

GDYN Q3 2025 Earnings Call

Recording Transcript

Company Participants

- Leonard Livschitz, Chief Executive Officer and Director
- Anil Doradla, Chief Financial Officer
- Vasily Sizov, Senior Vice President, Head of Americas
- Rahul Bindlish, Senior Vice President, Global Head of Partnerships and Marketing
- Cary Savas, Director, Branding & Communications

Other Participants

- Puneet Jain, Analyst, JP Morgan
- Bryan Bergin, Analyst, TD Cowen
- Surinder Thind, Analyst, Jefferies
- Mayank Tandon, Analyst, Needham
- Matt Dezort, Analyst, William Blair

Cary Savas, Director, Branding & Communications:

Good afternoon, everyone. Welcome to Grid Dynamics' third quarter 2025 earnings conference call. I'm Cary Savas, Director of Branding and Communications. At this time, our participants are in listen-only mode. Joining us on the call today are CEO Leonard Livschitz, CFO Anil Duradla, SVP, Head of Americas, Vasily Sizov, and SVP, Global Head of Partnerships and Marketing, Rahul Bindlish. Following the prepared remarks we will open the call to your questions.

Please note that today's conference call is being recorded. Before we begin, I would like to remind everyone that today's discussion will contain forward-looking statements. This includes our business in a financial outlook and the answers to some of your questions. Such statements are subject to the risks and uncertainty as described in the company's earnings release and other filings with the SEC. During this call, we will discuss certain non-GAAP measures of our performance. GAAP to non-GAAP financial reconciliations and supplemental financial information are provided in the earnings press release and the 8K filed with the SEC. You can find all the information I just described in the investor relations section of our website.

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

Leonard Livschitz, Chief Executive Officer:

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

Our third quarter revenue of \$104.2 million was another all time high, fueled by AI demand. AI grew 10% on a sequential basis and contributed to over 25% of our third quarter organic revenue. New business resulted in the highest engineering billing headcount.

We remain committed to disciplined capital allocation. I am happy to report that the Board has authorized a \$50 million share repurchase program, which we announced in today's press release. This represents about 15% of our company's cash. The buyback reflects our confidence in the long-term prospects of the business and commitment to investing in ourselves. We believe Grid Dynamics' shares are undervalued at current market prices, making the repurchase an attractive use of capital.

In Q3 we have the strongest pipeline of new large enterprise logos since the beginning of the year. Customers are regaining confidence and beginning to accelerate their strategic initiatives. We are



encouraged by the quality and duration of the new engagements. New programs are multi-quarter in nature and with budgets extending well into 2026. This is a substantial improvement from the first half of 2025.

Our partnership-influenced revenues continue to grow and exceeded 18% of our third quarter revenue. Investments into partnerships are driving faster growth, stronger opportunity pipeline, and deeper engagement with new and existing clients. Grid Dynamics helps customers to build advanced AI and digital capabilities. In addition to the hyperscalers, we are also enhancing our efforts around AI-centric Independent Software Vendors, or ISVs.

In the third quarter, we added five times more billable engineers than we added in the second quarter. In the fourth quarter, we expect net-billable engineers added to be at similar levels as in the third quarter. This is indeed a remarkable achievement given year-end seasonal trends. We also grew our average revenue per person 4% on a sequential basis in the third quarter. We continue to rationalize our overall headcount as we align our skillsets and geographies, and this will result in greater efficiencies and higher utilization. As a result of the strong momentum in the second half of the year, we expect to end the year with a materially higher billable run rate, positioning us well for growth in 2026. Our 2026 revenue growth will build on top of this higher baseline, providing a strong foundation for the continued expansion and operating leverage.

I am also happy to share that we are in the midst of a company-wide initiative to expand our profitability and margins. Over the next 12 months, we expect to improve our margins by at least 300 basis points. We will achieve our goals through several initiatives that we are currently operationalizing. These include efficiency improvements with the focus on higher margin geographies, leveraging enhanced pricing with our AI offerings, rebalancing our portfolio of lower margin business, and embracing technologies with our AI-first initiatives. In particular, we found that the AI tools and frameworks used by our engineers in Software Development Life Cycle, or in other words, SDLC, are making them materially more productive. In short, they are able to produce more code of better quality in less time. We now have an opportunity to monetize this boost in productivity.

AI is the fastest growing practice in our company, acting as a powerful flywheel for our business. I'm delighted to share our progress as Grid Dynamics advances its transformation into an AI-first company. Our technology vision is clear and structured across three horizons: AI-First Delivery, Agentic AI at Scale, and Physical AI. This framework guides how we embed AI into every facet of our operations and service delivery, ensuring our clients receive the most advanced, production-ready solutions.

