Grid Dynamics

GDYN Q1 2024 Earnings Call
Recording Transcript

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

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

Cary Savas, Director, Branding & Communications

Good afternoon, and welcome to Grid Dynamics' 1st quarter 2024 earnings conference call. I'm Cary Savas, Director of Branding & Communications. 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, that today's conference is being recorded.

Before we begin, I would like to remind everyone that today's discussion will contain forward-looking statements. This includes our business 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.

I now turn the call over to Leonard, our CEO.

Leonard Livschitz, Chief Executive Officer

Thank you, Cary. Good afternoon everyone and thank you for joining us today.

As you have seen from our published results, Grid Dynamics' first quarter revenues were above our guidance range and we exceeded wall-street expectations, both on revenue and non-GAAP EBITDA. It was another quarter of solid execution. Our results clearly show that our focus is steadily paying off and we continue to move foward our stated goals of revenue growth and profitability. During the first quarter, we witnessed improving demand trends across the majority of our customers. While the demand environment is not back to support growth levels that we in the digital transformation industry have seen, signs point out to the right direction. Customers are increasingly willing to engage with us on their crucial and time-sensitive programs and share their outlooks and roadmaps. In the first quarter, we witnessed a significant milestone. We've reached the highest number of billable engineers in the company's history, and this is also reflected in a revenue outlook for the second quarter. During the first quarter, we also secured two multi-million-dollar deals with enterprise customers, one of them a market leader in the specialty retail vertical, and the other in the insurance vertical, a key focus area of our GigaCube strategy. We continued to make progress in our joint go-to market efforts with partners. Partnerships contribution is at an all-time high. And it has increased by more than 20% in comparison to the fourth quarter of 2023. We continue to be very positive on our partnerships and expect continued contributions.

I am also happy to announce that we were recognized by the Everest Group as a leader in its Inaugural Google Cloud Services Specialists which is PEAK Matrix® Assessment report. This achievement validates our capabilities as a specialist in Google Cloud services, an area of expertise for several years. This is a clear recognition of the differentiated capabilities we offer our clients to drive their digital transformation agenda. In the course of time, I am confident more independent third parties will recognize our strengths across other capabilities and service offerings.

Coming to AI, customers are increasingly incorporating AI in their projects and requirements. Additionally, some of our customers Gen AI projects have become meaningful engagements. At a large financial institution, our Gen-AI project has been successfully completed and we expect the platform to go live in the second quarter. At the same time, we are not only using AI technologies with our clients, but also within our internal systems. Last week we soft-launched our website that incorporates AI features. Our users visiting Grid Dynamics' website will now be able to use natural language queries to find company-related information. This includes Grid Dynamics capabilities, work we perform at our clients, case studies, and others.

Now let me make some more detailed comments about the demand environment. For many, our reported results and commentary over the past couple of quarters may appear more positive than many of our peers. There are some key reasons for that, and in my opinion, that is what makes Grid Dynamics unique across the IT industry.

First - In the current economic cycle, spending is under heightened scrutiny. This in turn has resulted in many clients consolidating their IT partners and tightly coupling their investments with corporate performance goals. Grid Dynamics' strength and reputation for technology leadership, engineering prowess, and delivery excellence positions us as a trusted partner, often leading us to gain business at the expense of our competition.

- As an example, in 2024, at two of Fortune 1000 retailers, Grid Dynamics was selected as one of the two partners for all digital engineering programs.
- Additionally, at a large Fortune 500 Telecom company, after evaluating dozens of existing suppliers, they choose Grid Dynamics for all their customer-facing applications. One of the key applications that we are rolling out at scale includes a mobile app for all new customer self-installation and provisioning.

Second - In our rapidly evolving world, a company's ability to adapt and integrate new technologies defines its relevance and competitive edge. With the relentless progression of disruptive technologies, businesses must innovate or risk obsolescence. Moreover, in a landscape marked by rising capital costs, the efficiency and speed at which innovative solutions are brought to market are crucial. Grid Dynamics has been at the forefront of helping enterprises scale their operations through numerous technological advancements over the past two decades. The deep knowledge and robust capabilities position us not just to adapt to change, but to drive it forward.

- As an example, at the large financial institution that I mentioned before, the AI assistant for financial advisors that we implemented is poised to dramatically enhance both customer experience and the efficiency of financial advisors. We anticipate that this capability, when industrialized, could save the wealth management industry billions of dollars. Notably, at this financial institution, we were one of the few selected partners after a vendor consolidation exercise in 2023, further underscoring our pivotal role in their crucial and strategic programs.

