Grid Dynamics

# GDYN Q4 and Full Year 2022 Earnings Call
Recording Transcript

**GDYN Q4 2022 Earnings Call**

**Company Participants**
• Leonard Livschitz, Chief Executive Officer and Director
• Anil Doradla, Chief Financial Officer
• Bin Jiang, Head of Investor Relations

**Other Participants**
• Joshua Siegler, Analyst, Cantor Fitzgerald
• Ryan Potter, Analyst, Citi
• Maggie Nolan, Analyst, William Blair
• Puneet Jain, Analyst, JP Morgan
• Bryan Bergin, Analyst, Cowen
• Mayank Tandon, Analyst, Needham

**Bin Jiang, Head of Investor Relations**

Good afternoon, and welcome to Grid Dynamics Fourth Quarter and Full Year 2022 earnings conference call. I'm Bin Jiang, Head of Investor Relations. At this time, all participants are in listen-only mode.

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

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

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

With that, I'll now turn the call over to Leonard, our CEO.

**Leonard Livschitz, Chief Executive Officer**

Thank you, Bin. Good afternoon everyone and thank you for joining us today. 2022 was one of the best years in terms of revenue and growth in the company's history. Our revenue grew by 47% on a year-over-year basis and almost tripled since 2020, which was our first year of being a public company. This is a phenomenal achievement in spite of the horrific war in Ukraine as well as macro-economic challenges. And by the way, this week also marks the one-year anniversary of the Russian invasion of Ukraine. The last 12 months have been a test to the company's resilience and strength, and our commitment in ensuring the safety of our employees, uninterrupted delivery of our customers' projects, and acquiring new businesses at the same time. Whether it was evacuating and relocating thousands of employees and their families; ceasing all our operations in Russia; opening and expanding offices in Poland, India, Mexico, Serbia, Armenia, Romania, Jamaica, and other countries;

and executing our M&A strategy with a new acquisition as well as completing integration of acquisitions from past years, our accomplishments have been nothing less than spectacular. I am proud of being part of Grid Dynamics. I would like to thank all our employees in making our company the greatest place to work for.

As you have seen with our results that we published a short time ago, our Q4 2022 revenue and Adjusted EBITDA exceeded our expectations that we provided to all of you in November. Most importantly, this was the second consecutive quarter of performing at our target operating model, both on the gross margin and EBITDA margin front on a non-GAAP basis. The better-than-expected performance was due to a couple of factors. As we indicated in early November at our last earnings call, we experienced the softness at some of our customers. During the quarter, however, we witnessed stronger than expected demand across some of our existing customers as they continued to ramp on both existing and new programs. In addition, we added record high new logos. In a nutshell, our viewpoint of the macro-related softness in the fourth quarter was more cautious than what it turned out to be.

In many ways we view the current reset across the demand environment as a significant opportunity for Grid Dynamics. Some sectors and customers, especially in the technology space, overestimated the post-pandemic demand rebound and are recalibrating their growth investments. Others are seeking ways of leveraging digital transformation solutions in achieving their revenue objectives in a cost-efficient manner. During such periods, customers increasingly focus on value and meaningful contributions from their IT services partners. We are seeing some of these trends playing out favorably as our customers rationalize their roster of IT partners and focus on differentiated solutions. More importantly, as the industry comes out of the current downward cycle, these trends will offer significant opportunities for growth and we are positioning ourselves to benefit from this going forward.

It is in this context that I am happy to share with you for the first time, Grid Dynamic's Giga-Cube initiative. This is our strategic blueprint that lays out a framework for our company towards a $1 billion revenue. Within the company we have operationalized the plan which involves all parts of the organization that include sales, R&D, marketing, engineering, operations, and M&A. I'll talk about this later on in my prepared remarks.

Let's talk about locations. In India, we inaugurated our permanent office in Hyderabad. Our first batch of 30 plus interns from the top universities across the country have started their work at our local headquarters in Hyderabad. The response and feedback from our university partnerships has been very positive and over time we expect to scale our internship program in India. Complementing to our India operations is our recent acquisition of Texas based Mutual Mobile, which has India operations also centered around Hyderabad. Mutual Mobile has over 175 employees and, we are in the process of integrating the offices.

We continue to ramp up hiring of engineering talents in Europe. Over the last 12 months our headcount in Poland, Serbia, and Armenia has almost tripled. Similar to our other locations, we expanded our relationships with universities and hired interns across these regions.

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

**Demand trends:** In the fourth quarter, similar to the third quarter, we witnessed continued budget scrutiny and demand softness across some of our clients. Even at some point of our larger clients, we've also seen some slowdown. That said, from our perspective, there has been no significant changes in Grid Dynamics's viewpoint since October on how clients are reacting to the current situation. As you may recall, we were very vocal in our commentary around the demand environment when we announced our third quarter results in November. This was also reflected in our cautious fourth quarter guidance in which we highlighted softness in demand. Additionally, in the fourth quarter, our new logos contributed meaningfully and offset some of the softness in existing business. Coming to some additional fourth quarter segment commentary: Our Technology segment was the largest during the quarter. The growth in the quarter was driven by a combination of our large Technology customers which are growing as well as new logo revenue contribution. Our Retail business was slightly up from last quarter and performed better than our expectations. In the quarter we benefited from strong performance from a large global footwear company that business we have recently won. And finally our finance segment grew as we continued to make inroads from wealth management applications at our largest Banking client.

