vasily to talk about Apple as it's his baby -been from the day we started the account. So I had a pretty substantial client tour in the past three, four weeks myself. Plus, we've been a pretty substantial contributor to Google Next with a nice booth and we met many clients there as well, not just specifically related to individual projects. So, we can have a pretty good assessment where we are. So first of all, our client base is not really China dependent. I think it's very important for the industry to understand that dependency on a labor in China is much lesser than it used to be. But in our clients, we ask this question specifically, it's usually high single digits.

Again, this is not my field of capability, that's what they tell me. Now, the other countries also a bit more questionable, but we're not you know feeding Amazon and Shein with some kind of available end products. So we're pretty stable there. Again, the supply, the logistics, we all know we're in the news that you know the amount of the, you know, the containers is lowering so what does it mean? We certainly believe that we need to be very careful in terms of understanding the business. But as of today, May 1st—we're good. Now, Apple is a bit interesting story, which is, again, it's quite good for us and you see the announcements and all this good stuff, but I don't want to steal the thunder from Vasily. Please Vasily...

Vasily Sizov, Senior Vice President, Americas:
Yes, sure. So talking about Apple, I mean, without, I'll say disclosing much detail, I would say that we've historically been working on the part of business which is more related to online services and things which are less dependent on the supply chain side of things. Therefore, it's as one of the, I would say probably fastest growing profit centers, I would say it's going to be less effective. That's our expectation at least. And so far as of today, we haven't heard anything related to any expected slowdowns. So that's the fact.

Puneet Jain @ JP Morgan:
No, that's very helpful. And then it seems like on delivery side, like the rest of the world, which I'm assuming most of it is India, grew nicely in the quarter like added like 100 plus employees on sequential basis. And with Rajiv also focusing more on India delivery from here on, how should we think about your India as a delivery center? Like, can it ramp? Like, how large can it become? Can it become like the largest location for you over next few years?

Leonard Livschitz, Chief Executive Officer:
Well, so... For people who don't know who Rajeev is, Rajeev Sharma was our CTO for a while. Now, we have our first and only first CEO of the company, Eugene Steinberg, who took the role and you know he came back to the role many years later so he is more mature and definitely positions our technology capabilities as a leader, not just a scientist. And you guys know Eugene well. So there are a couple of reasons why Rajeev is going to be in India, but it's not delivery. So the number one priority is scaling technical talent in a region. I mean, he is a fantastic technology spiritual leader of not just the global world, but specifically in India and many people look upon him with the greatest level of respect. And that's one region which we need to scale technology capabilities because we are truly follow the sun strategy. I would not deviate it from one region to another. LATAM, India, Europe or whatever we're going to end up in next because if we're not the same, it's not really Grid Dynamics DNA. So we continue to push hard with many facets to grow India with an equal level of technology capabilities. And we have three locations, right? So whether Bangalore, Hyderabad, or Chennai, you know very well they're not the same, but for the size of Grid Dynamics there's no brilliancy through tapping. So that's his number one priority.

Number two priority, obviously, we have a large number of GCCs. And GCCs are very critical for our business because many decision-making processes happening right now in India. So, Rajeev was instrumental in working there and it's easier when you are your home base in Bengaluru. We have a nice office there and then sit in Jersey and going back and forth. It made a lot of sense. And third one he is really Managing Director of APAC. So, I just don't want people to think it's just a glorified title because we are expanding our business relationship with other countries in the region, particularly more near-term Singapore.

So, it's a very fundamental thing. I trust Rajeev. He's a very good friend. So, the delivery remains as a global organization and Vadim Kozyrkov is there, by the way, very likely you will hear from him next time. As you notice, I try to rotate the executives. And there's a size of the table. It's only right now. So it used to be two. Now we have two tables. It's four, right? And I just want you guys to understand is not going to be 25th's event for Anil and Leonard. We have a really great team in the company. So Vadim is at the helm. He is a great leadership person in India, we trust him wholeheartedly. So he will continue to do his work. And the growth is going to be very consistent because again, we're not over India as a low-cost alternative to other regions.