Now coming to the second quarter. Positive trends that I highlighted regarding the first quarter extend into the second. Our customer activity is picking up, engineering billable headcount continues to grow, customers have heightened AI interest. We believe these factors formulate the basis for our continued positive outlook as we look into the second quarter and remainder of 2024.

On the CTO front, Grid Labs, our internal innovation center, completed multiple projects and initiatives. Our researchers and architects are engaged across the spectrum of innovations that include AI, data, machine learning, and commerce solutions. Like previous quarters, our architects and CTO team were instrumental in opening new accounts with new clients. 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 service.

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

1. Logo Momentum: Building upon our success in 2023, in the first quarter we signed 5 large new enterprise customers. Of the new enterprise customers we signed in the quarter, one is a leading North American pet company, one is an American high-end sports apparel and accessory company, one is a global consumer goods company focused on personal care and health products, an energy manufacturing and services company, and one is a large multinational confectionary manufacturer. I believe each of these logos have the potential to become large top accounts and I am looking forward to seeing these initiatives to scale.
2. Delivery Location support: Grid Dynamics' 'Follow-the-Sun' strategy provides the framework of scaling our global locations. India, one of the key locations, has been growing at a rapid pace and is in our top three countries in terms of the headcount. Last quarter, I highlighted the opening of the third office in India. This location in Bengaluru is quickly becoming popular with our clients. In the first quarter, we had multiple visits from US-based clients across all our key offshore locations. We continue to attract high-quality talent out of universities and our activities with internships, hackathons, and Dynamic Talks are paying off. Additionally, we brought on an industry veteran to lead our India operations and with his addition, I am confident of many positive things happening in India. In Europe, Poland continues to be the anchor point and in Latin America, Mexico remains the key location to support our clients seeking near-shore capabilities.
3. Europe Business: Our European business is steadily diversifying beyond traditional areas of strength such as Retail and CPG. Additionally, the pipeline of the business is more distributed with clients spread over mainland Europe. For a global auto parts company, we're rolling out their composable commerce modernization platform across several brands within Europe, supporting them by establishing a multi-location, global team structure. In Q1, we successfully delivered an ESG initiative for a large clean energy company. At many clients, GenAI continues to be a door opener. Additionally, several of our customers have transitioned from exploratory and PoCs to commercial buildouts. For example, at a leading legal and tax services company, we are building a flagship platform for their new markets. For a global international medical device company, we continue working on multiple initiatives to improve sales efficiency.
4. Partnership: In 2023, partnerships contributed to 13% of our overall revenue and we aim to increase that share to at least 16% in 2024. Partnerships with hyperscalers and leading software vendors is a key part of our GigaCube strategy. In the first quarter, we made progress with our go-to-market efforts with our partners and upgraded our status with the major hyperscalers. At AWS, we achieved the 'AWS well-architected' partner status. The program enables Grid

Dynamics to provide its clients with an audit of their platform architecture, ensuring they are configured correctly in accordance with the best practices. With Nvidia, we are exploring go-to-market initiatives for the first time.

During the quarter, Grid Dynamics delivered some notable projects.

1. For a leading global technology company, we created a test automation toolkit that improved the efficiency and effectiveness of testing processes. Featuring a collection of independent modules, each with a unified interface, the client was able to streamline the testing process and enjoy greater visibility into testing outcomes. This project enabled the client issue resolutions taken from days down to minutes, leading to faster time-to-market, and ultimately enhancing the quality of the final product.
2. For a leading Internet and cloud company, we streamlined the release preparation process for high-priority apps in its app store. We developed tools that enabled the client to submit releases that fostered better communication between departments. These tools helped accelerate the app release process, which enabled the client to better predict release timing, monitor updates, and improve the overall user experience.
3. For a major CPG brand, we implemented an omnichannel warehouse automation platform. This platform unifies several disparate software interfaces, which dramatically lowered the cost of integrating new distribution centers into the client's network, while also supporting the unique fulfillment requirements of wholesale, retail, and digital channels. In addition, we implemented a wholesale order platform that lowers the cost of serving new wholesale clients. Both of these platforms are expected to be expanded to multiple geographies in upcoming months.
4. For a global automotive manufacturer, we began a project aimed at improving interactions with dealers. Through the use of micro-front ends and AI-enabled personalized experiences, this project will enable dealers to deliver more comprehensive sales and services to their end customers.

With that, let me turn the call over to Anil, who will discuss Q1 results in more details. Anil …

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Anil Doradla, Chief Financial Officer

Thanks, Leonard. Good afternoon everyone.

