

GDYN Q4 2024 Earnings Call

Recording Transcript

Company Participants

- Leonard Livschitz, Chief Executive Officer and Director
- Anil Doradla, Chief Financial Officer
- Yury Gryzlov, Chief Operating Officer
- Vasily Sizov, Senior Vice President, Americas
- Cary Savas, Director, Branding & Communications

Other Participants

- Mayank Tandon, Analyst, Needham
- Jared Levine, Analyst, TD Cowen
- Jessie Wilson, Analyst, William Blair
- Puneet Jain, Analyst, JP Morgan

Cary Savas, Director, Branding & Communications:

Good afternoon, everyone. Welcome to Grid Dynamics' fourth quarter and full year 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, COO Yury Gryzlov, 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. Grid Dynamics' revenue and profitability was the highest in the company's history, and in the fourth quarter we achieved an important milestone of \$100 million in revenue. These record-breaking results were fueled by contributions from both new and existing clients. To put it in perspective, we went public in early 2020, our annual revenue was in the \$100 million range, and we achieved it now just in one quarter. I'm proud of this milestone and I thank our global team for their numerous efforts and unwavering dedication.

Coming to the demand environment, we saw improvements across our customers and industry verticals in the fourth quarter. This has been a consistent pattern for our company over the past several quarters and we anticipate it will carry forward in 2025. Furthermore, the foundations of our business model are well intact and our long-term targets for growth, profitability, and technical leadership remain unchanged.

In Q4 and into Q1 2025 we are seeing a continuation of improving trends in booking and pipeline. In fact, we reached some of the highest levels in these metrics since post-COVID revenue acceleration in 2021, indicating robust demand for our services. In addition to growth at our new customers, we are witnessing new deal activity within existing customers across industry verticals. Partnerships are also playing a pivotal role in our growth strategy, with a focus on hyperscalers.

After setting record levels in second and third quarter, the company once again attained its highest-ever billable engineering headcount by the end of Q4, a leading indicator of future growth. And we achieved that before factoring in contributions from recent acquisitions. Additionally, in the fourth quarter we witnessed the highest levels of open engineering positions during the last three years. Customers, both existing and new, are contributing to our strong results. At our top customers, which provide a significant proportion of our revenues, we continue to execute exceptionally well. Additionally, in the fourth quarter we signed three notable enterprise clients. The first is related to the automotive industry, the second is one of the largest global auction companies, and the third is one of the world's largest grocery retail groups.

Now, shifting our focus to AI initiatives, I'm pleased to share that our AI capabilities are gaining strong momentum across our customer base. We have significantly expanded our AI portfolio, offering tailored solutions and services designed specifically for Fortune 1000 companies across diverse industries. These solutions aim to drive both revenue growth and operational efficiency for our enterprise clients. On the revenue side, we are enhancing customer experiences and optimizing marketing, pricing, and product strategies. On the cost side, our focus remains on improving efficiency and advancing enterprise knowledge management.

There are several reasons to be optimistic in 2025. Improving trends in the demand, growth at our existing and new customers, growth of our hyperscaler partnership business, and increasing demand for IT partners with strong technology focus, are just a few examples of why we believe 2025 will be a good year. Given our incremental confidence, we are providing a full-year outlook. For 2025, we expect our revenues to be in the range of \$415 to \$435 million, with a potential growth of 20% plus over 2024.

To achieve our 2025 growth targets, we have identified five priorities to support our GigaCube strategy. First, leveraging our strengths in Data and AI to enhance productivity across client business processes. Second, increasing the portfolio of accelerators and technological artifacts to address industry-specific business needs. Third, increasing industry diversification by enhanced focus in verticals such as Finance, Manufacturing, Pharma & Healthcare. Fourth, ensuring our 'follow-the-sun' strategy provides global support to our clients. And finally fifth, leveraging our strong relationships with our partners at new and existing customers.

To talk more about these five priorities of 2025, let me hand it over to our COO, Yury Gryzlov.

Yury...

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Yury Gryzlov, Chief Operating Officer:

Thank you, Leonard. Let's review our priorities in more detail.

First, I'm pleased to share that our AI capabilities are gaining strong momentum across our customer base. We have significantly expanded our AI portfolio, offering tailored solutions and services designed



specifically for Fortune 1000 companies across diverse industries. In Q4, we identified 130 AI opportunities, a 30% increase over the third quarter. This growing demand reflects the changing expectations of customers, with AI-based systems becoming increasingly prevalent in both consumer and enterprise environments. Our top AI initiatives include Search, Agentic Systems, and Supply Chain Optimization. As 2025 unfolds, we expect the pipeline we've developed over the past couple of quarters to convert into meaningful projects.