We are basically working to complement local decision-making in India. So very seldom would we have just Indian team, or just European team, or just LATAM team because we're trying to build this McKinsey, you know, management idea. But for GCC's local, it makes sense to have more talented people in India. So, it's not establishing, it's growth. But if it's to become the number one country in the world—absolutely it will. I mean, yeah, it's like... On a country basis, who can compete? There are only two populous countries in the world, and we're not in China today. So, the answer is absolutely yes. Now, on the regional level. I mentioned many times we're going to do the balance work because it depends on the customer base. But the growth in India, not absolute numbers, but percentage numbers, is greatly driven by scaling technology capabilities. Sorry, it's a long answer, but I just wanted to use it to give just a whole overview of what we do in India.

Puneet Jain @ JP Morgan:
No. It's okay. If I can quickly squeeze in another one, like, follow up to Bryan's question on the guidance. So it seems like the guidance implies like slight growth like 0 to 2%—sequential growth in second quarter, followed by quite nice ramp in second half we calculated four to nine percent on average sequential basis in the second half. So, what drives this visibility on second half ramp like which type of customers, existing/new, which verticals regions will drive that high growth in second half of this year?

Leonard Livschitz, Chief Executive Officer:
So, do you want to get the financial answer or business answer? That's your choice. Which way?

Puneet Jain @ JP Morgan:
I'll have both.

Leonard Livschitz, Chief Executive Officer:
All right. So, we'll have your friend to answer first.

Anil Doradla, Chief Financial Officer:
So, look Puneet, let's look at the range that we have, right? 450 to 435. Very simple. You know, I know what you're trying to do is you're trying to understand the risk, right, to those numbers. Let's start with very basic math, right? You have 100, 102, that's 202, right? If you look at the first half versus second half, you have three to four percent purely on working days. So, if I do not add a single person for the rest of the year, don't add a single client for the rest of the year, that'll give me some tailwind.

Now, the second part is if you look at Leonard's commentary, right, he talked about January through March and April. And as we said, you know, we're dealing with some record billable headcount. So, if I take that number as I have today and extrapolate even for the second half, then what you'll see is that there's another level of tailwind, so to speak. And right there, you'll get minimum your low end of the guidance right there. And then obviously I'm not taking into account any other things. Now, there are many other business aspects that I'm not taking into account and many other positive things, but I'll pass it on to Leonard, who will talk a little bit about what is going on there. So, our guidance, you know, we can get to that range by taking some very conservative approaches to the numbers.

Leonard Livschitz, Chief Executive Officer:
All right. So, you've heard the financial answer. Now the business answer. We grow on all the fronts. Even in Q1, if you look at Q1 versus Q4, it's a flattish border, right? Numbers don't lie. But the dynamics was very interesting. A couple of clients where there was some resets from February because of their internal challenges which we're in a way to you know recovery from there, and we had a growth. Now, Q2, we do plan quite nice growth in a few accounts, but we also anticipate one or two ramp downs. That usually happens. Now, by the end of this Q2, we definitely expect the ramp up. Now, which way it's going to go—Is it going to be, again, it's a slower rundown or faster ramp up? We don't have it right now. We don't anticipate a slowdown in the second half unless you know hell breaks loose and excuse me there's some other non-anticipated events happening. So, we're not really conservative internally, because we continue spending, but we want to be very careful not to do what sometime happens. People get excited too much about throwing numbers then they have to you know restart the guidance then they have to modify something, but it's even dealing with you guys is a not as a significant challenge as internally to disturb the process. So, we're bullish on our growth. We believe it is happening right now. We're bullish on a growth in a not just, you know, not in traditional retail and CPG, but other segments which is (*indecipherable audio*). But, you know, when it comes to number, you know, and Anil is the king. He wants to be something which we will not be looking with excuses later. That's pretty much where we are.

Puneet Jain @ JP Morgan:
That's fair. Thank you so much.

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

Cary Savas, Director, Branding & Communications:
Thank you. The next question comes from Mayank Tandon of Needham. Go ahead, Mayank.

Mayank Tandon @ Needham:
Great. Thanks. Good to see you guys. Congrats on the quarter.