Our first quarter revenue of $79.8 million was ahead of our guidance range of $77.0 million to $79.0 million and exceeded Wall Street expectations. On a sequential basis, our revenue grew 2.2% and remained flat on a year-over-year basis. While we witnessed growth from multiple customers across every industry vertical, our Finance and Other verticals were the strongest, both on a year-over year basis and sequential growth basis.

During the first quarter, our retail and TMT were the two largest verticals at 30.9% and 30.1% of our revenues, respectively. Our Retail vertical remained flat on a sequential basis and decreased by (3.0)% on a year-over-year basis. On a sequential basis, we witnessed growth from specialty retail.

TMT remained flat on a sequential basis and decreased by (10.4)% on a year-over-year basis. Coming to our largest customer in our TMT vertical, it grew both on a sequential and year-over-year basis.

Here are the details of the revenue mix of other verticals. Our CPG & Manufacturing represented 12.0% of our revenue in the first quarter, a decrease of (1.2)% on a sequential basis and (24.4)% on a year-over-year basis. On a sequential basis, our largest CPG customer grew in the quarter and this was offset by decrease in other customers. The Finance vertical represented 12.8% of revenue, an increase of 23.7% on a sequential basis and 57.2% on a year-over-year basis. During the quarter, we witnessed growth across most of our customers that ranged from Financial, Technology, Banking, and Insurance. Our newly disaggregated Healthcare and Pharma representing 3.8% of our revenues showed (10.5)% decrease on a sequential and (4.5)% decrease on year-over-year basis. And finally, the Other vertical represented 10.4% of our first quarter revenue and was up 4.5% on a sequential basis and 50.1% on a year-over-year basis. The sequential growth was driven by strength across multiple customers, some of them in the clean energy and legal spaces.

We ended the first quarter with a total headcount of 3,892 down from 3,920 employees in the fourth quarter of 2023 and up from 3,744 in the first quarter of 2023. In comparison to the fourth quarter we exited our first quarter with a higher billable headcount due to improving demand.

At the end of the first quarter of 2024, our total US headcount was 332, or 8.5% of the company's total headcount versus 8.1% in the year-ago quarter. Our non-US headcount, located in Europe, Americas and India was 3,560, or 91.5%.

In the first quarter, Revenues from our top 5 and top 10 customers were 39.6% and 55.3%, respectively, versus 40.8% and 60.4% in the same period a year ago, respectively.

During the first quarter, we had a total of 210 customers down from 218 in the fourth quarter of 2023 and 220 in the year-ago quarter. During the quarter we added several customers, some of which Leonard referred to in his prepared remarks. The quarterly decline in the number of customers was primarily driven by our continued efforts to rationalize our portfolio of non-strategic customers.

Moving to the income statement, Our GAAP gross profit during the quarter was $27.7 million, or 34.7%, compared to $28.1 million or 36.0% in the fourth quarter of 2023 and down from $28.6 million, or 35.7% in the year-ago quarter. On a non-GAAP basis, our gross profit was $28.1 million or 35.3% down from $28.6 million or 36.6% in the fourth quarter of 2023 and down from $29.0 million or 36.3% in the year-ago quarter. The decrease in GM% on a sequential basis was driven by a combination of first quarter seasonal increase in employee-related costs and FX headwinds.

Non-GAAP EBITDA during the first quarter that excluded stock-based compensation, depreciation and amortization, restructuring and expenses related to the geographic reorganization, transaction and other related costs was $10.3 million, or 12.9% of sales versus $10.7 million or 13.7% of sales in the fourth quarter of 2023 and down from $10.8 million or 13.5%, in the year-ago quarter. The decline in non-GAAP EBITDA was largely due to decrease in gross margins.

Our GAAP net loss in the first quarter was $(3.9) million or a loss of $(0.05), based on a basic share count of 76.2 million shares, compared to the fourth quarter income of $2.9 million or $0.04 based on a basic share count of 75.7 million and a loss of $(8.0) million or $(0.11) per share based on 74.5 million basic shares in the year-ago quarter. The year-over-year decrease in GAAP net loss was largely due to lower levels of stock-based compensation and decrease in provision for income taxes partially offset by depreciation and amortization. On a non-GAAP basis, in the first quarter our non-GAAP-net income was $5.2 million, or $0.07 per share based on 78.4 million diluted shares, compared to the fourth quarter non-GAAP net income of $5.7 million or $0.07 per share based on 78.0 million diluted shares and $6.5 million or $0.08 per share based on $77.1 million diluted shares in the year-ago quarter.

On March 31, 2024, our Cash and cash equivalents totaled $249.4 million, down from $257.2 million in the fourth quarter of 2023.