Second—expanding our technology offerings. Our portfolio continues to diversify, driven by our deep understanding of customer needs and aspirations. Our core strengths in Data & AI, Digital Engagement Platforms, and Modern Application Development remain highly valued by our customers and align closely with their strategic priorities. Our CTO organization continues to develop innovative accelerators that shorten sales cycles and improve customer speed-to-value. This investment in our technology portfolio positions us well as enterprises increase their digital transformation investments.

Third—industry diversification. Our capabilities are in high demand across verticals. This, in turn, gives us the opportunity to expand beyond our established industries such as TMT, Retail, and CPG. We achieve this organically or through acquisitions. In the fourth quarter of 2024, we acquired UK-based JUXT, elevating 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. Since acquiring JUXT, several global banks based in the US have expressed interest in working with us, and we expect those opportunities to convert in 2025.

Fourth—our 'follow-the-sun' strategy. This continues to be our guiding principle, enabling uninterrupted, around-the-clock client service. In just three years we have expanded our geographic footprint substantially, and I am proud of our ability to serve our customers across 19 countries spanning North America, Europe, and India. We are committed to investing in our engineers' skills and knowledge globally. We have launched a comprehensive AI training program that includes both introductory and advanced tracks, along with partnership-centric training. Thousands of our engineers are currently participating in this program, and we are excited to see the innovative solutions they will develop as they apply their AI skills in billable roles. Since launching operations in India three years ago, the country has become a top three delivery location for the company. Most of our efforts in India are centered on supporting US businesses, and we continue to work closely with many Global Captive Centers across industry domains. In the fourth quarter, we set up an AI innovation team to support a global financial client and expanded the team to support a global credit agency client. Argentina-based Mobile Computing, acquired in October of last year, also enhanced our 'follow-the-sun' capabilities. Several US-based customers have already engaged us to provide engineering skills from Argentina and we expect to significantly scale operations in 2025. 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.

Fifth—our Partnerships. In 2024, 18% of our total revenue was driven by partnerships, with hyperscalers playing a significant role. In 2025, we expect our hyperscaler partnerships to continue growing significantly. Our confidence in 2025 is driven by three noteworthy trends. First, our commitment to technology innovation and engineering excellence has resulted in greater appreciation by global enterprise customers. This has resulted in Grid Dynamics being chosen by many of our partners' Tier-1 customers. Second, our partner relationships are evolving. We are now more engaged in strategic discussions with senior management at our key partners. And third, at an operational level we have enhanced collaboration between the sales and marketing teams at Grid Dynamics and our partners. All of this has translated into more opportunities for our entry into new global projects and programs across industry verticals.

During the fourth quarter, there were several notable client achievements and updates. Let me now hand it over to our SVP, Americas, Vasily Sizov.

Vasily Sizov, Senior Vice President, Americas:

Thank you, Yury. During the quarter, Grid Dynamics delivered some notable projects.

First, let me share a few examples of our AI programs at large enterprises. These implementations showcase how we are helping enterprises move beyond basic AI applications to create sophisticated solutions that deliver measurable business results. At one of the largest food distributors, our team is implementing comprehensive AI-driven catalog enrichment. Using Generative AI, we are creating detailed product descriptions and high-quality product images to enhance product discoverability and appeal. This initiative has already demonstrated meaningful business impact, with expected revenue uplift over 5%. At one of the largest beverage companies, we are expanding our knowledge AI system into a comprehensive Agentic AI platform. This platform is designed to automate various aspects of enterprise operations, significantly enhancing efficiency across the organization. At a leading payment company, we are developing an innovative Agentic AI platform that creates a multi-Agent Marketplace. This solution intelligently connects consumers with optimal deal offerings from card issuers, brands, and retailers, creating a more personalized and efficient shopping experience.

In addition to our AI projects, I also want to highlight some notable projects around our other capabilities.

We partnered with a leading multinational technology company to optimize their open-source machine learning compiler, to implement their CPU strategy, address performance limitations and integration challenges. The results of our work allowed it to achieve consistently high performance across various workloads. This collaboration has notably accelerated the client's product roadmap, reducing time-to-market from two years to one, and enabling end-users to benefit from this advanced implementation much sooner.

