GDYN Q3 2023 Earnings Call
Recording Transcript

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

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

Bin Jiang, Head of Investor Relations

Good afternoon, and welcome to Grid Dynamics Third Quarter 2023 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.

As you have seen from our published results, Grid Dynamics third quarter revenue and non-GAAP EBITDA were within guidance range and exceeded wall-street expectations. Our results reflect the company's unrelentless commitment to our existing clients and our continued ability to execute to our stated goals. There was a lot of activity during the quarter. This includes strong momentum with new customers, greater traction with AI as it continues to garner significant interest across our customer base, and progress with our GigaCube initiative as we continue to operationalize it across the company.

On the macro, the demand environment points to a level of stabilization. While we still have some ways to go before calling it a strong snapback or back to normalized levels of demand, I am more optimistic than I was three months ago. In many ways, this is what was not unexpected, as enterprises need to spend towards their business imperatives that include digital transformation initiatives. In other words, for enterprises to remain competitive, they need to spend on crucial business digital transformation needs.

Over the past three quarters, you have seen that our revenue has been flattish. As we have highlighted before, the general trends we encountered are from the headwinds with a handful of customers which were offset by other existing customers and new logos. Going forward, we observed the headwind trend reversed. This is incrementally positive and we anticipated the company's growth in 2024.
Now if I were to look at the billable headcount trends, some positive trends are emerging. Over the past 6 weeks we have seen a steady rise in the billable headcount. Additionally, the demand for these billable headcounts started coming from existing logos. Last but not the least, new logos and recent logos continue to trend in the right direction. Once again, the underlying fundamentals are pointing in the right direction which leads us to be incrementally positive.

So, in summary I want to leave you with three thoughts on the demand environment. First, the magnitude of resets across our customers is diminishing. Secondly, for the vast majority of accounts, business is stable. And third, momentum with our new engagements is robust.

Now coming to the fourth quarter. We are more than one month into our fourth quarter and the summary thoughts that I have shared with you today extend to the fourth quarter as well. Our billable headcount continues to grow, our AI activity is robust, and the magnitude of declines from the handful of customers continues to diminish.

We continue to invest in our engineering resources towards building new R&D artifacts, accelerators, and AI capabilities. During the quarter, there was a lot of activity with our technology organization including continued interest in our broad technology offerings including AI. During the quarter we completed multiple Enterprise AI and Generative AI projects. With our Generative AI efforts, our R&D initiatives resulted in several new solutions. These include Gen AI for intelligent document processing and Gen AI for software development. With our billable projects, we continue to be engaged across the spectrum of our clients with a multitude of solutions. These projects are at different stages of development that include Global Financial Institutions, Retailers, Hotel Chains, and Automotive suppliers.

Our strength has always been our engineering training around leading technology specializations. To support the strong demand for AI skillsets, we have established a comprehensive AI training program. Our AI curriculum is segmented across three tracks and ranges from introductory AI to more advanced features. Engineers are going through the rigorous program which takes up to several quarters to complete the entire curriculum.

As a reminder, Grid Dynamics AI engagements are based on more than seven years of internal research and successful implementations. With our generative AI offering, we partner with customers to employ large language models and prompt-guided image generation to the applications in product design & visualization, knowledge retrieval, wealth management, and customer support.

On the GigaCube initiative, we continue to make good progress. As you know, GigaCube is our strategic blueprint that lays out a framework for our company towards a $1 billion revenue goal. During the quarter we made some key hires across our CTO organization and sales organization. Our efforts continue to focus on industry verticals such as manufacturing, pharmaceuticals, and BFSI.

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

Logo Momentum: In the third quarter we signed 10 new enterprise customers. This brings the new enterprise logos added in 2023 to a total of 28. We believe Q3 client acquisition is a further testament of our competency and the confidence for large global enterprises to sign up with us in the current environment. Some of the more notable ones to mention include a Global food company, a Global Automotive Parts Supplier, a large direct-to-consumer home improvement solution provider, a large Office Supply Retail company, a US based insurance company, and a European tax advisory company. Our strong momentum is the testament of our differentiation and value we bring to our customers.