**Logo Momentum:** We closed the fourth quarter with the highest number of new logos in the company's history. During the quarter we added 13 new enterprise customers with our organic business. Some of the more notable ones to mention include two Top Tier Global Fortune 30 companies, as well as one of Canada's largest Food & Pharmacy chains. We are very proud of our achievements in the current environment and this is a testament of Grid Dynamics' differentiation and value we bring to our customers.

**Delivery Location support:** Another important point worth highlighting is related to our delivery operations and how supportive our customers have been in the transitional process. Over the past 12 months we executed flawlessly in transitioning a significant proportion of the workforce while continuing to deliver projects in a timely manner. More importantly, our customers have not shifted existing programs to our competitors or terminate business with us due to concerns around our delivery locations and our ability to meet project deadlines. Our new business development efforts are robust as indicated by a record year of new logos in 2022. Bottom line, while the challenges were immense, we were not distracted in our business with existing and new clients. As we look into 2023, we believe these trends will continue to persist and continue to be bullish on our prospects with new customers.

**Europe Business:** During the quarter we made good progress with our European clients. As I highlighted earlier, at a global footwear company that we signed recently, we witnessed a strong ramp in the fourth quarter and is on track of becoming one of our largest European customers in 2023. During the fourth quarter, we also added one of the largest automotive parts manufacturers based out of Germany. At our large European account that sells essential household goods, an industry that has been traditionally recession proof, we grew significantly in the fourth quarter and are working on a 3 year roadmap to move from monolith to composable architecture.

**Partnership:** Partnerships continue to be an important part of our growth and has become a significant contributor to lead generation. During the quarter we made progress with our Tier 1 partnership players with more competencies and certifications. With Amazon AWS, we are now their Advanced Consulting Partners and on track of becoming Premier Partner later this year. Additionally, we achieved the Service Delivery Designation for Amazon AWS EKS Cloud Migration. With Google, we are one of the very few Premier partners with 7 specializations and 40+ expertise related to Google Cloud. We continue to be the primary partner for implementations of Discovery AI for Retail, Google's solution offering for product search and recommendations. With Microsoft Azure, we launched New Starter Kits to Accelerate Enterprise Migration. With finally at Commercetools, our premier partnership continues to grow around Composable Commerce solutions that enable global brands to engage with customers.

**M&A:** On the M&A front, as you all know, on Dec 23rd, we announced the acquisition of Mutual Mobile based out of Austin Texas with delivery operations out of India. Mutual Mobile is a design and digital platform engineering Services Company, specializing in Mobile, User Experience, Product Design, and AR&VR capabilities. The company has focused on Healthcare, Automotive, and Financial Services industries. It also added 175 highly skilled talents to our operations. We are already working on cross-selling opportunities and expect to leverage each other's customer base. Beyond Mutual Mobile, our pipeline for M&A opportunities is robust and we are actively exploring multiple opportunities. More importantly, recent changes in the macro environment have led to more attractive pricing on the M&A front and we look forward to sharing more updates in 2023. As we have highlighted in the past, our M&A focuses on capabilities, key customers, and delivery locations.

**Now about Project "Giga-Cube".** Coming to our $1B revenue strategic initiative, which we termed as the Grid Dynamic's Giga-cube initiative. As the name implies, there are three dimensions to the plan and within each dimension there are three focus areas.

Number one, Three industry expansion: Within the industry verticals, our focus will be to expand in three areas – Life Science and Pharma, Financial Services and Insurance, and Industrial and Manufacturing. While we have clients in each of these industry verticals, for the company to scale to $1B in revenue will require greater focus in building practices around each of these areas. To enable this vision, we are developing industry-specific solutions based on our robust consulting and co-innovation approach. These solutions are spearheaded by subject matter experts which we hire both from the industry and consulting worlds. Our expansion into three core industries in addition to serving our broad technology audience will allow us to smoothen the typical volatility in the industry-wide innovation and technology adoption cycles.

Number two, the three time geographies: Clients are increasingly seeking partners that can match the pace of their business, running 24 hours a day. This means building presence across the globe. We will enable organizations to realize their need with distributed, yet integrated teams across 3 major geographies. This will significantly accelerate time to market with our clients. Our onshore and nearshore presence in North America and Central Europe is complemented by India-based delivery. As you may recall from our last quarter commentary, we continue to make investments in Mexico, Poland, and India.

Number Three, Business, Technology, and Data Intersect: Leading enterprises differentiate themselves by innovating at the intersection of business, technology, and data. Grid Dynamics is poised to be the preferred partner for such enterprises, because we possess the critical capabilities required for such innovations.