With another client, one of the Top 10 global largest banks, we are working to create a cutting-edge technology platform for structured products, starting with structured notes. Instead of focusing on specific products, the platform is designed around key product features, giving the bank flexibility to create appealing offerings and quickly adapt to market changes. This approach speeds up the process of building, pricing, and launching structured products, driving business growth.

Another example, a multi-chain restaurant and hospitality client with over 33,000 locations engaged Grid Dynamics to scale their data pipeline management solution. The scope involved scaling from dozens to thousands of concurrent pipelines within modern data transformation flows. We delivered a system enabling data flows to operate at a massive scale with virtually unlimited growth potential, due to its containerized architecture and load balancing capabilities. Additionally, the framework we designed significantly reduced the development lifecycle for new pipelines or migrations, cutting it from days to hours. The solution is already being actively used by client data engineering teams for the development of hundreds of new pipelines to enhance their analytics platform.

Now, shifting our focus to Europe, there were some noteworthy projects. A global medical device manufacturer selected Grid Dynamics to be a strategic partner on their data and AI platforms. This multi-year engagement is expected to bring efficiencies to their business processes. Additionally, at a leading meal preparation company we are working on modernizing their customer service platform in partnership with one of the hyperscalers.

With that, let me turn the call over to Anil, who will discuss Q4 results in more detail.

Anil ...

Anil Doradla, Chief Financial Officer:

Thanks, Vasily. Good afternoon everyone.

Our fourth quarter 2024 results were solid as we exceeded our expectations both on revenue and non-GAAP EBITDA. We achieved record revenues of \$100.3 million, surpassing our guidance range of \$95.0 million to \$97.0 million. On a year-over-year basis, our fourth quarter revenues grew at 28.5%. Excluding our recent acquisitions, our organic revenues grew by 12.8% on a year-over-year basis. The impact of FX on our fourth quarter revenues was minimal both on a sequential and year-over-year basis. Our non-GAAP EBITDA of \$15.6 million exceeded our guidance range of \$13.5 million and \$15.5 million. The stronger than expected performance, both in revenues and profitability, was driven by strength from both our organic business and recent acquisitions.

The Retail vertical remained the largest, accounting for 32.6% of our fourth quarter revenues. It showed sequential and year-over-year growth of 9.7% and 33.1%, respectively. During the quarter we witnessed growth across a wide range of retail customers that included specialty retail, home improvement space, and department store customers.

Our TMT and Financial verticals contributed 23.5% and 23.1% of our fourth quarter revenues, respectively. In the fourth quarter, our TMT vertical remained relatively flat on a dollar basis compared to the third quarter, as we were impacted by the typical year-end slowdown at some of our large customers. The Finance vertical showed the strongest performance with sequential and year-over-year growth of 63.8% and 180.1%, respectively. Strength in the Financial vertical was driven by a combination of increased demand from Fintech and Insurance customers, as well as our recent acquisitions. Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing, representing 11.2% of our quarter revenues, grew sequentially by 14.8% and 16.4% on a year-over-year basis. Strength in this vertical was driven by both our organic business and recent acquisitions. Our Other vertical, which represented 7.2% of our fourth quarter revenues, grew slightly on a sequential basis but declined by (11.3)% year-over-year. And finally, Healthcare and Pharma vertical represented 2.4% of our revenues.

We ended the fourth quarter with a total headcount of 4,730 up from 4,298 employees in the third quarter of 2024 and up from 3,920 in the fourth quarter of 2023. The sequential growth in headcount was driven by both our organic business and recent acquisitions.

At the end of the fourth quarter of 2024, our total US headcount was 351, or 7.4% of the company's total headcount, versus 345 or 8.0% in the third quarter, and 331 or 8.4% in the year ago quarter. Our non-US headcount, located in Europe, Americas and India was 4,379, or 92.6%, up from 3,953 or 92.0% in the third quarter and 3,589 and 91.6% in the year ago quarter.

In the fourth quarter, revenues from our top 5 and top 10 customers were 35.6% and 55.8%, respectively, versus 39.8% and 59.2% in the third quarter and 39.7% and 55.3% in the same period a year ago, respectively.