Coming to the second quarter guidance, we expect revenues to be in the range of $80 million to $82 million. We expect our non-GAAP EBITDA in the second quarter to be in the range of $10.5 million to $11.5 million. For Q2 2024, we expect our basic share count to be in the range of 77 to 78 million and our diluted share count to be in the range of 79 to 80 million.

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

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Questions and Answers

Cary Savas:
Thank you, Anil. As we go through the Q&A session of this call, I will first announce your name. At that point, please unmute yourself and turn on the camera. Our first question comes from the line of (name) from (company). (Name), your line is open.

Puneet Jain @ JP Morgan:
Hi, thanks for taking my question. And a really nice set of results here. So let me ask what drew the upside related to the guidance you grew sequentially in the 1st quarter. And then expect growth in the second quarter as well. What drove those positive trends given many data points suggested continued sluggishness in the spending environment in this industry.

Leonard Livschitz:
Let me put it, good to have you on the call. Well, it didn't come as a surprise to us.
As you recall, at the end of the report last time, when we talked about the results of 2023, I kind of hinted that the continued growth is going to happen.

So, I’m still bullish not only on the guidance for Q2 but subsequent growth as we go forward we will be happy to discuss some of those penalties but ultimately what Grid Dynamics really sees is that, despite continuous scrutiny around the budget from the major of global companies, there is a demand for institutionalizing the additional technology spending.

So if you look at the last 18 months, a lot of companies clammed down all their spending.
Now we see the opening comes to , basically, innovate and, generate more competitive advantages by stepping up into the unique area related to data management, machine learning, obviously some modules, but more importantly, this whole comprehensive question, how to tie
the business value with the predictable nature of the digital side of the business.

So, that's why we see kind of notable examples of the clients who started with us in 2023 or even more stable clients who've been with us for a longer time, now have projections of the budgets for an extended period of time, and Grid Dynamics is part of the journey.

The other thing that we mentioned in the remarks that we see that some of the reduction of the preferred suppliers started paying some dividends to Grid Dynamic staying on the kind of a cutting edge of work with the clients relentlessly pushing the proposals of tying technology and business goals. And again, they're paying out because we are being awarded with a longer-term, business to come.

Anil Doradla:
And Puneet, building up, on your comment on where did all the business to come,
I think the way we could characterize this: When we met you guys in late February, we had a certain outlook. And as the time evolved and as you know the business evolved we see improvements across so while you know I would say that we saw it more widespread relative to what our expectations were. Obviously, that has shown up in the results.

Puneet Jain @ JP Morgan:
Yeah, no, it's great. Like it's just like I was just curious because the upside or the positive trend seems different from many other companies that have reported in this results. Let me ask longer term, like, so beyond this year's we get a lot of questions from investors about AI headwinds that AI creates opportunities to be more productive in coding efforts. How should we think about new normal growth for the sector given the increasing AI adoption?

Leonard Livschitz:
Well, obviously, this question comes back every time we discuss not only with investors but more notably with the clients, right? And, at this moment, the choice of the models, platforms, copilots, still remains very broad. And, as we have been engaging in as you know well Grid Dynamics in open source solutions together with the more traditional models, we explore multiple venues. We work with clients who understand and appreciate the Microsoft stack or for that matter, you know, AWS. We're obviously very tight with our partnership with Google in multiple fronts. But even then others.

Like for example, you know, the Meta version of an open source product like Llama. We applied our general broader knowledge of what we believe is a right for the customer including their own capabilities, their own models, the trainability of those models, that specialization of the mains, and basically verticalize the proposals where we test those models and expand across the technical capabilities on a horizontal slice. So it's a disruptive world. And one of the good things for Grid Dynamics, if you look at our 18 years of history, we strive in a disruption time. This is when we're talking about not just peers, we're talking about this world of innovation. Everybody talks about it, but when it comes to the clients, they don't want just clarity.

They want ROI and that goes way beyond the white papers and hypotheses. You need to work with them diligently to see how their attempts to build end systems actually convert into proven results because the variances are still large. So I would believe that we are at the forefront of those innovations, not to mention the partnerships. We have the key players, not only the hyperscalers, but actually the leaders in the AI space, including the hardware.

Puneet Jain @ JP Morgan:
Thank you.

Leonard Livschitz and Anil Doradla:
Thank you.

Cary Savas:
Thank you, Puneet. The next question goes to Mayank Tandon at Needham.
Mayank, the line is open. Please go ahead.