Increasingly, our customers are turning to Grid Dynamics to assist with co-innovation at business-level. We are bolstering our consulting capabilities through hiring subject matter experts in selected industries. These investments are helping us improve our positioning with existing customers and shorten the sales cycle for the new ones by offering starter kits and accelerators. Our investments in end-to-end Digital Commerce have rewarded us with deep, meaningful relationships with key customers across industries. We are looking forward to introducing more domain-specific frameworks that are similar in scope.

From day one, Grid Dynamics has always been known as a technology company which helped enterprises to realize the promise of cloud computing. The race to out-innovate the competition through technology continues. Our customers are navigating the change of the economic cycle, and technological prowess will continue to be relevant to the client themselves. Infrastructure prices decline while wages continue to climb. With the help of our cloud-native partners and our Modern Application Development practice, we are uniquely positioned to enable our customers to do more with less investments.

The wave of Digital transformation brought about a flood of data. Best performing businesses are data driven; however, that requires effectively processing data and incorporating it in the decision making process. While a fully automated decision making process is still in the future, AI knowledge agents are invaluable to make sense of the data and they augment the traditional data organization practices by surfacing the relevant information to the consumers in their preferred modality. AI-assisted product design, driven by generative AI models, is already successfully used by some of our customers. In the B2B business, we continue to incorporate AI capabilities into our manufacturing service offerings, including visual control and predictive maintenance. We will continue to enable our customers to face whatever shifts the future may bring, with confidence, as well as prepare for them to grow.

During the quarter, Grid Dynamics delivered some notable projects.

For a global technology company, we built a flexible data collection platform to acquire aggregated or raw unserialized data and images from the supply chain for further data visualization and analysis. This platform allowed our client to connect around 60 suppliers and more than 150 varieties of products to control production quality as well as equipment conditions. This is a site-agnostic solution which provides strategic value to this client.

At a global CPG company, we implemented controls, procedures, and automation, which enabled this customer to restrict access to Personally Identifiable Information (PII) data, while still providing their engineering teams autonomy to deploy changes at will. Our solution allowed the customer to onboard one of the geographies to the global ecommerce platform, reducing cost of maintenance and bringing their business capabilities to the global standard.

For a global multi-brand restaurant company, Grid Dynamics helped to build a brand agnostic 'Unified' Data Platform that serves various needs of data analysis. Our solution improved their time-to-market by re-organizing the PODs, improving DevOps processes and various facets of engineering discipline. We helped the client to optimize their workload and switch to more automated cluster usage to save approximately 500 thousand dollars per year spending on data ingestion platform.

At a leading membership-only big box retailer, we assisted the company to improve their Mobile application architecture. This application is designed to help onboard new lines of business easily and add warehouse functions onto a single app. We expect this solution will lead to major improvements in customer satisfaction along with providing a single interface to all that this brand offers.

And now, let me turn the call over to Anil, who will discuss Q4 results in more detail.
Anil?

**Anil Doradla, Chief Financial Officer**

Thanks, Leonard. Good afternoon everyone.

**Revenue commentary**

Our fourth quarter revenue of $80.6 million exceeded our guidance range of $77.0 million to $78.0 million and was down (0.7)% on a sequential basis and up 21.1% on a year-over-year basis. On a constant currency basis, our revenue growth on a sequential and year-over-year basis was (0.8)% and 23.6%, respectively. The 248 bps headwind to revenue growth on a year over year basis was due to the strengthening of the dollar relative to the Euro and British Pound while on a sequential basis the stronger Euro resulted in a 10 bps tailwind respectively. The better-than-expected revenue in the quarter was driven by growth at some of our large customers combined by contributions from new logos.

TMT, our largest vertical represented 33.7% of our fourth quarter revenues and grew 3.1% on a sequential basis and 38.8% on a year over year basis. We continued to witness growth at some of our large Technology customers. New logos also contributed during the quarter.

During the fourth quarter, retail, our second largest vertical representing 31.8% of our revenues, grew 1.6% on a sequential basis and 17.4% on a year over year basis. The sequential increase was driven by revenue contributions from some of recent logos. Within this vertical, we continued to see customers being cautious in spending with the ongoing macro-concerns.

Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing represented 17.5% of our revenue in the fourth quarter and decreased by (12.3)% on a sequential basis and grew 3.4% on a year-over-year basis. The decline on a sequential basis came from our large customers as they readjusted their spending levels to the current macro environment. Finance represented 7.7% of revenue and increased 2.8% on a sequential basis and was up 30.6% year over year basis. The growth in the quarter came from our banking customers where we continued to grow with their programs tied to wealth management. And finally, the other segment represented 9.3% of our fourth quarter revenue and was down (0.2)% on a sequential basis.