Anil Doradla, Chief Financial Officer:
Thanks, Mayank.

Mayank Tandon @ Needham:
Leonard, I might have missed this. Did you comment on new logos? And if you could just go through that again, if you did. Apologize for that. And which verticals did you see the most traction in terms of new client activity?

Leonard Livschitz, Chief Executive Officer:
Of course. By the way, guys. Next time, I'm not going to bring CTO if you're not going to ask him questions. So, you know, he feels like " " here. Yeah, yeah. So, Mayank, you asked one question on AI, please. I'm soliciting you guys to not only worry about what's going to happen with the tariffs, but also understand what value will bring because there's a lot of really cool stuff. Again, maybe it's going to be better talk next quarter than you just give me a couple encouragements that I'll keep a CTO on the call. But I didn't forget your question.

The new logos. So, there are two parts of new logos. As you know, Grid Dynamics, and you've been with us for a very long time from the beginning—there's a fairly generic strategy which is called 80, 15, 5. 80 is a stable business with the growth of the matured accounts of the revenue, 15% something we acquired from the previous calendar year roughly, and 5% in new logos, like brand new logos. So, on the brand new logos in Q1, it was a very minimal financial impact, which is usually it is the case. If you look at the ramp up. If we don't get a lot of contribution by Q3, then this 5% is going to be very difficult. But we did see the numbers, but they're small. Now, what did very well for us is those 15%. So, some of the key logos were acquired last year are giving us really nice ramp up in Q1 and going into Q2 as well. And the reason being is we're much more diversified in verticals. And it's not just the verticals. When we talk about the fintech, we talk about technology, when we talk about CPGs, now we start talking about manufacturing, where we didn't forget, you know, even the healthcare because some of the payment systems in the new acquired accounts, they're directly tied to the medical field, you know, health insurances.

When we take insurance business, which we were very muted because it was not a huge revenue, now we're picking up in health insurance, payments, logistics and all this stuff. So, the businesses are becoming more compounded. Pharma is still small, but the number of accounts is growing. And why? Because again, we're applying the same algorithms in our you know the AI accelerators which we put in place. So, the short answer for your question. We've got a good uplift from the account from the last year, especially the second half of last year, and it's just an initial stage of the logos which we're working with is brand new logos in 2025.

Anil Doradla, Chief Financial Officer:
And let me add one thing to that, Mayank. You see, the definition of our logo edition when we come are significant enterprises. So, in the quarter, we did add, we did add logos, but internally we don't want to, each time we have a logo, we're just not going to come out and talk about it. Leonard makes his comments, and we make these are significant enterprise logos. So, in the quarter we had and we did not believe that it elevated to top, but there were additions.

Leonard Livschitz, Chief Executive Officer:
And when there is a big logo and a big enterprise we just started, we'll be a little bit careful because, you know, you guys, as we do, we don't like infant mortality, right? So, I don't want to go through that, Oh, we had these great guys, and they're a fantastic business, and they have, you know, $15 billion revenue, and then something and we're silent two quarters later. So now we have a pleasure and a choice to be selectively what we call new business acquisition. So, I'd rather have this 80, 15, 5 continue. Of course, there's addition on the top of the acquisition all the stuff but I'm pretty satisfied with this rate of growth of innovative clients which we acquired from 2024.

Mayank Tandon @ Needham:
That's a very helpful color thank you so much for that. I have one quick follow-up for you, Anil, around margins. How should we think about the cadence of gross margins? What are the puts and takes? And the same question for EBITDA margins. Your guidance implies a downtick in the second quarter, but any perspective you can share for the full year, I know you haven't given formal guidance on EBITDA margins for the year, I believe. But any thoughts around how that will trend would be helpful.