During the fourth quarter, we had a total of 211 customers, up from 201 in the third quarter of 2024 and down from 218 in the year ago quarter. The increase during the quarter was mainly due to customers coming from the acquisitions. 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 36.9%, compared to \$32.7 million or 37.4% in the third quarter of 2024 and \$28.1 million, or 36.0% in the year ago quarter. On a non-GAAP basis, our gross profit was \$37.6 million or 37.5% up from \$33.3 million or 38.0% in the third quarter of 2024 and up from \$28.6 million or 36.6% in the year ago quarter.

Our non-GAAP EBITDA during the fourth quarter, which excluded interest income/expense, provision for income taxes and depreciation and amortization, and was further adjusted for the impact of stock-based compensation, restructuring, expenses related to the geographic reorganization, and transaction and other related costs was \$15.6 million, or 15.6% of revenues up from \$14.8 million or 16.9% of revenues in the third quarter of 2024 and \$10.7 million or 13.7%, in the year ago quarter. The dollar increase on a sequential basis was largely due to higher revenues, partially offset by increase in operating expenses. As a percentage of revenues, the decline in non-GAAP EBITDA margin was primarily driven by a combination of lower gross margin as a percentage, and higher levels of opex, both from our organic business and our recent acquisitions.

Our GAAP net income in the fourth quarter was \$4.5 million or \$0.05 per share, based on a diluted share count of 83.8 million shares, compared to the third quarter income of \$4.3 million or \$0.05 per share, based on a diluted share count of 78.8 million and an income of \$2.9 million or \$0.04 per share based on 78.0 million diluted shares in the year ago quarter.

On a non-GAAP basis, in the fourth quarter of 2024 our non-GAAP net income was \$10.3 million, or \$0.12 per share based on 83.8 million diluted shares, compared to the third quarter non-GAAP net income of \$10.8 million or \$0.14 per share based on 78.8 million diluted shares and \$7.5 million or \$0.10 per share based on 78.0 million diluted shares in the year ago quarter.

On December 31, 2024, our cash and cash equivalents totaled \$334.7 million up from \$231.3 million in the third quarter of 2024. The increase in cash was largely driven by our follow-on offering in November 2024.

Coming to the guidance. For the first quarter of 2025 we expect revenues to be in the range of \$98.0 to \$100.0 million, or growth of roughly 23% to 25% on a year-over-year basis. At the midpoint of \$99 million, we expect our first quarter revenue to grow by 24% on a year-over-year basis. We expect our non-GAAP EBITDA in the first quarter to be in the range of \$12.9 to \$13.9 million. For Q1 2025, we expect our basic share count to be in the range of 84.0 to 85.0 million and our diluted share count to be in the range of 89.0 to 90.0 million.

For the full year 2025, we expect revenues to be in the range of \$415 to \$435 million, representing 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:

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 Puneet Jain from JP Morgan.

Puneet Jain @ JP Morgan:

Hey! Very good quarter guys. So Like today, like, it's kind of unique like so all of your peers yourself reported results on the same day. And...and among like the 4 companies, your results, particularly for 2025 guidance, definitely is well above your peers. Right? So what's driving that trend that your peers are not seeing?

Leonard Livschitz, Chief Executive Officer:

Oh, thank you, Puneet. Well, I can't comment from my colleagues, you know. Let's focus on Grid Dynamics. I believe that we've been consistent in the story in 2024, we're just continuing to pick up our business relationship with a number of clients, the top clients as well as the new clients we acquired. And you know, the introduction of technology, the introduction of AI, and you know, scaling the solution offerings. And you know, the hyperscaler relationship just gave us the confidence which we decided it's time for us to revert back and issue the annual guidance. So we feel comfortable about where we are, we feel comfortable about the appreciation of the, appreciation by the customer of our capabilities. And, more important, we feel really good about our, you know, returning back to the scale of the GigaCube strategy with our follow-the-sun, you know, employment and servicing. So all the indicators look good.

Puneet Jain @ JP Morgan:

And is the growth for 2025, like, will it be broad-based? Like, which vertical and perhaps, like, which client like will drive this outperformance, like, 20% growth?

Leonard Livschitz, Chief Executive Officer:

Yeah, of course. So you know, I would not name a specific client, because you know it may, you know, give them, you know some kind of leverage. So basically, we're strong in our CPG, we're strong in our technology TMT. I think, we see a really good ramp-up in our Fintech business. That kind of helps us.