Delivery Location support: We operate in 18 countries spanning across North America and Europe. We also continued to expand in India and adding another engineering center location, which is a testament of Grid Dynamics being a truly global company. Our "Follow-the-Sun" strategy enables our clients to be supported in an uninterrupted fashion around the clock. Clients embrace our geographic diversification and choice of locations for engineering support. During the quarter we were able to quickly put together and ramp up dedicated teams across our global delivery locations for some of new and recent clients. Additionally, our integration with NextSphere and Mutual Mobile is in full swing and we have started to implement synergies across engineering, operations, back-end offices going into the sales activities.

Europe Business: During the quarter, we made good progress in expanding our footprint across industry verticals with new European clients. We completed a major digital commerce re-platforming program for a global footwear company, delivered on time and within budget. We are leveraging experiences to develop similar competencies across other industry verticals. Additionally, we are implementing a large composable commerce modernization platform for a global specialty auto parts company, with a mission to modernize their B2C business. Leveraging our expertise, partnerships, and references, we expect to expand our brand in the market. For a large medical device company, we're launching initiatives in data engineering and Generative AI to tackle challenges related to data insufficiency and governance. The goal is to enhance the efficiency of sales reporting processes.

Partnership: Partnerships continue to be a vital part of our growth and have become increasingly important in our long-term plan towards becoming a billion-dollar company. We currently have over a dozen partners with whom we work. Of these, only half of them contribute revenue meaningfully on an individual basis. This also means that there is significant scope to scale as we tap into this large opportunity in the partnership ecosystem.

We have extended our partnership with the Hyper-scalars to their AI and Gen AI offerings, and are actively developing solutions and accelerators on Bard & Vertex AI from Google, Azure Open AI from Microsoft, and Amazon Bedrock from AWS. Additionally, we continue to invest in growing Independent Software Vendor (ISV) partnerships in Supply Chain, Digital Experience, Marketing and Commerce domains. This effort aims to enhance the value we provide to executives in the C-Suite, including COOs, CMOs, and Chief Product Officers.

In the third quarter of our ten new enterprise logos, three came from our partnership relationships. Additionally, last quarter we announced a significant global partnership with Google Cloud to develop and implement innovative Generative AI solutions. We have been diligently working on leveraging Google Cloud's Vertex AI, a platform that incorporates powerful foundational large language models (LLMs) and advanced image generation capabilities. Building on that, this quarter we were invited to participate in Google's Next leadership forum where we expanded our business relationships.

During the quarter, Grid Dynamics delivered some notable projects.

In Manufacturing: For one of the world's largest tire manufacturers, we piloted an AI-based platform for tire recognition, health evaluation, and predictive maintenance. The platform is based on deep learning and was delivered as a cloud-based solution to the dealers. The goal of the solution is to significantly increase the productivity of tire service centers, simplify predictive maintenance, and enable seamless integration with downstream applications.

For one of the world's largest technology companies, we successfully designed and implemented a cutting-edge intelligent tool for measuring and allocating computing infrastructure that combines on-premises datacenters with public cloud. Our solution measures resource utilization across departments, associated costs, and produces a 360-degree view of spending. This framework empowers our client with substantial savings in their cloud and on-premises infrastructure spending.

At a leading European-based footwear manufacturer, Grid Dynamics was selected as the primary technology partner for their high-profile composable commerce re-platforming program. By seamlessly integrating best-of-breed cloud-native products, we leveraged AWS platform to architect a cutting-edge solution that boasts scalability, flexibility, and future-proof capabilities. Our solution will enable this client in addressing creating key capabilities that will drive customer acquisition and retention, branding, as well as process efficiency optimization.