**Headcount Commentary**

We exited the fourth quarter with a total headcount of 3,798 up from 3,746 employees in the third quarter of 2022 and up from 3,274 in the fourth quarter of 2021. The sequential increase of 52 employees or 1.40% was largely due to increase in our acquisition of Mutual Mobile that contributed over 175 employees in the quarter. The increase from 2021 was largely due to a combination of improving demand resulting in headcount increase combined with our acquisition of Mutual Mobile.

At the end of the fourth quarter of 2022, our total US headcount was 338, or 9% (8.9%) of the company's total headcount. This was similar to the 9% in the third quarter and down from 9.9% in the year ago quarter. The year over year decline as a percentage of the total headcount was largely driven by a greater mix of non-US headcount. Our non-US headcount (which we sometimes refer to as "offshore"), located in Central and Eastern Europe, UK, the Netherlands and Mexico and "other" locations was 3,460, or 91.1%.

**Customers:**

In the fourth quarter, Revenues from our top 5 and top 10 customers were 43.2% and 60.4%, respectively versus 44.5% and 61.1% in the third quarter. During the same period a year ago, our Top 5 and Top 10 customer concentration was 42.0% and 57.7%, respectively. The increase in concentration across our top 5 and top 10 on a year-over-year basis was largely driven by increase in concentration from our top customers, primarily in the technology vertical.

During the fourth quarter, we had a total of 218 customers up from 200 in the third quarter and 221 customers in the year ago quarter. Fourth quarter customers included 16 coming from our recent acquisition of Mutual Mobile. As a reminder, we only count the revenue-generating customers in the quarter and do not include customers who were inactive during the quarter.

**P&L Commentary**

Moving to the income statement, Our GAAP Gross Profit during the quarter was $32.3 million, or 40.1%, versus $32.7 million, or 40.3% in the third quarter of 2022 and up from $27.3 million or 41.1% in the year ago quarter. On a non-GAAP basis, our GM was $32.7 million or 40.6% versus $33.0 million or 40.7% in the third quarter of 2022 and up from $27.6 million or 41.4% in the year ago quarter. On a year over year basis, the decrease in GM% was largely due to higher levels of bench.

Non-GAAP EBITDA during the fourth quarter that excluded stock-based compensation, depreciation and amortization, expenses related to geographic reorganizations, transaction and other related costs was $16.5 million or 20.4% down from $17.1 million or 21.1%, in the third quarter of 2022 and up from $11.6 million, or 17.4% in the year ago quarter. The year over year increase in EBITDA, both in terms of dollars and %age of revenue was largely due to a combination of higher levels of revenue, flattish operating expenses, and favorable FX trends.

Our GAAP net loss in the fourth quarter totaled a $(6.7) million or a $(0.09), based on a share count of $74.0 million shares, compared to the third quarter loss of $(6.7) million, or $(0.10) per share based on 68.6 million shares and a loss of $(3.7) million or $(0.05) per share based on 65.7 million shares in the year ago quarter. The year-over-year increase in GAAP net loss was largely due to higher levels of stock based compensation and geographic reorganization costs offset by higher levels of revenue. On a non-GAAP basis, in the fourth quarter our non-GAAP-NI was $10.5 million, or $0.14 per share based on 76.5 million diluted shares compared to the third quarter non-GAAP NI of $11.0 million, or $0.15 per diluted share based on 71.9 million diluted shares and $7.1 million or $0.10 per diluted share based on 71.7 million diluted shares in the year ago quarter.  The increase in the non-GAAP NI in comparison to the year ago quarter was largely from higher levels of revenue partially offset by higher operating expenses.

**Balance Sheet**

On December 31, 2022, our Cash and cash equivalents totaled $256.7 million, up from $255.2 million in the third quarter of 2022 and up from and $144.4 million on December 31, 2021. The key reason for the increase on a sequential basis was operating cash flows offset by our recent acquisition of Mutual Mobile which closed on Dec 23, 2022.  The key reason for the increase on a year-over-year basis was a primarily share offering and raised $115 million of which $109.5 million was received by the company that was partially offset by acquisition of Mutual Mobile.

**Q1 Guidance**

Coming to the first quarter guidance, we expect revenues to be in the range of $78 million to $80 million.  We expect our Non-GAAP EBITDA in the first quarter to be in the range of $10 million to $11 million.

For Q1 2023, we expect our basic share count to be in the 74 to 75 million range and our diluted share count to be in the 77 to 78 million range.

That concludes my prepared comments. Bin, we are ready to take questions.

**Questions and Answers**

Bin Jiang: Thank you Anil. As we go to the Q&A Session. At this moment I will announce your name first. Please unmute yourself, and turn on your camera. Our first question comes from the line of Josh Siegler from Cantor Fitzgerald.

Josh Siegler @ Cantor Fitzgerald: Hi. Thanks for taking my question today. Congratulations on the strong execution this quarter, you know this quarter you added the most new logos you've ever achieved in a single quarter. So I was wondering if you could provide some additional color on how you've been able to achieve such a significant new logo growth, and how your current pipeline looks like into 2023.