We also see a pickup from the...our relationships with the...I would say the GCC clients, and particularly in India. So we're adding more people, both US and India. Europe is, is picking up too. But fundamentally, the appreciation of our technology, which is, comes from the actual implementations, gives a very broad base positioning. Now, you fully understand. You know, we've been around for a long time that you must have growth from the top 10 clients. We see that happening. We also see a pickup of the newer clients. Now how much of new business is

going to come up? That's something we will talk about next couple of quarters. But overall, we do see a broad-based TMT, CPG, Fintech.

Puneet Jain @ JP Morgan:

And AI, like you talked about agentic AI, and like helping your clients embrace generative AI solutions, how should we think about like a revenue contribution that AI generates for you, like, whether it's agentic AI, or implementation of GenAI solutions for your clients, whether it's for code efficiency or whatnot?

Leonard Livschitz, Chief Executive Officer:

So I will let Vasily Sizov to have his first answer to the questions. We have the privilege of having him on the call. So Vasily?

Vasily Sizov, Senior Vice President, Americas:

Sure, thank you for the question, Puneet. So AI becomes a component for almost every engagement right now. So if we were talking about like PoCs like last year. Right now, it's a component of every big program. So it's very difficult to discern, like, which particular piece belongs to AI. Actually, I will say, it can be attributed to most of the bigger engagements.

But I can tell for sure that there are two general trends. So first of all, our biggest customers are changing the balance from looking into, you know, optimizing the cost to more revenue generation initiatives. And that historically, has been a very strong area for Grid Dynamics. That actually represents our positioning.

And, secondly, AI becomes a big interest and that's where Grid Dynamics, historically, has been very, very strong. If you recall, we wrote the first book about AI in 2017. And right now everyone is talking about that as a new thing. So having both components, actually, we see a lot of opportunity for us to grow and fulfill that demand which exists on the market.

Puneet Jain @ JP Morgan:

Thank you.

Cary Savas, Director, Branding & Communications:

Thank you, Puneet. Thanks. The next question comes from Mayank Tandon from Needham. Go ahead, Mayank.

Mayank Tandon @ Needham:

Great. Thank you. Congrats Anil and Leonard and the team. Great quarter! And as Puneet said, you guys are the outlier today all your peers are stumbling, and you guys have put up another really strong quarter and guide for 2025. So I'll ask you sort of more on the drivers of revenue growth, as we think about that 21.2 midpoint growth for 2025, how do you think about that in terms of recruiting impact of pricing? And then, is there any utilization improvement built in as well? How would that underlying growth come from these 3 key drivers' growth?

Leonard Livschitz, Chief Executive Officer:

Okay, great. Well, let me start with giving a forum to Yury. He's in two...wearing 2 hats, being the head of Europe, but also COO. So it's one of the key responsibilities he carries. So Yury?

Yury Gryzlov, Chief Operating Officer:

Yeah, thank you, Leonard. Thanks for the question, Mayank. I think that, obviously, you know, as Leonard mentioned, when I'm talking from the perspective of, you know, operational activities that we have and the priorities that we have, as you just mentioned, Right? Recruiting is a big thing, and obviously, as we are, we continue following the...you know, our GigaCube strategy, and in particular, the...follow-the-sun delivery model.

I think the key point here is, how do we make sure that we continue to recruit the best talent? Right? That we can get and go through the same machine of training the talent and basically, getting the right talent from the market, and also, again from the universities going back and back, going back to the training and putting back into the system. So I think this is where on one side it's a challenge. But on the other side, obviously, you know, growing from just a few countries a few years ago to 19 countries as of today, is kind of relatively still straightforward, because we have the machine. And if you go back and look at the composition of our locations within those countries, even before you will see that we had a relatively big amount of relatively small countries.

So from that perspective, the machine is there. And I think that it's quite natural. And we're not...as we're guiding right now, we're not doing anything extra kind of outside of our kind of comfort zone, in a way of, you know, bringing the talent, training the talent, and putting that through the billable engagements, and also the big portion of what we do is tied to our R&D work and CTO office activities. That, I think, is the most important, because we have to make sure that in each and every location that we have, we have the portion of the people assigned to those R&D projects, assigned to those CTO activities. So that, I think, is quite normal for us. So I don't believe that we're doing something extraordinary here. To be honest, I think it's just a normal, gradual growth, as we've been doing over the last few years.

Mayank Tandon @ Needham:

Okay, terrific! Let me for my follow-up. I'll just ask a softball question from Anil. Anil, can you please just repeat what you said in terms of the M&A impact in the 4th quarter? And then what's embedded in your guide for 1Q and fiscal 25?