At one of the largest beverage distribution companies in North America, Grid Dynamics built a framework for a new enterprise cloud platform. This significant program will be the basis for the company's multi-year digital transformation strategy. The program intends to enhance user experience across multiple sales channels, ensure dynamic scalability and technology-readiness for building custom applications to enable new business capabilities.

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

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Anil Doradla, Chief Financial Officer

Thanks, Leonard. Good afternoon everyone.

Revenue commentary

Our third quarter revenue of $77.4 million was within our guidance range of $76.0 million to $78.0 million and exceeded Wall Street expectations. On a sequential basis our revenue grew modestly and was down 4.6% on a year-over-year basis. Relative to last quarter, we saw greater stabilization across the majority of our accounts.

During the third quarter, retail, our largest vertical representing 34.3% of our revenues, increased by 2.0% on a sequential basis and grew 5.1% on a year over year basis. Within the retail vertical, on a sequential basis, we witnessed growth from areas such as home-improvement, department stores, and specialty retail.
TMT, our second largest vertical represented 30.7% of our third quarter revenues, decreased by (1.5)% on a sequential basis and (9.9)% on a year over year basis. On a sequential basis, we witnessed continued caution at some of our larger TMT customers.

Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing represented 12.5% of our revenue in the third quarter, a decrease of (11.1)% on a sequential basis and (39.8)% on a year-over-year basis. The decline on a sequential and a year -over-year basis came from some of our large customers as they readjusted their spending levels to the current macro environment. That said, at our largest CPG customer, we are witnessing stabilization and this should benefit us in the fourth quarter. The Finance vertical represented 9.4% of revenue, an increase of 8.2% on a sequential basis and 20.2% on a year over year basis. The growth in the quarter came from a combination of financial technology customers and new logos. And finally, the Other segment represented 13.1% of our third quarter revenue and was up 6.1% on a sequential basis. The strong sequential growth was driven by growth from both new logos and existing customers that spanned across healthcare, distribution, and restaurant industries.

Headcount Commentary

We exited the third quarter with a total headcount of 3,823 versus 3,862 employees in the second quarter of 2023 and up from 3,746 in the third quarter of 2022.

At the end of the third quarter of 2023, our total US headcount was 322, or 8.4% of the company's total headcount. This remained on the same level compared to 8.2% in the second quarter of 2023 and slightly decreased from 8.6% in the year ago quarter. Our non-US headcount, located in Europe, North America, and India 3,501, or 91.6%.

Customers

In the third quarter, Revenues from our top 5 and top 10 customers were 36.8% and 54.0%, respectively, versus 44.5% and 61.1% in the same period a year ago, respectively. We witness continuous diversification and greater contributions from our recently acquired logos.

During the third quarter, we had a total of 224 customers up from 216 in the second quarter of 2023 and up from 200 in the year ago quarter. The increase in customers on a sequential basis was largely from our core enterprise business.

P&L Commentary – GM, EBITDA, and EPS

Moving to the income statement, Our GAAP Gross Profit during the quarter was $28.2 million, or 36.4%, and remained almost unchanged compared to $28.3 million or 36.6% in the second quarter of 2023 and down from $32.7 million, or 40.3% in the year ago quarter. On a non-GAAP basis, our GM was $28.7 million or 37.0% versus $28.8 million or 37.3% in the second quarter of 2023 and down from $33.0 million or 40.7% in the year ago quarter. The decrease in GM% on a year-over-year basis, both on a GAAP and non-GAAP basis was largely due to a combination of FX headwinds, costs associated with expansion into new geographies, and investments in AI related expertise.

Non-GAAP EBITDA during the third quarter that excluded stock-based compensation, depreciation and amortization, restructuring and expenses related to the geographic reorganizations, transaction and other related costs was $10.7 million or 13.9% of sales down from $12.0 million or 15.5% of sales in the second quarter of 2023 and down from $17.1 million or 21.1% of sales, in the year ago quarter.