Leonard Livschitz: Thank you, Josh: Well, it just didn't happen overnight. We've been basically given the guidance during the throughout 2022, that, despite all the challenges, related to the war and other impacts, we continue to deploy more focused offerings to the clients, and we diversify the broader base of our clients, when we announce right now our, you know, Grid Dynamics, GigaKube 1 Billion dollar plan. It's basically a beginning of the kind of rationalizing the value of the company which is driven by more depth of this specific knowledge related to the verticals and the clients. And it kind of comes down to where the key core know potential clients were focusing on the budgets for 2023. We're able to secure the positions

Josh Siegler @ Cantor Fitzgerald: understood, appreciate the color there. Then, Anil, how are you thinking about your capital? Allocation strategy? As you progress int0 23? The company is sitting on a significant amount of cash. So when you consider increasing the pace of M&A in the future, perhaps faster than what we saw in 2022.

Anil Doradla: Well. Josh, you saw late December. We had one announcement right, which added certain capabilities and certain delivery. Leonard, in his prepared remarks and his press release clearly highlighted that M&A is an important area. And you know the pipeline is robust. Some of these, you know, prices are coming to a little bit more reasonable level. So we're absolutely going to be very focused. Also, you know, the key point here is that we've got some initiative of growing our company to a 1 billion dollars, right? So we are going to be prioritizing our focus on growth. And that's going to be another aspect. I think, between these 2 that will keep us pretty busy in 2023, and beyond

Josh Siegler @ Cantor Fitzgerald: understood. Thank you and congratulations again.

Anil Doradla: Thank you, Josh.

Bin Jiang: Thank you, Josh? Our next question comes from Ryan Potter from Citi. Please go ahead.

Ryan Potter @ Citi: Hey, Thanks for taking my question, and congrats on a good quarter. I like to start off with the Macro. Regarding the Macro, I have had client conversations kind of all over the last few months. I've given them by kind of sequential decline in revenue and that look. Are you seeing anything around delays and decision-making, or anything that like it so your peers are called out, and also any kind of color you can give on trends to the same, to the first few weeks of what you?

Leonard Livschitz: Hmm. Well, there are a number of questions right in one question, right? So as we mentioned in the Q3 earnings call we foresaw some of the weakness coming from the market, we're a little bit, maybe, too caution, but we hit the timing right. So, starting December and as a company and pretty much in a consumer-related business specifically start planning their budgets for 2023. They took a very precautionary defense, you know, standing so we've seen those declines. I guess they were prepared to most of them, and you know you go through a bit of a downturn with one client by addressing more priorities to the other growing clients. But overall the situation of December definitely expanded into January and February. I can't say we already like at the bottom of that event situation or not, but most of the budgets are pretty clear. I believe that you know. Actually, the guidance tells you that even though there is a little bit of an organic sequential decline, it is not very, you know, unexpected at all. And if you add some of the new potential with new clients, we're actually looking bullish for the year. But for the quarter we do see a little bit of a softness with some of the clients.

Ryan Potter @ Citi: got it, and thanks for providing all the color and commentary on the GigaKube initiative in the vertical expansion and the increase; focus on consulting in particular how much of the subject better expertise would you say you already have in-house. First, you need to still go out and hire, and also the 3 verticals you want to expand into; what kind of exposure do you already have with those variables.

Leonard Livschitz: Okay. So if you look at the results of 2022 from the cost perspective, and even Q4 for that matter the largest growth of the spending happened in the CTO office in that area of you know, building more artifacts and solutions around accelerating of the some of the project with the clients specifically in new areas, but also attracting number of the specialized subject matter experts. SME comes from various forms and shapes. The best way to do it is getting them engaged with clients and building this consulting report which results on the growth of the business in defined roadmaps and that's what we're doing. This is a continuous expansion. But this is the progress they are already resulted in capturing some of the new clients in a life science space basically in pharma. One was very glad to see that, as far as financial services right now is more fintech and some very notable fintech payment system clients which is again, it's a great space for us, you know, because a lot of foundation horizontal expertise are there. We just need to turn more into the application for the specific vertical depth. In the area of Industrial, and manufacturing. It has always been my kind of area of my personal knowledge, but also kind of this feel to the company's capabilities of managing, ever changing, and now ever streamlining with the grossly distributed supply chain. So supply chain on the top of the data knowledge, data management and getting more and more into the AI capabilities related to industrialization, helps us to grow those spaces too. So all the new stuff we're talking about is already present. But focus is there, and the SME investment is particularly in those verticals.

Ryan Potter @ Citi: Got it. Thanks again.

Anil Doradla: Of course.

Bin Jiang: All right. Thanks, right.

Bin Jiang: Next question comes from the line of Penny Jay from JP Morgan. Your line is open.

Puneet Jain @ JP Morgan: hey? Thanks for taking my question, and a nice quarter.  Is it much like the employee relocation behind you, and more importantly, are your client facing and client delivery teams in a steady state right now?