Anil Doradla, Chief Financial Officer:

Yeah. So for the 4th quarter, Mayank, what we said, the organic was 12.8% year-over-year growth. So that was roughly about 1% sequential growth rate. Right now, when you look at the 1st quarter, I'll just kind of give you a little bit of a sense. We expect on the high end of the guidance, the organic business to be flattish from Q4. So there's a two million spread there.

So really, we're talking about organic will be around 86 to 88, and then for the full year, the organic business will be in the teens. You know. We're starting the year. Let's start off with low teens, and we'll come back. And you know, hopefully, continue talking about some positive trends.

Mayank Tandon @ Needham:

Terrific. I'll get back in the queue. Thank you so much. Congrats again.

Anil Doradla, Chief Financial Officer:

Thank you.

Cary Savas, Director, Branding & Communications:

The next question comes from Jared Levine of TD Cowen.

Jared Levine @ TD Cowen:

Thank you. I'm Jared Levine for Bryan Bergin's side. In terms of your top customer, did show outperformance in 2024, is higher growth relative to the company average expected to continue here in 2025, and if so, can you share more color on what gives you the confidence there?

Leonard Livschitz, Chief Executive Officer:

Well, as I mentioned before, we had, actually, Puneet asked this question, where the revenue growth come from? It comes from top 5. It comes from top 10. It comes from the broader base. But when you look at the confidence we put in in terms of the ability to guide numbers. We obviously believe the growth in the top 5. And when I mentioned the areas, so they kind of cover 3 parts, right? It's technology. It's, you know, CPGs, and it's Fintech.

So since we have representation in top 5 from all 3 categories, they're certainly the drivers when it comes to the broader base of clients. I must say that, you know, relationship with the Hyperscalers, their AI platform, their models, create this necessary engagement with the newer clients to demonstrate the capabilities of not just enhancing their value but become supreme into capturing the market. We've seen some amazing results from the first production implementation with increase of the revenue. That touches not only the existing clients who trust us anyways. Right?

But with the new broad base of the clients which we partner either with hyperscalers or drive ourselves, an attraction is, it's like an early day of the, you know, cloud migration, automation, any kind of, you know, digitalization. The first runners get the best results. So we are at this early phase of the implementation of various products and agentic AI is one of them, but there are many more, and that just gives us the broad base. So hopefully, I answered the question, it comes from top 5. But it comes from both based on technology implementations.

Jared Levine @ TD Cowen:

Got it, and then wanted to touch on margins for FY 25. Here, can you discuss what are the key inputs and takes here as 2025 progresses? And anything regarding cadence here would be helpful.

Anil Doradla, Chief Financial Officer:

So look... For 2025, we've given you a full-year revenue guidance. You know, over time, we'll give you a little bit more color on the margins. What I've told over the last couple of months, talking to investors, don't model any margin compression of 25, over 24. So the slope of the curve will come back. We will give you a little bit more color, but that's how we would, you know, set up the margin profile for 25.

Jared Levine @ TD Cowen:

Got it. Thank you.

Cary Savas, Director, Branding & Communications:

Thank you. Thank you, Jared. The next question comes from Jesse Wilson, from William Blair.

Jessie Wilson @ William Blair:

Hi, guys, it's Jesse Wilson on for Maggie Nolan. Thanks for taking our questions and congrats on the results this evening. I wanted to start by asking, of the 5 initiatives you laid out to achieve 2025 guidance, which do you think you've gotten a head start on? And which do you think require a bit more focus or muscle this year?

Leonard Livschitz, Chief Executive Officer:

Vasily?

Vasily Sizov, Senior Vice President, Americas:

Yeah, so definitely, further investment in AI and technology is probably one of the top priorities. Because we definitely see a big pickup on the market or the adoption of AI technology. As I mentioned, if we were talking about PoC. Now, we are talking about massive implementations and finally about implementation of platforms—GenAI platforms. And we started seeing particular business impact from implementation of those things.

So just to give you an example, things like which would generate revenue when we're talking about, let's say, a typical B2C business like browseability of the products, discoverability of the products. We implement things like catalog enrichment. Let's say you have a catalog with subpar quality, meta information, and we use GenAI to generate proper descriptions, images, and etc. which allows the customers to better pick the product, and it directly impacts the revenues of our customers, because more products in the carts are getting converted and generate additional revenue. So I would say that would be the number one priority. Our CTO office invests into development of artifacts, accelerators to help with that. So I would say that's kind of would be the number one.