Our GAAP net income in the third quarter totaled a $0.7 million or a $0.01, based on a basic share count of 75.5 million shares, compared to the second quarter income of $2.6 million or $0.03 based on a basic share count of 75.1 million and a loss of $(6.7) million or $(0.10) per share based on 68.6 million basic shares in the year ago quarter. The year-over-year increase in GAAP net income was largely due to lower levels of stock-based compensation and significant decrease in geographic reorganization expenses. On a non-GAAP basis, in the third quarter our non-GAAP-NI was $5.9 million, or $0.08 per share based on 77.3 million diluted shares, compared to the second quarter non-GAAP NI of $7.0 million or $0.09 per share based on 76.9 million diluted shares and $11.0 million or $0.15 per diluted share based on $71.9 million diluted shares in the year ago quarter.

Balance Sheet

On September 30, 2023, our Cash and cash equivalents totaled $253.7 million, up from $246.2 million in the second quarter of 2023.

Q3 Guidance

Coming to the fourth quarter guidance, we expect revenues to be in the range of $76 million to $78 million. We expect our Non-GAAP EBITDA in the third quarter to be in the range of $10 million to $11 million.

For Q4 2023, we expect our basic share count to be in the 76 to 77 million range and our diluted share count to be in the 78 to 79 million range.

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

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Questions and Answers

Bin Jiang: Thank you, Anil. At this moment, once we start the Q&A session, I will first announce your name. And please unmute yourself and turn on the camera. Our first question comes from the line of Mayank Tandon from Needham. Please go ahead.

Mayank Tandon @ Needham: Thanks, Bin. Good evening, Leonard and Anil. Good job on the quarter. Let me start with just the guidance and then any framework for how to think about fiscal 2024. I imagine you have maybe a few less billing days in 4Q. So that would suggest fairly stability from 3Q to 4Q. But then as you look ahead into the early part of 2024, I imagine 1Q has higher billing days, so trying to get a better read on what you expect in terms of recovery as you go into 2024?

Anil Doradla: So, Mayank, thanks for your question. You're right with your observation on Q4 versus Q3. And if you look at Leonard's comments about billable headcount, which is a steady increase. Our flattish outlook suggests or you can extrapolate from that, is that we expect these trends to play out. So if you look at the foundations of our business, core enterprise business, we're seeing across-the-board stabilization, we're seeing increased headcount.

So right now, when we look at it, we're incrementally bullish. Now as you know, Mayank, we do one quarter at a time. So let's come back in, 3.5 months and give a lot of incremental color on Q1. So for now, let's just deal with Q4. Leonard?

Anil Doradla: Good.

Mayank Tandon @ Needham: Got it, okay. I'll save my Gen AI question for the analyst day, so I won't go there. My next question...

Leonard Livschitz: Feel free to ask if you want. Feel free to ask.

Mayank Tandon @ Needham: I'll save them for that. I want to focus more on just some of the financials. So Anil, kind of related and maybe, Leonard, too, just on the...both revenue, and then of course FX profitability too, is where utilization today and how much gas do you have left in the tank to expand utilization for you? Do you really have to crank up hiring when demand does come back to hopefully current levels sometime in 2024?

Anil Doradla: So Mayank, in terms of utilization, we've done a good job in general. So utilization numbers obviously, have held up within our range. And it hasn't changed from quarter to quarter. As you know, we've seen -- we put in place a little bit more disciplined approach towards we have -- we look at our engineering headcount and as well as non-engineering headcount. Now, you're right, it's a very good question, as some of the demand trends unfold. And we'll, of course, see how it plays out, the hiring, the acquisition of talent, these are important elements.

And yes, we are looking at that. But again, we're -- it's one quarter at a time, right? We have to plan on that. We have, in all of these countries we're now, we've got teams and we are constantly focused on some of these movements. And depending upon that, we will act upon. But yes, this is something we're discussing.

Q: Got it. Well, thank you so much. See you in a few weeks.