AI-first delivery is centered on transforming our engineering and delivery capabilities. This is about operationalizing AI in our core processes. The adoption of AI in SDLC has exploded, and our Grid Dynamics AI-Native service offering, known as GAIN, is at the heart of this transformation. We are seeing strong adoption of AI-first SDLC methodologies, with active pilots at major clients including a leading home-goods retailer, a major financial technology company, a prominent healthcare revenue management provider, a global food distributor, and a multi-brand restaurant company.

AI-first SDLC fundamentally changes project economics and delivery timelines. It enables us to take on labor-intensive legacy modernization projects that were previously inaccessible, substituting extensive parallel human efforts with specialized teams equipped with AI agents. The impact on our presales process is equally transformative. Our ability to create full-fledged proof-of-concepts in hours instead of weeks provides a game-changing advantage, improving conversion rates and accelerates sales cycles.

As we deploy these solutions, we see leaders emerging across industry verticals who are driving measurable ROI through new AI capabilities. While some enterprises are finding success, the vast majority are waiting for commercial off-the-shelf software solutions to become available.

It's evident that to achieve meaningful ROI, custom solutions must be engineered for specific business processes, leveraging the foundational capabilities provided by AI leaders such as NVIDIA, Google, Anthropic, and OpenAI. This has been the core strength and DNA of Grid Dynamics. We are a trusted



engineering partner that builds from AI-first principles, and this positions us perfectly to help the clients to succeed in this new era.

Our second horizon focuses on deployment of Agentic AI platforms for customers and our employees. We are partnering with large enterprises to build bespoke Agentic platforms. This platform-first approach creates significant expansion opportunities. Our clients engage Grid Dynamics to architect the foundational platform and leverage the expertise to develop sophisticated AI agents for customers and employees, including automated operations with humans in the loop. These initiatives drive agentic customer engagement and enhance decision-making across enterprises.

Our third horizon is Physical AI. It involves integrating AI with the physical world through technologies like digital twins, collaborative robotics, and edge computing. The rise of Physical AI is fundamentally transforming the industrial robotics landscape, leading to the replacement of legacy robotic platforms with modern, AI-enabled solutions. We are advancing our Physical AI initiatives through new partnerships with selected robotics platform providers. Our recently announced SmartRay software for robotic weld inspection marks an important step forward in our strategy to combine AI with robotics. We plan to expand these capabilities further in the coming quarters.

The key to success in enterprise AI programs is not just deploying new technologies—it's about having a deep understanding of the business and leveraging technology to solve real-world, high-impact problems. Many companies are realizing that the value of AI comes from rethinking processes, data flows, and decision logic around business outcomes rather than pure technology capabilities. This is precisely where Grid Dynamics excels. Our teams combine strong technical expertise with domain fluency, enabling us to translate complex business challenges into scalable, AI-driven solutions that deliver measurable financial results.

AI projects and engagements serve as a critical entry point for clients, opening the door for larger, high-value platform and modernization programs. We are seeing a familiar pattern where an initial AI engagement, such as search or personalization, expands into broader work across data platforms, and cloud modernization. We are capturing a higher share of these innovative, high-margin projects as clients prioritize ROI-driven AI initiatives. We are capitalizing as the market shifts from experimental proof-of-concepts to enterprise-scale implementations that deliver measurable ROI.

Our GAIN framework continues to gain strong traction with clients. The model goes well beyond simply layering tools like OpenAI Codex or Anthropic's Claude Code for the existing engineering teams. The framework rethinks team composition, engineering workflows, and best practices to maximize the productivity impact of AI. The goal is to bring substantially higher efficiency gains than just utilizing stand-alone tools. Over the past quarter, we scaled our expert team dedicated to advancing GAIN, further strengthening our competitive edge in the AI-native engineering space.

And now I will turn the call over to Vasily Sizov, our Senior Vice President of Americas, to discuss some notable project highlights from the quarter.

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Vasily Sizov, Senior Vice President, Head of Americas:

Thank you, Leonard. Good afternoon everyone. As Leonard highlighted, we are seeing a clear change in customer tone compared to the beginning of the year. Clients who were previously focused on near-term risk management are now taking a more constructive and strategic view—thinking about how to position themselves for growth in 2026 and beyond. This shift from caution to controlled optimism gives us confidence that the current demand recovery is structural, not temporary. In fact, several of our key customers begin their fiscal year on October 1: contract renewals we observe and new committed budgets at or above prior-year levels indicate maintenance of the momentum. A significant portion of this activity is centered around AI business cases—initiatives designed to drive tangible operational and financial outcomes. As we mentioned in prior quarters, we are already executing on two large-scale platform programs with Fortune 500 clients that are implementing agentic



AI across the enterprise. We are now seeing a much broader wave of discussions of a similar nature, and the results to date have been very encouraging.