Yury Gryzlov, Chief Operating Officer:

Just wanted to add that I think that, you know, after that I think the next priority. And this is a little bit new, right over the last couple of years is obviously our close relationship with hyperscalers. Leonard mentioned that. I mentioned that before. I think that's also kind of think about it as a kind of something new that we are focusing on right now. I think we started last year. We moved very, very quickly with hyperscalers in particular, and this is where I believe further investment will be required across the globe on one side. But so far, we mentioned that we have 18% of our revenue driven by those partnerships and hyperscalers playing a very big role. So I think this is an incremental change on one side. But I think strategically, it's very, very important for us to continue investing in this area.

Leonard Livschitz, Chief Executive Officer:

So just to summarize, if you look at the technology offering and follow the sun strategy. Those have been happening for a while. So we are pretty strong on that. And technology becomes always the pivotal part of our new engagements. Now, as guys mentioned, basically, the AI is very critical. Hyperscaler, which is kind of warming up. But there are some very strategic partnerships. And you will see this year, we are part of these very strong initiatives and participate with a very core relationship with the key players.

And when it comes to diversification in the industry, frankly, you know, to be a serious player in some new industries, that's where acquisitions come into play. So the recent acquisition really puts us more on the map with the various large financial institutions. So it's outside of Fintech. So diversification is really the 5th and the most kind of up-and-coming.

Jessie Wilson @ William Blair:

Got it. And then, just to involve everyone, I had a follow-up for Anil. So you've previously talked about your efforts to rationalize your portfolio of accounts so that you can focus on those accounts with the most potential over time. And now you're talking about enhanced collaboration between Grid Dynamics' sales force and your hyperscalers' sales forces. So do you expect to get any benefit on the SG&A line from those two developments?

Anil Doradla, Chief Financial Officer:

Good question. The...answer is, yes, but there's always some investments. It's never a straightforward thing. So if your question, Jesse, is the amount of efforts that we would have to put in to receive some of these marquee global customers. Yes, we're getting huge value right?

But, on the other hand, as you said, we are co-investing with our partners. So there's going to be a little bit of that. I think if the question is, you know, as you look at our growth vector over the next couple of years, is our OPICs going to grow faster than the revenue growth? The answer is, no. Our revenue is going to outgrow the OPICs trends. But I don't know, Vasily, you know, you're in sales, you might wanna add something?

Leonard Livschitz, Chief Executive Officer:

He's smiling.

Vasily Sizov, Senior Vice President, Americas:

No, I concur with what you just said, Anil. Our partnerships will definitely give us a boost on introduction of new relationships. Talking specifically about the sales force, I would say, we of course, do some reshufflings internally from the perspective of a little bit more focus on developing those relationships with partners and supporting them with their pursuits and also bringing them leads. I would say it's more of a qualitative change which should result in better future outcomes overall. But it's a little difficult to say quantitatively the impact for the 2025.

Leonard Livschitz, Chief Executive Officer:

So I'm going to use the earnings call as a little bit of a marketing for Grid Dynamics. For salespeople with a good technical background and understanding of the core of hyperscaler capabilities, please apply! So that actually works very well with your question, Jesse, because we actually would need to increase the positioning with a sales force and a technology-supported program management and implementation team, not just high-quality engineers. And that pace needs to accelerate.

So I would say that Anil answered the question the most pragmatically. The rate of growth revenue will surpass. But you will see quite a, you know, rate of growth of the front-facing organization, both on a sales account management and delivery management side. Thank you for a good question.

Vasily Sizov, Senior Vice President, Americas:

Thank you.

Jessie Wilson @ William Blair:

Thanks, everyone. Nice job.

Cary Savas, Director, Branding & Communications:

Thank you, Jesse. Ladies and gentlemen, this concludes the Q&A part of our call. Now I'm going to turn it over to

Anil Doradla, Chief Financial Officer:

Hold on Cary, Mayank might have had a follow-up. Mayank, do you have a follow-up question?

Mayank Tandon @ Needham:

Yes, please! Thank you for squeezing me in here at the end. Great! Two quick ones. Just wanted to clarify one thing. I think Vasily gave me a very detailed response on the recruiting

efforts. But I didn't quite catch any comments around utilization. If there is still some room to expand it, and also any commentary around pricing, because we've been hearing sort of mixed reviews from some of your peers around pricing. That would be one question, and I have another one after that.