Anil Doradla, Chief Financial Officer:
Yeah, so sure. Let's talk about the Q1 to Q2, right? Now, as I said in my prepared remarks, we benefited from the timing of some of my fixed price contracts, right? So, as you can see, Q1 was what, 37.4%, which is kind of flattish over Q4. And historically, you always see as we go from Q4 to Q1, there's compression, right? Now, if you look at that moment, there were 100 plus bps and over margin movement because of that particular thing. That is one thing. Now, as we go from Q1 to Q2, this year we don't have a little uplift on the number of days. So, it's kind of flattish. Again, year to year, it might depend on that. The other thing is that we are making investments as we speak right now. There's a lot of stuff going on in AI. There's a lot of work going on on AI scaling and training. So, there's some investments that we are working on, and that has an impact on some of the cogs and optics. And as you can see, business is picking up. So, there's question about, you know, the bench has to adjust to the upcoming demand. So, there's a little bit of that also going there.

So, when you put all those things together, yes, you're right. We see a little bit of this, but a large portion of it is a little bit of a timing and it would have been more, the cadence would have been normal if some of these things didn't play out. Now, as I look into the full year, right, last year we did about 15% EBITDA margins for the full year. Look, the way you have to look at the business is the margin profile should improve as we go quarter to quarter. The only question is, what do I need to do to support the growth, what do I need to do to support the investors? That's the only question that we debate, but as we progress in the course of the year, yes, you should see margin expansion.

Leonard Livschitz, Chief Executive Officer:
Right, ah so, I also want to give you again a business answer. So, it's really, it's Anil's domain, right? Remember Puneet asked the question how quickly we're going to ramp up India right? There is another fact, obviously, from the war which started more than three years ago. We are heading a bit excessive number of countries to really clam down on operating costs beyond the technology. We're not going to slow down technology, right? This is no way. This is our key, and we want to rule the world in our business. We're not going to slow down investment into quality engineering, operational excellence on the delivery management and all this good stuff. However, we anticipate the scaling of the key locations, which is not just India. I mean, LATAM was a great investment into Argentina. And we would like to think the way how we planned the conversions on successful locations as we grow will actually give us meaningful impact. This is on backend stuff. On the frontend stuff, you know, we continue to push hard on the, you know, from the 2, 5, 10 to then you know basically 5, 10, and 20 strategy, which means we want to build the clients $5 to $20 million annual revenue as a core—at least $5 million. That successful implementation is actually picking up a bit too because it's not about client concentration, it's client meaningful work. And operational efficiency, not just a margin, but the operational efficiency is driven by the depth of the relationship. We see that picking up too. So those are kind of three elements which we kind of look from the business perspective to increase. When it comes to variation quarter to quarter, Anil will tell you 20 convincing stories and next quarter he'll find another convincing story. So, I'm not terribly worried about it. I just want to make sure we continue the rate to grow the business. We have a net cash generation, which is very critical. We need to be in the business of self-sustainable position. And Anil is doing a fantastic job on controlling the cost as we continue to expand into the technology world.

Mayank Tandon @ Needham:
Great. Thank you so much. Appreciate all the color. Congrats.

Anil Doradla, Chief Financial Officer:
Where's your AI question?

Leonard Livschitz, Chief Executive Officer:

It's okay. Let him go. Yeah, yeah.

Mayank Tandon @ Needham:
Let me pass it on to the others. They're waiting.

Cary Savas, Director, Branding & Communications:
The next question comes from Maggie Nolan of William Blair. Go ahead, Maggie.

Anil Doradla, Chief Financial Officer:
Hey, Maggie.

Maggie Nolan @ William Blair:
Hi, thank you. Well, I'll ask a somewhat engineering question. You talked a lot about your agentic AI solutions in several of your examples. Are these custom-built by Grid? To what extent are there kind of pre-built solutions by your partners and is this a primary driver of your partner revenue growth?

Eugene Steinberg, Chief Technology Officer:
Yeah, thank you for the question. Grid Dynamics is mostly working in the mode when we are developing some of the solutions from the first principles. And some of the solutions, of course, we're using a lot of open-source components. In some of the cases, we are also leveraging cloud native technologies. Pretty rarely, we are deploying solutions which are completely kind of black box end-to-end solutions because this is mostly work for the system integrators, and we are mostly engineering company. So, we are building solutions for larger enterprise organizations with unique requirements— when it comes to security, when it comes to access to a very diverse and very proprietary data sources, when it comes to very specific workflows, and off-the-shelf solutions do not fit them. And in these cases, we are building custom solutions, we're building custom agentic platforms leveraging a lot of open source components and cloud native services, which deliver and automate the workflows.