Leonard Livschitz: Okay, well, its never over till it's over. Right. We are definitely done with Russia for a long time. The situation with Ukraine is more fluid. I mean, we've done quite a bit of work in Q4. As you know, it was a little bit of a scare from the global information about Russian attack against Ukraine infrastructure. We've been preparing for potential of that issue because we're kind of from that region. So we build a lot of capacity on a you know, generators, you know, skylinks and other equipment necessary to operate, but fundamentally the contribution of the total headcount from Ukraine continues to decline because we're expanding other areas saying that all the people knock on wood operating in a full operational environment and the safety of various distributed locations. We are gonna be at one year anniversary of the start of the war. So, if you look back, it's an incredible transformation. But we are not looking to be a victim. The winners are not victims. Winners are people who put their effort and succeed both in a war environment and in the company itself. So we listen to the clients. We expand our location. India has been our growth area. Mexico's been a growth area, but the European priorities in the Central Europe continue to expand as well. So I would not say we ended already with all the relocations, but we certainly in a much more controllable way than perhaps some other companies, and we don't see that as a detriment to fulfill our client obligations.

Puneet Jain @ JP Morgan: All right, and then the new Logos that you want recently 13 new clients added in four Q and expansion at existing customers. How should we think about the ramp at those accounts like the add on work or additional work you might get, and can those new businesses drive sequential growth, starting from 2Q?

Leonard Livschitz: Very good. So I would probably start from the end just because you there's a little pole poison peel about, you know. When opening Q2, I can say Q2 or Q3 or maybe even Q1 for some of them, because, you see, there's a little variance on the guidance for Q1. But fundamentally, what's what's very important. I think that this is key as we grow as we expand and mature. You've been with us for a while. I've been always talking about 2 5 10 strategy, 2M, 5M, 10M in terms of the customer positioning. We are maturing in the business for the big enterprise. We're kind of switching. It's not really something in the script today. But you ask a very valuable question. So I'm driving the team into the new formula, which is more like 5 10 20. I'm not talking squares or any other multiples. It's just basically the new clients need to get to 5M instead of 2M, because they're very substantial clients. And by doing this, actually there are several falls. One of them is our increased relationship on partnerships, both with the hyper scalers and some notable software integrators, which kind of gets us in the midst of their client key work. The other one is, as I mentioned in one of the earlier questions, there was a good prep work done now. I'm. I hate infant mortality, this is just one of those the biggest disappointments. You put a lot of, you know, effort, and then something happened. I can't say it will never happen, but I think we are much more optimistic with the approach we're taking now than ever, and also the machine, the marking machine. The marking machine started working because it's not any more just word of mouth or all this stuff. There's some of the approaches we have accepting that major potential, accepting our methodology, especially with consultancy and reach out to us. So the bottom line, I can say the date. But I definitely see this. Keep in your mind this 5, 10, 20, and when it comes you can actually poke my eyes. Are you there yet?

Puneet Jain @ JP Morgan: Thank you.

Anil Doradla: Thanks

Bin Jiang: Thanks. Our next question comes from the line of Maggie Nolan from William Blair. Please go ahead.

Maggie Nolan @ William Blair: Hi, thanks, congrats guys. Anil and Leonard, can you talk a little bit about the cadence of the year and anything we should keep in mind for like seasonality or year of year comparisons, or just in general, like first, half for second, half expectations.

Leonard Livschitz: Sure, well, Anil told me very clearly, do not drift from the script. So basically everything we do is bottom up analysis and analytics. And just because we are analytical, and we think through the process in advance doesn't mean it guarantees that whatever we think is going to happen. Everybody talks about the second half of the year will be significantly more cadence than the first half of the year to me. I'm not an economist, and I'm not a hockey player, so hockey stick is not my favorite approach. I think, what's transparency of the customer relationship on the budgets gives us some understanding of where we are in the first half of the year. It's a tough period of time. But as we grow a number of customers, and we also get some of the already budget awarded to us some of the few customers which I didn't mentioned before they came as a result of switching some of the work to Grid Dynamics, which is special, and amazing during the time with people are tightening their budget. So we do see some progress there. I think we're gonna fight tooth and nail for the Q1, Q2, and also as Anil mentioned, there would be some good notable acquisitions coming in. But the approach we take with this great GigaKube plan is, we are diversifying more and more from not just, you know, consumer focused business, but from B2C, B2B and globalization of all approaches with our clients, and you know I'm bullish. I'm bullish for the year, and you've seen my statement in the press release. I thought through that, and you know people are getting tougher through the years, and I believe our customers are getting more and more respect for who we are and what Grid Dynamics is. So yeah, that's probably the best guidance I can give you at this point.

Maggie Nolan @ William Blair: Sure, thanks, Leonard. And then what about just the pricing environment and your expectations for 2023 as well as any impact from like the changes in your delivery footprint versus last year?