Mayank Tandon @ Needham:
Great. Hi Leonard. I know, how are you? Let me start with the question on the guidance. So I know if I take the top end of the guidance. But it seemed a nice acceleration sequentially. Just building off that should we expect further acceleration in the back half? I know you're not giving formal guidance, but just maybe anecdotally or qualitatively any color on what you're hearing from clients. Is this a sustained acceleration or are you still sort of in this uneven climate where it's a little bit hard to predict?

Anil Doradla:
So, Mayank, let me give the official answer, and Leonard will jump into more qualitative.
Look, we do one quarter at a time, right? In Leonard's prepared remarks, he made some comments, right? And again, if you look at the trends over the last couple of quarters, it's very consistent what we're doing. I don't want to say anything beyond our guidance in Q2, but fair to say we are positive for 2,024.But Leonard, I'll let you talk about maybe a little bit more.

Leonard Livschitz:
So, Mayank, the always the weight is on my shoulders. So, you know. Let me tell you this. We continue to hire and expand. The headcount you see right now doesn't fully reflect the growth because we were able to optimize the headcount toward gearing toward new demand. So if you look at the number of billable headcount, which is constantly growing and growing every week or two weeks. I just got new results from April, right? So it all looks good.

We are basically deploying some of the productivity tools internally to make sure we can reach to a broader audience of engineers to reach the goals internal capabilities and that includes All 3 main facets: the internship program, Grid University and Grid labs.

So on a supply side, we're fully prepared for growth. On a demand side, look, I'm bullish beyond Q2. That's very clear. Now, when I gave a guidance in February that it is going to be a record quarter. That kind of feels in the range. So without speaking, you may get some conclusions where we're going to be.

Again, we're only in the 1st month, so, we are comfortable with our guidance, right? And, If we go further, I believe, we will crush the market from our capabilities. Now, whether we're gonna crush the market from the numbers, that time only will tell, but you know, some people were questioning why I was not smiling the last couple of quarters, now you got my smile. So that's probably the best indication where our technology capability is geared towards our business.

Mayank Tandon @ Needham:
That's very helpful. Thank you for that. Then have a quick follow-up, Anil. I wanted to ask you about margins. If I look at gross margins, this is probably the lowest that we've seen in recent history. Could you sort of square that with where utilization is, pricing conversations, you know, what's driving that and if demand does start to improve should we expect margins to follow suit. Thank you.

Anil Doradla:
So coming to your second part, the answer is yes, right? There's leverage in the model. Now, without going through all the numbers and finer details, there are many moving parts to it. There's an FX impact also, as we have some of these costs, that, was a headwind. And, you know, you know over the last 12 months what is going on in across the industry right across our evolution. That has had some impacts and you're seeing that. And more importantly, Q1 tends to be seasonally a quarter where you have, you know some of the payroll-related issues, employee employee-related taxes hit us.

So every every year you see that. Obviously, you know with the revenue trends being the way they are, you see a little bit more I would say a little bit more on the margin front pressures in Q1 but again as the year evolves and you can see this even with our guidance you know we will move in the right direction. Again from a long term, our model has not changed but you know we'll just have to work through it over the next couple of quarters.

Leonard Livschitz:
Yeah, Mayank. Do you want more details or you're okay with the answer? So, you know, if you do want more details, the thing is, Central Europe is more expensive than the Eastern Europe. Everybody knows this, it's a well-known secret. So as we grow our position in Poland and other countries around the region, obviously, there was a penalty associated with the incremental cost. We added the variance in the, you know, Mexico. We had a, you know, the inflated Peso situation but the key resolution for our business obviously with the growth in India, that's where we deliver our marginalities evidently improving. But there is another thing, we're actually striving right now for a significant improvement of the marginality in Europe as well. Now, we have a broader country with a more stable workforce. Sadly, now the war in Ukraine continues to ravage, but we are reducing our dependency and, you know, you continue to invest into the more what they call stable territories.

So I would say that seasonality which Anil told you about, and reflects our current status quo. I believe in Q2, we'll see some pick up. But also, to me this 2040 model, even though it seems quite remote right now, the revenue will need to demonstrate our catch up on the margin not adversely planted. We are not intending to buy the business. Because technology is so critical, the value what we do has to propagate to the results, right? So as revenue grows, I see the margin improvements. The other part of this, not only in the marginal on EBITA side, you know, we have not lowered our technology investments, which again, it's a trade-off. You need to persevere the flatness, which was quite long. So we're bullish but the numbers will tell you the true story.

Mayank Tandon @ Needham:
Perfect, very helpful. Thank you so much. Great job on the quarter.

Leonard Livschitz and Anil Doradla:
Thank you, Mayank.

Cary Savas:
Thank you, Mayank. The next question comes from Brian Bergen of Cohen. Brian, the line is open. Please go ahead.