Maggie Nolan @ William Blair:
Thank you for that. Maybe Anil, quick follow-up to that. Are you discussing different fixed price or outcome-based pricing models to go along with that with the clients?

Anil Doradla, Chief Financial Officer:
That's a good question, Maggie. You know, I don't have an exact answer at this stage because these are new things that are moving around. But yes, we are open to everything. My preference is more fixed price because we have more control. But this is as we speak right now, many of these new things are happening. I don't know whether...

Leonard Livschitz, Chief Executive Officer:
So, Maggie, I know you asked Anil. He's the wrong guy to ask this question. He's just signing the checks. The guy who really is driving the scale of the fixed bid arrangements, which Anil really alluded to is Vasily. So let Vasily answer because it's very, very critical to understand. It's not just we innovate technology. We're not doing technology for technology. There has to be a good business value proposition for the clients to check on ROI and for us to be able to enjoy the fruits of the partnerships, please...

Vasily Sizov, Senior Vice President, Americas:
Sure, sure. Thank you, Leonard. Yeah, so when we were talking last time and maybe like a year ago, we were talking about small POCs like to see how the technology really helps the business. And those engagements were pretty small in size, I would say. And they were like almost 100% were fixed bid. So, nowadays, there is a good understanding of what the technology can do for the business. Therefore, there are more popular, I would say, fixed capacity type of engagements when we set up the team, which develops the platform, and then there is a roadmap for building business cases on top of that. And of course, the customers are not interested in losing the team which built the platform after the implementation just to come up with an idea that we need, oh, we need to gather the team together now to build business cases. So, we see nowadays AI drives more of a kind of long-term engagements, which are links to specific business impacts. And of course, as Leonard said, business cases and financial impact is one of the key decision factors when the customers are making decisions on investment in certain areas. So that's for sure, surely happens.

Maggie Nolan @ William Blair:
Thanks, Vasily. If I could just squeeze one in on talent, are you comfortable just given all the recent hiring, are you comfortable with the balance of junior versus senior talent? Are you trying to rebalance the pyramid and maybe tie that back to your margin commentary? Thanks.

Leonard Livschitz, Chief Executive Officer:
We're never satisfied with our pyramids, Maggie. Our historic business requires a lot of seasoned experience, not just foundation. But this is an inverted pyramid, right? And the inert pyramid cannot scale as efficient as a traditional pyramid. We observed it at the time we have actually you know two nodal distribution—we have a lot of senior people and quite a few junior guys and we squeezed the middle guys, right? And what Vasily alluded to, when you start building more longer-term fixed capacity programs and projects on the business, then you create a more normalized distribution. Matter of fact, the brightest and the best of interns are the best addition to the more junior people instead of bringing them from the market. So, what we start doing is we obviously, from the hiring perspective, focus on the mid-level people. Why? Because good mid-level people become more senior people. Senior people usually you train yourself together with the R&D team. And the junior guy is finding in the market, they sometimes don't possess all the skills we need to bring them into the actions right away. So, the interns who become part of this fixed capacity pods, they're wonderful because in a very few months, and they're brilliant. Remember, using our AI tools, we reach out to thousands now, 10,000 applicants to create this full body of the top-notch, intellectually technical you know interns. So that process propagates. Now, I'm not super happy yet for the full distribution, but I think it became a little bit more normalized as we speak.

Maggie Nolan @ William Blair:
Thank you.

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

Leonard Livschitz, Chief Executive Officer:

Grid Dynamics

Thank you, Maggie.

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

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CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer:
Thank you all for joining today's call. Our results underscore the strengths of our business and our unique position in the AI-driven digital transformation industry. There are many reasons to feel optimistic about our future, and I have complete confidence in Grid Dynamics' ability to execute with excellence. While we must navigate the uncertainties of the current global economic environment, I am confident that Grid Dynamics will continue to uphold the qualities that set us apart. We are building strong momentum across our business, and I look forward to giving you an update on the next earnings call.

Thank you.