Leonard Livschitz: Yeah, so ah it's always the toughest question. Right again. You know, historically, we always seen that there are 2 extremes coming right, and there is always wage inflation. And we mitigated wage inflation by building stronger and stronger internal programs on the Grid Dynamics internships with universities and Grid Dynamics training processes. So you kind of balance some of this cost increase with the homegrown teams. Now, we moved to some of the more expensive locations from, let's say, from Eastern Europe to Central Europe. So yes, there is certainly impact, and you know, working with the clients we need to prove, and we are growing the value we're bringing is exponential. So more work results instead of TM, working on fixed projects, and you know Pod relationships, so it's really not about the cost per engineer, but ROI on a project basis. The other challenge we're taking for this year, going forward to prove that our Indian operation is a state of the art capability, organization, just judging by what internals were taken from the schools. So again, there's a little bit of reactionary from the most when it comes to your needs. This is going to be really cheap, and we're just working through the value of our organizations globally. On the pricing side. I'm sure you will, some of you guys will torture Anil after the postmortem. So what's going on? So I'll tell you right away. We are very strategic in terms of how we approach the pricing. Yes, there are a few contracts where we are, we’re just on the cusp of becoming a premier supplier, which reflects the building of significantly larger opportunities for years to come, and obviously the pricing is different for different revenue ranges. So, that's not related to microEconomics, it’s related to the growth of the relationship. But there are some projects with very long and very loyal clients where, you know, instead of them, to basically freeze some of the critical for their own business developments. We step up and we do some co-investment. It happened in the past, and it happens only on the type of work we believe is very critical for both of us and the client. So this is as broad as I could say about both the cost-based and the price base.

Maggie Nolan @ William Blair: Thank you.

Leonard Livschitz: Of course.   Anil Doradla: Thank Maggie.

Bin Jiang: Thank you. Next question comes from Brian Bergen from Cowan. Your line is open.

BRYAN BERGIN @ Cowen: Hey, guys good to see you. Um I wanted to start on the outlook first so can you just talk about some of the underlying assumptions as it relates to the key industries in that 1Q outlook, particularly the tech clients, just want to get a sense of the current contracting dynamics there, and just your visibility to their spending plans.

Leonard Livschitz: Anil has not answered a single question. So I'll give him a few seconds and I'll jump in. Okay.

Anil Doradla: Alright. Well, you see, if you look at our Q1 guidance, right, as Loenard pointed out, we have some contribution from the acquisition, and for modeling purposes, you know, you can have, it’s an insignificant contribution, less than 2.5 percent, somewhere in that range in Q1. So if you look at, you know, as we go into Q1, now going from Q1 to Q4, there's some. you know, seasonal aspects of the business. So I'll just put that aside. But beyond that, what we are seeing is a couple of moments. You know we have our new logos. right? So that's actually contributing, and that's providing us a little bit of a cushion. And the new logos are spread across, you know, across the landscape. When you look at the more consumer-centric businesses, right? I mean you're seeing a little bit of a flattening to some extent, but, you know, there is a certain amount of you know, conservativeness, caution, whatever it is in some of the things. When you look at some of our you know tech guys, you know, as the prepared commentary pointed out, you know we're moving in the right direction, we’re getting more and more. And again within that we've got some new clients, too. So I think you know the team out there is, we continue to be a little bit more, you know, cautious on some of the consumer centric businesses, we have some new logo contributions, and our tech guys are kind of moving along.

Leonard Livschitz: So I'll just add the color as I promised Bryan. So I was asked this question when I was on Bloomberg radio. What's going on with your friends from Silicon Valley? They're firing left and right, right? And the comment is, well, nobody really knows what's going on in the individual minds of leaders. I'm humbled to even make a comment publicly about what I think about it. But there was a little bit of an over extension, right? Grid Dynamics is a very conservative company. And when we approach our clients, we don't think only what is happening now, but what type of work will carry us through the good and bad times, right? And ah, there are certain risks. There are always risks. But what we see with the selection of work with the same notable clients, I’m not talking just the number one, the most conservative premier client, but other tech clients, they suddenly see a big void because they rushed to hire and now they rush to let those people go. And it doesn't mean they're not profitable, and doesn't mean their budgets are less. We're not directly tied to the commercial revenue streams. So it means that our work is more distributed. So I don't see that kind of let's say ramp down of the work, which was noticeable with the like retail kind of client. So, ah, we're overall, ah, I would say we’re out front of all the big news, for our position is more controllable than for the overall industry, I would say. That's my clear guidance. I don't see that big of a decline.

BRYAN BERGIN @ Cowen: Okay, okay, I appreciate all that. And then, just from a delivery standpoint, can you talk about how your delivery operations are evolving, if at all, as you add more scaled, you know new regions? So I'm curious. If the pod structure, you know, the pod model that you have, that structure has evolved a bit as you bring in these new regions on stream, and how you're bringing the teams together?