Leonard Livschitz, Chief Executive Officer:

All right. Well, Mayank, since you know, you came extra, I'm not gonna give you a chance to torture my guys anymore. It was actually Yury who talked about recruiting, but you'll learn the names, that's fine. So first and foremost, when you, when you start talking about, you know the recruiting and scaling people and pricing and all this good stuff. Well, as you know that when you grow with the clients the positioning of the value becomes more critical because you become mutually more dependent. Right? So we continue to implement our, you know, fixed bid offering pod solutions. And you know Vasily is right on the forefront of that. So that's kind of incrementally positioning us for a good value on pricing. Now, when it comes to manual negotiation and positioning, obviously, there's a pressure from the vendor management.

How we position ourselves? Very simple. You know, if we ever commoditize our business, it's going to be a problem. So when we do our negotiation, we're doing our positioning. We're really strictly following the follow-the-sun strategy—that regardless of where the people come from, they bring the value. Now that comes from not just traditional European organizations, but also from India. And now, you know, the Americas. So we see generally that the trend continues to be positive. Of course, there's also, you know, the rate of inflation, because some of the, you know, cost improves for the client for the engineers, but we compensate that with a very strong internship program and retraining.

So basically what we're trying to do to make, to optimize on the pricing, but also optimize on, you know, basically, the utilization is to do heavy retraining people. We're not afraid of bench, but we see bench is...the churn of bench needs to accelerate, and the people who have experience with our clients, and have good talent, they're easier to retrain. A lot of training now goes around advanced technology and the tools. So I would say on utilization, there's always, you know, upside. But we're quite diligent on that.

On the pricing, the vector is that you can't just go to the client and ask for increases that just doesn't work. It's very competitive. But the logical conversation, which is 3 parties—Grid Dynamics, the technical leadership, and the business leadership from the clients—give us a pretty good vector so I would not say, it's mixed. I think it's actually, we're pretty comfortable in Grid Dynamics' pricing and positioning.

Mayank Tandon @ Needham:

Got it. And one final question that's...by the way, thank you for that color. Very helpful. One final question for me is the fact that you're giving full your guidance. And again, it's very healthy growth that you're forecasting at this stage for 2025. That would suggest that you

have pretty good visibility. Is a lot of that have to do with the fact that deals are larger in scope and size is that part of the equation here? Or is there more to it, just based on client interactions?

Leonard Livschitz, Chief Executive Officer:

Vasily? Since you're the one who drives a lot of those numbers.

Vasily Sizov, Senior Vice President, Americas:

Absolutely. Yeah, actually, both components were just mentioned. So from one perspective, we definitely have, I would say, is historically better position with many of our customers. Where we were recognized as a preferred vendor. So we have high confidence, not only on continuation of the work, but also on the gradual growth of this amount of the work we do together. The second thing which you already also mentioned, is the size of the opportunities. I would say historically, we have probably the biggest number of opportunities of what we consider to be big deals. Which means, like, not like small teams here and there, but actually programs which require, you know, coordination, implementation, and which have, like a longer tenure by its nature.

Leonard Livschitz, Chief Executive Officer:

So basically Mayank, to summarize it, there's one more important factor. We win many more large RFPs. So that kind of opens up us for the success.

Mayank Tandon @ Needham:

Excellent. Again, thank you so much. Congrats.

Leonard Livschitz, Chief Executive Officer:

Thank you.

Vasily Sizov, Senior Vice President, Americas:

Thank you, Mayank.

Cary Savas, Director, Branding & Communications:

Thank you, ladies and gentlemen, this concludes the Q&A part of our call. I'm now going to turn it back to Leonard for closing statements.

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CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer:

2025 is off to a great start. The demand environment is improving and these results highlight our strengths and unique position in the AI-driven digital transformation industry. With our GigaCube framework in mind, we have identified our key priorities. We are implementing numerous technology



enhancements around AI and other advanced computing technologies. We continue to expand our 'follow-the-sun' strategy, adding more capabilities worldwide. We are deepening our vertical expertise and significantly enhancing our partnership capabilities. In summary, Grid Dynamics has a strong foundation and is well-positioned for continued growth in 2025, and I am confident in our ability to execute. I look forward to updating you all on our next earnings call.