Leonard Livschitz: Thank you, Mayank.

Anil Doradla: Thank you.

Bin Jiang: Mayank, thanks for your question. The next question comes from the line of Josh Siegler from Cantor Fitzgerald. Please go ahead.

Josh Siegler @ Cantor Fitzgerald: Yeah. Hi, guys. Thanks for taking my question today and congrats on the results. Leonard, on the call you mentioned that you've grown more optimistic over the past three months. I was curious, are those more positive discussions with some of your logos largely driven by AI demand, or is there a broader thought process about returning to that general digital transformation spending?

Leonard Livschitz: Well, Mayank mentioned that we'll have much more debrief on AI, just in two weeks in New York, on analyst day, and we'll have a very large team go there. So I will save a little bit of mystery for that. But fundamentally, it's a great door opener at this point. There are multiple projects. You noticed there's something unusual, even in Anil's statement in the financials, that there's some additional investment going on in training people. And by the way, that's also kind of addresses potential growth because we take more senior people, retain them, and we're building with more capable teams because, in our assumption, the more junior who we train for internships or direct hire would be easier to attract to scale than maintain the large core of the technology people. So that's about AI.

In terms of my confidence level, basically, again, Anil mentioned that one quarter at a time. But what happens is, we give very careful statistics, not only on the rate of change of the billable people, but the content of the project. So AI was one point. But we're doing so much more complex work, not only in retail in the past and CPGs but in the broader base of the market—in manufacturing, in pharmaceutical, we're in the insurance business, we're going into this -- the life sciences.

We're doing so much more and we were able to start converting our -- horizontal expertise into vertical recommendations. So I see a deeper level of discussions. In addition to that, we will become a little bit more selective. I mean, there's always an expression that beggars can't be choosers, right? We are -- we've been going through a lot of, frankly, tough times with the clients. Now we see that we plan our business today going into 2024, we'd like to bet on the partners who will carry the implementation of the complex systems, throughout the bigger budget. We expect that our commitment is going to be matched with their commitment to the business. So that gives me a little bit more, I would say complex, comprehensive, positive outlook.

Josh Siegler @ Cantor Fitzgerald: Understood, and that's great to hear. Clearly, as you alluded to, there's a lot of organic reinvestment going on in the business right now, with the accelerating, billable headcount. But I was also curious if you could give an update on how you're thinking about the M&A environment right now and any updates in that regard.

Leonard Livschitz: Yeah, so,. It would be nice to tell you we have a deal coming right at the closing tomorrow, but it's probably not there yet. And I'm not going to comment beyond tomorrow, but in reality is, again, the market is very interesting. We are becoming more selective with the deals, as I mentioned, we did a couple of deals in India and there we started doing broader. We look at Europe, we look at the depth of the relationship with the potential bespoke clients. We look at Latin America. We're not giving up, of course, on the Indian part, but we have a bigger roster with a deeper engagement. We are also attracting more advisory side. Don't call me every day now, with Bankers offering their services. We're becoming more selective. And the capital we will deploy, as you can imagine, that the cost of capital has increased, right? So we would like to make sure we are going to get the right targets. But I'm actually, again, I see a little bit of a return to the good, what I say better targets right now.

Josh Siegler @ Cantor Fitzgerald: Understood, that's very helpful. Thank you very much for taking my questions and looking forward to the Analyst Day.

Leonard Livschitz: Thank you, Josh.

Anil: Thank you.

Bin Jiang: Thank you, Josh. Next question comes from the line of Bryan Bergin from TD Cowen. Please go ahead.

Bryan Bergin @ TD Cowen: Hey, guys. Good to see and good to hear the momentum. Thanks for taking the questions. I want to start on the new logos, the enterprise that you're bringing in. So can you just talk about when some of these new enterprise logos this quarter will begin to ramp. And then any change in the pace or really the starting point from some of those other attractive, large logos that you signed earlier in the year?