Zack Ajzenaman @ Cohen:
Hey, thanks. Good afternoon, Zach Ajzenaman on for Brian. Our 1st question on demand. Are you comfortable that historic large clients that have caused pressure in the recent past are at least stable here, offering that foundation for growth reacceleration as new enterprise logos won over the next last 12 months continue to scale?

Leonard Livschitz:
Alright, let me take the 1st part. I think Anil will go through it. There's no evidence today of any large customer declining with. We're in April, we kind of understand the trend this year. Knock on the wood, things do happen, but it's stable to positive. So, we continue to generate the new enterprise clients. If you notice we did reduce a bit of those smaller clients in the commercial side because there is a dichotomy that goes on, you know, survival of the fittest.

So some of the small guys are actually struggling with their innovation and funding. But nevertheless, we expand that market too. So if you look at our growth, it goes, not just traditionally, you know, with the CPG and, retail, but it's also expanding quite a bit into the Fintech, part of BSFI. We are gaining momentum in, life science, supply chain. We got our 1st good, step into the Insurance business and it happens on a stable to positive foundation while major lead clients.

Anil Doradla:
So, Zack building upon that, I'll just reiterate it, slightly different. Your observation is astute and right on. If you look at her second-quarter guidance, we're reverting to a year of your growth rate after, that trend is reversed after a couple of quarters. And the underlying trends point that out very well both in terms of existing and new ones. New clients were always good for us, right? The existing clients move the needle for us and that is changing now.

Zack Ajzenaman @ Cohen:
Very helpful. And then the follow-up on Gen Ai. Obviously, interest here continues to swell. We've also heard anecdotes that it has impacted the pace of client decision-making as customers try to figure out what to do with the technology. If you're seeing this, what do you think needs to happen for this trend to loosen up?

Leonard Livschitz:
Very loaded question. I can get you entertained with having this, you know, distinguished C-Four answer, fun for me to watch. So I mentioned in the 1st remarks when we talked with Puneet that Grid Dynamics goes very broad. And the benefits, sometimes are not trivial from the purely, you know, direct savings. So we have one very large legal customer and they're doing a lot of you know, simplification of the work.

Time will tell how good the savings will be. We implemented a big portion of the work with the financial wealth management client but they are enterprise-type of solution. When it comes to, you know, purely generative AI, it's almost anecdotal right now which projects will combine some of the work from the communicational part. There are many things Grid Dynamics has done in the past, you know, we did natural language, a vector search, we're doing all kinds of features now enabled by AI. So I would say that to be very precise, the scale of the results with the models being more solidified with the bespoke custom solutions are becoming more evident. But if you will use a generic model without proper understanding of the weights then people may not see all the results right away.

Zack Ajzenaman @ Cohen:
It's very helpful. Thanks.

Leonard Livschitz:
Of course. Thank you, Zack.

Cary Savas:
Thank you, Brian. Our next question comes from Josh Sigler at Cantor Fitzgerald. Josh, the line is open. Please proceed.

Joshua Siegler @ Cantor Fitzgerald:
Yeah, hi guys. Thanks for taking my question today. I appreciate it. 1st and foremost, you know, congratulations on the strong results here. I was wondering if you could dive a little bit deeper into any geographies that you're particularly excited about as you progress through the year from a demand perspective.

Leonard Livschitz:
Well, as a demand, US market remains to be the most critical for us. So there's no question about it. If you look even at centers or gravitas, we are actually scaling our technical competence centers beyond

Bay area. We zeroed in on Dallas for a while. We're getting our office and capabilities in the Atlanta area. We are very strongly present in Jersey, Boston expansion, and of course, you know, the Midwest, as well as not only California but also Arizona following the trend of the expansion of some of our clients as well as the trend of the, you know, stacks on the software side driven by the major hardware companies. So, it's a revolutionized technology in the US where we are.

So that's very clear. Saying that, Europe is starting to pay some dividends. It's a bit below my ambition yet, in terms of the growth in Europe, but we see that the traction in Europe and the 1st winds come outside of our traditional retail sense. And I'm not talking about small deals. I'm talking about consistent growth. And we see that pick up in Manufacturing. We see it pick up in, in the approach in automotive industrial part. And outside of these two regions we have, I would say, the first, I would say, discussion, it's not tangible yet but the big part of our growth engagement happened with our clients both the United States and European captive centers in India. So India has become our revenue growth through the influence of the local innovative technology centers which are part of the global companies. And we just announced hiring our ahead of India as well. So I would say as the brush strokes, that's how I see the demand environment regionally.