The ROI profile of these AI initiatives looks more attractive than that of traditional digital-transformation programs. Unlike gradual, multi-year modernization efforts, these AI business cases often target specific pain points with measurable improvements—revenue uplift, cost reduction, or conversion-rate gains—that become visible within quarters, not years. This creates a strong feedback loop: as clients see real results, their interest accelerates, and demand begins to snowball, which we observe in our pipeline.

With that, I would like to highlight some notable projects from the quarter that illustrate these trends:

First - we are developing an AI-driven bug triage solution for a leading multinational technology company. Our approach integrates advanced noise reduction, deduplication, and intelligent routing with deep analytical models, custom log processing, and a robust domain knowledge base. This combination directly addresses the challenges of engineering operations in bug triage and routing. By automating complex analysis and decision-making, the solution is expected to reduce triage time by up to 70% while significantly improving accuracy, and replacing the traditional manual approach for bug triaging.

Second - for a leading technology company, we developed a system to support compliance with the Digital Markets Act (DMA) by shifting data processing from server-side to on-device. Using modern mobile-to-edge data processing workflows, the system delivers server-sourced data to user devices for local transformation—a critical requirement under DMA, which prohibits certain server-side joins and aggregations. The platform processes billions of records daily across a wide range of business domains and datasets. This initiative has significantly strengthened compliance by enabling privacy-preserving, non-identifiable consumer data collection at scale.

Third - a leading financial and investment services firm is modernizing its “Advanced Search” platform, used daily by over 10,000 Financial Advisors (FAs) for efficient search of the client data. The legacy interface required navigating nearly 500 filters and understanding of SQL queries and logical expressions—creating complexity and inefficiencies. The enhanced solution leverages AI and Natural Language Processing (NLP) to enable advisors to query the firm’s databases using simple, conversational language. This AI-driven search experience delivers faster insights and an estimated 10% boost of financial advisors’ productivity.

And the fourth example - a leading U.S. automotive parts provider had a plan to replace an outdated SOLR-based search engine, with a goal of improving online revenues by at least 3% without disrupting operations. Grid Dynamics partnered with them to implement a Google Vertex AI Search solution and successfully accomplished the project with results exceeding the expectations: a 3.33% uplift in revenue per search, generating over \$600,000 in just two weeks at 50% traffic, outperforming their legacy system by 5%. Looking ahead, we plan to expand Vertex AI Search to B2C and in-store channels, with content enrichment and cloud migration on the roadmap.

Now, let me turn the call to SVP, Global Head of Partnerships and Marketing, Rahul Bindlish. Rahul...

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Rahul Bindlish, Senior Vice President, Global Head of Partnerships and Marketing

Thank you Vasily, Our partner-influenced revenue has grown to over 18% of total company revenue, underscoring the value of our ecosystem-driven approach. Our partnership framework is purpose-built to advance our mission of enabling enterprises to develop world-class AI and digital solutions. As AI



continues to redefine enterprise transformation, we expect these partnerships to play an even more central role in our growth—driving continued expansion in both our pipeline and market opportunities. We organize our partners into two primary categories:

First - Platform Partners. This group includes the hyperscalers—our core cloud partners—as well as leading data and analytics platforms like Snowflake and Databricks. These collaborations keep us at the forefront of modern enterprise infrastructure, ensuring we deliver cutting-edge cloud, data, and AI capabilities to our clients. With the hyperscalers we are strengthening relationships through targeted investments in AI and Agentic platform capabilities. This includes expanding certifications, earning specialized badges, and building new joint solutions—complemented by coordinated go-to-market initiatives such as joint marketing and sales campaigns. We are expanding these initiatives from the US to other regions including Europe, LATAM and South Africa.

Second - ISV Partners. These partners bring deep domain-specific capabilities essential for enterprise transformation. Through these specialized ISVs, we deliver tailored, best-in-class solutions aligned with specific business needs. Within the ISV ecosystem, we've expanded our partnership with leaders in middleware and workflow orchestration that underpins reliable, durable execution for Agentic platforms. Our blueprints for Agentic AI Platform incorporating such middleware, developed from real-world enterprise deployments, address critical challenges in scaling and managing AI workflows. We have also expanded our platform partnerships to include NVIDIA. We are actively developing solutions on NVIDIA's advanced software stack, including Omniverse, to deliver high-fidelity, industrial-grade digital twins and simulations. For example, earlier this year we launched the Intralogistics Optimization Starter Kit on NVIDIA, enabling retailers, manufacturers, and logistics companies to optimize facility layouts and picking paths—boosting warehouse efficiency and reducing labor costs.

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

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Anil Doradla, Chief Financial Officer:

Thanks, Rahul. Good afternoon everyone.

We recorded the third quarter revenues of \$104.2 million, slightly higher than the midpoint of our \$103.0 million to \$105.0 million guidance. On a year-over-year basis this represents a growth of 19.1%. On a year-over-year basis there were roughly 40 bps of FX related tailwinds.