Leonard Livschitz: Well, again, Bryan, I would, as Anil mentioned there are some additional revenue start coming for what he called recent logos. Remember for a very long time I was talking about 85, 10, 5. We're start getting more dynamics in a similar fashion. So there are some payouts already happening. Also, some of the more older, more mature logos start coming back. The inventory of the technology development, which happened, let's say, a year ago, start getting to deplete and they return back for competitive positioning in their corresponding fields.

So that's been one thing. The other is how to churn the big enterprise logo of the consistent long-term deployment and make sure it doesn't happen just by staffing. So, again, we see more and more engagements are coming in the form of the partnerships, and that's been consistently a good story for us. In addition to that, we invested into SMEs and we do have quite a bit of whitepapers and also educating our clients on the relevance of the specific initiatives. So that's number two.

And number three is, we are playing a very broad-based relationship, as we invested in the more sophisticated Salesforce, which you haven't heard from me probably ever, but I'm getting finally a little bit more satisfied. So all three things combined with what we invested into R&D and accelerators started crunching on a bit more confidence of acquisition because you know, it's not just momentum, you just hire, you've got a logo and it goes away. No, we see more traction and stability.

Bryan Bergin @ TD Cowen: Okay, okay. That's good to hear. And I'll do a follow-up here on kind of two of your key industries. Ones that have been a little more variable for you. So as we think about tech and CPG, just on tech, can you talk first about how the conversations with some of those large tech clients are evolving and how is the outlook there? And then for the CPG, I heard the comment about the largest CPG client stabilizing. Do you have visibility for the balance of that book of business stabilizing in other CPG and Manufacturing clients yet?

Leonard Livschitz: Yes, let me start with the second, it's easier. We see more RFPs and we see more QBR discussions. And they're not just discussion on the formal level, you were doing a good job. The attendance of those discussions is overwhelming. And because we -- in a time of a drought – invested in the relationship with the broader-based teams, not just engineering team, but also the logistics guys, the marketing team, experienced team. So there is a broad base of interest for us. So it is not just with the top one, with the top one, it's a notable difference indeed, but we see others are becoming more diversified in terms of what conversations they have with us. So that's kind of a broader base, right? And I forgot, sorry the first point.

Bryan Bergin @ TD Cowen: So that was CPGs, half of that question - the large TMT ones, yeah.

Leonard Livschitz: Got it. So that part, the reason I forgot is because nothing extraordinary bad has happened, right? So I usually the angle when something happening. And the number one is doing very well and we are capturing more and more position there. And we're a preferred supplier to some extent. And again, I want to be very modest, preferred supplier for the giants, it's still not a dominant force. It's just a more contributing value force.

But the other one well, to start, there were projects which were won recently, that's another interesting thing. Remember, I mentioned to you that it was a rapid change, there won't change and they're all layoffs... Again, if you're patient enough and you retain relationships, you win some programs. So that's an inviting change, it's not projects, it's programs. But it puts more responsibility on us.

And that's where, again, Anil says like one quarter at a time and we have a few more weeks this time to talk because we want to make sure that those programs are financially successful. And I mentioned before, as you see Brian we really play a much more deep dive on the sustainability of those relationships, it's very important that it's not just give a few people and hope for the best. I think there's much more sustainable analytics beyond the relationship.

Bryan Bergin @ TD Cowen: Okay, that's clear. Thanks, guys. See you in a couple of weeks.

Leonard Livschitz: Thank you.

Bin Jiang: Thank you, Bryan. Next question comes from Maggie Nolan from William Blair. Maggie, your line is open.

Maggie Nolan @ William Blair: Okay. Hi Anil and Leonard. I wanted to dig into that more positive outlook comment, as well. I'm curious if there's any nuance between how you're looking at Europe versus North America, maybe over the next couple of quarters, just given that Europe is becoming a larger part of your business.