Joshua Siegler @ Cantor Fitzgerald::
Great. That's a really helpful color, Leonard. Appreciate that. And then I was also curious, you know, I probably asked this far too often, but would love to get a better understanding for how you're thinking about M and A currently if there's been any shift in terms of your perspective on inorganic growth since last we talked.

Leonard Livschitz:
Okay, Anil.

Anil Doradla:
Well, you see, M&A at the end of the day is when we announced we announced and that the proof is in the putting when we have. If you look at the pipeline, if you look at the activity, it continues to be robust. If you, if I look back at the last call it 7-8 months and we did a little bit of analysis what is going on in our MA. We would have liked to announce a couple of deals before. We see certain trends, whether it is through, you know, some of, non strategic, you know, who are willing to maybe, be a little bit more aggressive. We see in many cases, we're very, our standards are very high. Which means that unless we really feel that there's a strategic fit, capability fit, we're just not going to do it.

And more importantly, in the last 12 months, as Leonard pointed out, we did not buy revenues. So we're not going to be using that as an excuse. We really want to ensure that we get the fit. At this stage, as you said, the pipeline is there and we will announce when we have to announce but as I said the proof is in the putting when the

Joshua Siegler @ Cantor Fitzgerald:
Yeah, understood. Thanks, Anil.

Anil Doradla:
Thank you, Josh.

Cary Savas:
Thank you, Josh. Our next question comes from Ryan Potter of Citigroup. The line is open.Go ahead, Ryan.

Ryan Potter @ Citi:
Hey, thanks for taking my question. You mentioned in your prepared remarks some of the successes you've had with some of your larger enterprise clients in terms of earning wallet share.

What do you believe are some of the drivers of this success? Do you believe it's solely based on your capability that you're continuing to take share or are you thinking these clients are also turning to you more because of your more global delivery model with your follow the sun approach?.

Leonard Livschitz:
You know, it's, it's a bit of both. We definitely see the turnaround in the customers as I mentioned earlier in one of those Q&A discussion that our clients need to invest in innovation. So that's kind of a demand driven from that. But on the other hand is those smaller projects on a technology side. AI, still digital, some of the migration partnerships, enhancing their features, their implementation parts have been proven successful. So when it comes to the budgeting of innovation, it’s very hard. At the same time. If nothing else, that's what Q1 is for.

Remember the old time it was a Q4 deal, right? People kind of start defining their budgets in Q4. Now,it's happening more in Q1 time frame. Which is kind of worked with, kind of, tail of some of the proof of concepts and the small innovation projects from us because those models and the expansion of the, you know, tools related to technology actually works very well. And I would say that at least 6 or 7 clients. They actually created this demand for innovation and then you have to be in some cases a bit more proactive in some cases you participate in the bits.

But more important than not, the technical leaders of the clients look at us from the history of the recent engagements to understand what we suggest. So things are converting. And it may not be a very straight answer to the question you asked, but just to summarize it, It's both. Client wants more, and we offer more. That combination helps us to stay in a growth trajectory.

Ryan Potter @ Citi:
That makes sense. And you touched a couple times on the Finance vertical in particular. You saw pretty strong growth there in the quarter. So obviously, could you comment on some of the drivers of the success you’re seeing there? Is it with certain types of clients, certain types of projects? And the kind of opportunity you see in that vertical going forward?

Leonard Livschitz:
So it is FinTech to the larger size of the growth. And, there, as you know, Grid Dynamics still has certain, you know, scope of the strategic clients - they're not infinite but they're very formidable. So, and a few of them, we see that continuous growth and, you know, and actually to some extent exponential growth.

Now, we're reaching a I would say critical mass. And why? We're not like, we're not creating new, you know FinTech models, right? We just work on the projects and we combine the open source capability with a partnership which will continue to expand on their specialized tools. Which based on our internal development allows us to offer the pods. So the teams of people who are basically driving, not just innovation, but, giving ROI successes. And that's actually turns as a result into scalable revenue.

So the FinTech is by far as the biggest impact and we'll continue for the foreseeable future. The other area which I like, you know, again, It's less evident from the numbers but it starts creeping up- it's a wealth management in a broader sense. And in a broader sense because as you know the more and more people are kind of putting money into the various investments and technology drives automation, beyond belief, right? So many, many things go beyond the advisors who have only so much capacity. So as a whole industry it’s going through the breakthrough innovation. It's a little bit too early to talk about Insurance, or our contribution to Insurance, but it's another factor of the growth we see. So, FinTech, Wealth Management, Insurance.

Ryan Potter @ Citi:
Got it. Thanks again.