Leonard Livschitz: Right? Right? So I would say European countries. It's a negligible disruption. Look, frankly if you look, Bryan, in terms of whether it's Poland, Romania, Serbia, or Armenia. First of all, it's mixed with the employees with which we relocated from Russia and Ukraine, but also there is a contingency of work. We’ve been in the area, we understand locations. There is a well developed process. As you know, Mexico has been with us for a while so again it's more or less involved. It's more connected to the nearshoring approach so it's a work between US and Mexico, more than just necessarily Mexico and Europe. When it comes to India, that's the very logical question. How are we dealing with India? Especially in growing numbers. And the answer is the same I've been doing in integrating businesses 30 years ago, when I was driving my research labs at ah, in the midwest with adding big contingency from Europe, Asia in particular India. I was involved with the service business for 30 years, and the number 1 solution is, first of all, very clear communication. Second of all, we moved some of the key people from Europe to India for the rotational, very significant assignment. So they actually work with the team with the projects, and have capabilities of adjusting the hiring, recruiting, and delivery process we were able to attract a very high level talent with a key delivery leadership in India coming with a global experience in US, Canada, Singapore, Australia. So, so far, we haven't seen any glitches. The speed of work, we can do better, but with the quality of work, I have not seen issues till now.

BRYAN BERGIN @ Cowen: Okay, I appreciate all the colors. Thank you.

Anil Doradla: Thanks Bryan

Bin Jiang: Thank you, Bryan. Next question comes from my Mayank Tandon from Needham. Please go ahead.

Mayank Tandon @ Needham: Great thanks. Congrats on the quarter. Thanks for squeezing me in at the end very quickly. I just wanted to ask in terms of your revenue growth. So, even though you're not giving guidance, and Leonard talked about the pricing environment, how do you think about utilization and headcount growth organically? Is that something you expect to drive at this point, or is it maybe a little premature given some of the visibility issues because of the macro?

Leonard Livschitz: So, thank you for kind of giving me a little bit broader question, because there's a big difference between the utilization and the headcount growth. Utilization-wise, we’re always focused on the maximization of utilization. You know. You know our engineering capabilities when they're managed through, whether it's a direct enrollment in a T&M work, or the more complex project is one of the key, ah, I would say factors for the delivery. So, I'm pretty bullish on utilization. The second factor, though, has a little bit different connotation in the first half of the year. I made an investment to retain some of the key employees which have been potentially downsized from the some of the work in the last months or two, because of their very strong knowledge and their strong capability, and we redeployed them on some of the specialized work relating to the creating accelerators or some core work. And I call it basically internal acquiring of talent. And that work has been in the planning prior to obviously the time when the economic micro impacts are having issues with the industry. So when we talked about it in Q3, we're already in the you know, we're very well planning. So we basically addressed the team. So I would say that on the total organic, not M&A, organic account growth, I don't necessarily see a huge drive in early of the year, because we do have a good, you know, senior pipeline. We did not slow down the internships. We just have to be more selective on new hiring. And of course, with the utilization of engineering, that's a key metric with the clients we're holding in. So it's kind of 3 aspects: right powder, utilization, and top talent to build their more vertical capabilities for our new initiative.

Mayank Tandon @ Needham: Got it. That's very helpful. And then just maybe a quick word, Leonard, or Anil, on the supply side. How is the environment today? I would imagine it's a little bit easier to find quality people given the skill set requirements. And then any comments on attrition levels that you've seen recently. Just give some context around that. Thank you.

Leonard Livschitz: So on the attrition side, you don't need to be a wizard, right? It's lower, right, when the time tough people don't run away, right. But for Grid Dynamics, it's not as dramatic. And remember, even in very good times, we didn't have a major spikes on volunteer attrition. You know. This is, there was a spike or involuntary attrition with the transition out of Russia, but involuntary attrition, we're more or less balanced, so we see some drop, but it's also important to understand what type of talent we retain and grow. We embarked in late 2021 on the heavy internship programs. That's our main feeding line for the young talent. Senior people, we are growing from within and retraining. And the most of the attention to the market is twofold. Either kind of mid-level people who need to be deployed for the special skills or those very specialized architects, you know, and the subject matter experts for the new industries or new verticals. So that kind of talent we acquire. I think the last one becomes way easier, right? Because there is a great talent of people with redeployments from those big tech specifically. But everything else is more or less balanced. So I don't think it's a huge drop or huge increase right now. I think we're just in a model of operating and perhaps the financial pressures a little bit less rather than talk about the number of capable candidates.

Mayank Tandon @ Needham: Hey! Thank you so much.

Leonard Livschitz: Thank you    Anil Doradla: Thank you Mayank.

Bin Jiang: Thank you Mayank. Ladies and gentlemen, that would be all of the Q&A session today. I will now pass the call back to Leonard for the closing comment.

**CLOSING COMMENTS**

**Leonard Livschitz, Chief Executive Officer**

Thank you everybody for joining us on the call today. We exit 2022 with many accomplishments and while we start off the year with some macro related uncertainty, I am confident that our strong technological foundation and value that we bring to our clients will position Grid Dynamics stronger. Grid Dynamics has been a net beneficiary post economic down cycles and based on our pipeline of new client engagements and discussions that we are having with our existing clients on large and

complex programs, I am optimistic of our prospects. I look forward to giving you a business update in May.
Thank you