Leonard Livschitz: Yeah, so we still have pains in Europe. There are -- there's always a cycle, right? And so we put a lot of more investment into US too, because it's a larger portion. We're investing into Europe, but I would tell you that I will grant success when we are going to be significantly diversified from UK. You know, again, everyone can say the good thing and a bad thing, right? So we love our UK clients but it's also is similar to the distribution of the business in the US in the early days, right?

So we are now working with an automotive supplier, a manufacturing supplier, insurance companies, those businesses, which will make it much more distinct in terms of their position in Europe. So some of the projects in Europe were a bit rolled off, some new projects started. But I would say that there's a little bit of uncertainty. Of course, the political situation, the Middle East, in addition to Eastern Europe puts a little bit extra pressure, as well.

I'm positive, we just came back from Europe. We met quite a few customers. I'm positive on the growth, but I would be a little bit more caution on the near-term growth in Europe compared with my more bullish positioning on our main clients in the United States.

Maggie Nolan @ William Blair: Got it, that's helpful. And then you've made some recent investments in the sales force? Can you just talk about how you're incentivizing wins at existing clients versus new logos, particularly in this type of environment? And then, in general, just how the integration of some of those new hires is going?

Leonard Livschitz: Okay, very good. So again, I invite you and hopefully, the snow will chase you to New York. But I mean, and at the Investor and Analyst Day, in addition to a great spiel about technology, we will talk about the other aspects, and the sales is not the least right. We actually have a quite good representation of sales. Salespeople, in my opinion, and I'm not going to take the whole story of this. You know they're divided by hunters and framers, right?

So the people who work on existing accounts and we've done quite well in existing client relationships, we could have done better and we're doing better, but spring into the new clients and expanding new clients and positioning that's a new -- that's something we invested in -- and we recently brought in our head of the hunting sales in the United States and that has started picking up, as well.

So the quality of approach start turning on. Now incentives, it's certainly a very different disposition than regular account management or the account performance itself. It's very much driven by incentives on the performance. Now I'm very excited about it because I like to see when people put more bets aligned with the company, so they would like to get rewarded, with my executive team and board is something you guys never like this stock-based compensation, I see salespeople have -- they always put more emphasis on their reward on the performance of their accounts.

So again, please join us on the 16th, we'll do more. But I just feel much more attached. I mean, I love my old experience with the big companies like HP and Philips, and I've seen some amazing people in the hardware business, but we're not in the product, we're not in hardware. And I see that level of quality is coming back.

Maggie Nolan @ William Blair: Thank you. See you soon.

Leonard Livschitz: Thank you.

Bin Jiang: Thank you, Maggie. Our next question comes from the telephone line from Ryan Potter from Citi. Ryan, please go ahead.

Ryan, can you hear us? Okay, not sure about the technical issue from a telephone. Let's switch to the next analyst.

The next one is from Puneet Jain from JPMorgan. Puneet, please go ahead.

Puneet Jain @ JP Morgan: Hey, thanks for taking my question. So, Leonard, can you talk about the potential of 28 new enterprise customers that you added this year? It looks like these are large companies, but is the scope and nature of both any different from what you would have done in the past? And should we expect like maybe a higher contribution from such clients than the typical 85/10/5 model?

Leonard Livschitz: Well, I would not run ahead of the numbers, right? That's expectations. Remember I mentioned before we knew that -- we need to make sure that the programs are performed, right? So we have more client commitment to us and we have a higher commitment to the clients. But it means that the deployments of the projects are longer and the performance of these projects is required. 'The proof in the pudding'—not everybody will survive. Obviously, there are some people who are a bit jittery about technology now. Again, in some cases, we go with our partners. We want to make sure our partners also sustain their value. But in many cases, our clients look at Grid Dynamics what I always dreamed about.

Okay, well, if you come with a partner, but what's your point of view on the world? And we make an agreement that it's a Grid Dynamics business. We're obviously going to promote where we came from, but we're building much more comprehensive roadmaps. So I will not promise you that next quarter, I can definitively say that all 24 or 20 clients will be there. Expect some level of incrementally, because there are too many of them, very good ones.