Leonard Livschitz:
Thank you, Ryan.

Cary Savas:
Hi. The next question is from Maggie Nolan. Maggie, your line is open. Please proceed.

Maggie Nolan @ William Blair:
Hi, thank you. You continue to have have nice new logo additions. I was curious about the pace of conversion to revenue, are there any patterns in either delays in the conversion or a pickup in the conversion time for new logos or any bookings across your client base?

Leonard Livschitz:
So in Q1 it was a pick up. You know, every quarter we talk about trade-offs between acquiring new clients and then potentially maybe tightening the budget with existing clients, right?

When we have more stable platform of the existing clients, the pickups are more notable because we can actually double down on the work with these guys without firefighting on an existing logo front. It doesn't mean we're reduce an eye on the existing clients. It's just because it's a more predictable process. So we have more capabilities on the technology side, we have a better approach, again with our own AI tools for the hiring so that we are bringing people on board and training them at a much faster pace than ever, and retaining them by the way as well. So we can scale more. And we also have the reputation which helps us with the some of the new clients through obviously referrals. That's always the big thing. The other one through the, you know, our marketing, I would say technical marketing. And the 3rd one through our partnerships. So if you look at the scale, and rate of growth, and of course, in each of those channels, it's a bit different propagation. But the traditional land and expand model of going from innovation project to the scalable business a bit improved and now some of those projects scale virtually from the get go.

Anil Doralda:
And, Maggie adding 1 point, if you recall in Leonard's prepared remarks, he talked about some large deals, right? And some of this was even with new logos that helped us.

Maggie Nolan @ William Blair:
Very good. And then it seems like to me the theme of the quarter is maybe stabilization and even slight improvement. So I wanted to double click on the CPG and Manufacturing vertical to better understand the dynamic there on one of maybe the more of the pain points and whether or not you expect that trend to continue from here.

Anil Doralda:
So, as you know, over the last couple of quarters, you know, CPG vertical had a certain cadence of growth, driven by some of our larger CPG. What we are seeing there is the many moving parts but the good news is that number one, one of our largest CPG has not only stabilized but has reverted in growth in the quarter. And obviously that has, you know, aiding to that we've had a couple of other logos. How it plays out every 90 days, every vertical, as you know Maggie, depends right? I mean but it's fair to say CPG & Manufacturing, like the rest of the industry, things have stabilized and we are more positive.

Leonard Livschitz:
Yeah, I don't know why both guys use the word stabilization. Some of the numbers go up and down, but it's a tremendous upside. I mean, the logs we just acquired, for example, from that particular field, they not only go from get go, but the tasks are extremely ambitious. So I think if you look at, for example, January & February, they may kind of a bit mask the dynamics. But I see that this whole spectrum of the CPG clients are expanding. Now Manufacturing, I agree with you. We're not stable yet. So, I would actually separate those 2 things. So CPG, you know, shooting up quite a bit in some of those big industrial guys. Manufacturing, I think we have work to do for Q2 and more. So I'm very, very bullish on CPGs. And in Manufacturing, we have work to do.

Maggie Nolan @ William Blair:
Very helpful. Thank you.

Anil Doradla
Thank you.

Cary Savas:
Ladies and gentlemen, this concludes the Q&A session for today's call. I will now pass the call back to Leonard, our CEO, for closing comments.

Leonard Livschitz:
Thank you everybody for joining us on today's call. Our 1st quarter results continue the theme we highlighted in the past - steady improvement in our business. While the current economic uncertainties cannot be overlooked, we're highly focused on execution and wallet share at our new and existing customers. The rise of AI and the paradigm shift in the way enterprises use technology to leapfrog from their current levels requires to work with a competent partner. Our capabilities, history of solving complex business problems with technology, and our track record, we're making positive effects to our customers positions, Grid Dynamics, well. Our future looks bright and I look forward to share all the exciting news. In the next earnings call. Thank you.

Cary Savas:
Ladies and gentlemen, this concludes the Q&A session for today. I will now pass the call back to Leonard for his closing comments.

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CLOSING COMMENTS

Leonard Livschitz, Chief Executive Officer

Thank you everybody for joining us on today's call. Our first quarter results continue the theme we highlighted in the past – steady improvement in our business. While the current economic uncertainties cannot be overlooked, we are highly focused on execution and wallet share at our new and existing customers. The rise of AI and the paradigm shift in the way enterprises use technology to leapfrog from their current levels requires to work with a competent partner. Our capabilities, history of solving complex business problems with technology, and our track record of making positive impacts to our customer's business positions us well. Our future looks bright, and I look forward to share all the exciting news in the next earnings call. Thank you