But I would say that mid-next year, I think the contribution will grow. Now that's the 10%, remember, it would not be the 5%. It would be based on the recent acquisition, which has to be. Because if you really think about it, it is 85 will not anymore. We had one year of stagnation, right? So we're going to maintain the same course. We're going to go on much slower and ramp up when things become more aggressive. So it's the combination of the technical capabilities, technical pre-sales, programs with the clients, and the relevancy of the logos— that should give us the boost of this middle to recent clients to be able to achieve this desired two-digit plus growth, as we always expected from ourselves.

Puneet Jain @ JP Morgan: Got it, no thanks for explaining that. And many of your peers have talked about seeing margin headwinds from pricing and wage inflation dynamics, which could potentially continue into next year. So can you share your thoughts? What you are seeing at your client base?

Leonard Livschitz: So first of all, now we have a very angry Anil. We're becoming much more clear in terms of the very detailed action items, going into next year. You don't always take the wishful thinking for implementation. I mean, we moved from Russia to some countries in Central Europe, right? It was the bulk, right?

We moved, and we continued to spend in India and we need to see that margin profile to capitalize because still there's a significant contribution to India comes from the acquisitions. It's growing organically and that's why nobody spoke that I can do more than organic before you keep jumping companies. But you probably noticed we were mentioned the third center, right, I mean, I'm sure you don't have to be a super genius to know where this third city is. We are in Chennai, we're in Hyderabad, it's Banglore, right? And there's a good reason why is Bangalore right.

So it gives us momentum on this margin profile because we need to address this and follow the sun strategy. The other thing is, when we expand in Europe, we are becoming more selective about not going into too many digitized countries, which is a tough call, right? People love to collect the country. So we have 18, right? But small is merrier, we can control the internship programs, training programs, maintenance, the depth in the offices, where we are. That's another way.

But that will go back to the most, the hardest part is the pricing, right? So we start making some calls and those are tough calls. Again, there is always... in my life, I've seen multiple times—you can chase revenue, you can chase profits, neither is success. So the way to chase revenue is to chase, stable long-term revenue, at least how you plan it, and then bring them down into the clients that they actually pay for, right? And we're seeing some really interesting contracts, but I'm not trying to bore you guys. I'm trying to be honest, and I want to make sure the Grid Dynamics brand remains, and we are going into ‘the fair relationship’.

So that means a few of the projects could have been...the feathers may not be there because we want to start on the proper pricing positioning. But in case -- in some cases, we have to do some more aggressive investment into the brand. I don't like the word investment because to me investment is technologies, people, new investments, customer we invest in, and their ROI and not the discount.

Puneet Jain @ JP Morgan: Agreed. Thank you so much.

Leonard Livschitz: So maybe will go back and see if Ryan is still there?

Bin Jiang: Sure. Let me try one more time. Ryan can you please try your telephone line and see if it works? I guess there are some technical limitations for Zoom panelists.

Okay, at this moment, that would be all of the Q&A session for today. I will now pass the call back to Leonard for the closing remarks.

CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer

Thank you everybody for joining us on the call today. I am more bullish than I was three months ago. Our core business is rebounding and revenues from our new logos and recent logos grow. Our goals are clear – to leverage our GigaCube roadmap to become a billion-dollar revenue company. We are diligently focused on executing the stated goals. More importantly, our clients continue to place their confidence in our abilities. This is a testament of the hard work across the whole company, and I truly appreciate the contributions from each and every of our employees.

On November 16th we will be hosting our first investor day. I would highly recommend you attend in person. It will be a great opportunity to meet the extended management team. We plan to delve into our capabilities and our service offerings. We plan to have demos around Generative AI that will provide some insights into our technology leadership. I also believe the investors will find the event insightful.

Looking forward to seeing you all in two weeks.

Thank you