Non-GAAP EBITDA came in at \$12.7 million within the higher end of our guidance range of \$12 to \$13 million. In the third quarter of 2025 there was a negative impact from FX fluctuations on our costs both on a quarterly and year-over-year basis. Grid Dynamics is exposed to a currency basket across Europe, Latin America, and India. While we have a natural hedge against some of the currencies and hedging programs with other currencies, the net impact on our EBITDA was approximately \$(0.6) million and \$(1.3) million on a quarter-over-quarter and year-over-year basis, respectively.

Looking at performance of our verticals:

Retail remained our largest vertical, contributing 27.8% of total revenues in the third quarter of 2025. Revenues in this vertical decreased by (2.1)% and (2.9)% sequentially and year-over-year basis, respectively. The sequential decline came primarily from a handful of large retail customers, with some of them returning to growth.



TMT, our second largest vertical, accounted for 27.4% of total revenues for the quarter, with growth of 13.5% and 18.2% on a quarter-over-quarter basis and year-over-year basis. The growth was primarily driven by our largest technology customers.

Finance vertical accounted for 24.6% of total revenues in the quarter. Revenues were slightly up sequentially and grew 81.0% on a year-over-year basis. The substantial year-over-year growth was primarily driven by increased demand from our fintech customers, along with contributions from our 2024 acquisitions that brought in global banking customers.

Turning to the remaining verticals:

CPG & Manufacturing represented 10.5% of quarterly revenues and grew by 3% on a sequential basis and grew by 11.3% on a year-over-year basis, primarily due to contributions from our recent acquisition.

Other vertical contributed 7.4% of total revenues, reflecting sequential decline of (1.6)% and a 10.5% increase compared to the third quarter of 2024. The year-over-year increase primarily came from customers tied to delivery, service providers, and acquisitions.

And finally Healthcare and Pharma made up 2.3% of our revenues for the quarter.

We ended the third quarter with a total headcount of 4,971 down from 5,013 employees in the second quarter of 2025 and up from 4,298 in the third quarter of 2024. During the quarter, we increased our billable headcount meaningfully. That said, we rationalized our overall headcount as we aligned our skill sets and geographic mix.

At the end of the third quarter of 2025, our total US headcount was 370, or 7.4% of the company's total headcount versus 8.0% in the year ago quarter. Our non-US headcount, located in Europe, Americas, and India was 4,601, or 92.6%.

In the third quarter, Revenues from our top 5 and top 10 customers were 40.1% and 58.3%, respectively, compared to 39.8% and 59.2% in the same period a year ago, respectively.

During the third quarter, we had a total of 186 customers down from 194 in the second quarter of 2025 and 201 in the year ago quarter. The 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 \$34.7 million, or 33.3%, compared to \$34.5 million or 34.1% in the second quarter of 2025 and \$32.7 million, or 37.4% in the year ago quarter. On a non-GAAP basis, our gross profit was \$35.2 million or 33.8% compared to \$35.1 million or 34.7% in the second quarter of 2025 and \$33.3 million or 38.0% in the year ago quarter. On a year-over-year basis, the decline in the gross margin was from a combination of factors that included FX headwinds, higher utilization, lower working time, and mix shift from our UK based acquisition.

Non-GAAP EBITDA during the third quarter that excluded interest income/expense, provision for income taxes, depreciation and amortization, stock-based compensation, restructuring, expenses related to the geographic reorganization, and transaction and other related costs was \$12.7 million, or 12.2% of revenues versus \$12.7 million or 12.6% of revenues in the second quarter of 2025, and was down from \$14.8 million or 16.9%, in the year ago quarter. The decrease of \$2.1 million on a year-over-year basis was largely due to higher operating expenses and FX headwinds.

Our GAAP net income in the third quarter was \$1.2 million or \$0.01 per share, based on a diluted share count of 85.8 million shares, compared to the second quarter net income of \$5.3 million or \$0.06 per



share, based on a diluted share count of 86.4 million and net income of \$4.3 million or \$0.05 per share based on 78.8 million diluted shares in the year ago quarter.

On a non-GAAP basis, in the third quarter our non-GAAP net income was \$8.2 million, or \$0.09 per share based on 85.8 million diluted shares, compared to the second quarter non-GAAP net income of \$8.3 million or \$0.10 per share based on 86.4 million diluted shares and \$10.8 million or \$0.14 per share based on 78.8 million diluted shares in the year ago quarter.

On September 30, 2025, our Cash and cash equivalents totaled \$338.6 million, up from \$336.8 million on June 30, 2025.

As Leonard mentioned, the Board has authorized a \$50 million share buyback, which we announced in today's press release. This represents roughly 15% of our cash. M&A continues to take priority in our capital allocation strategy. We are committed to augmenting our organic business with acquisitions that strategically enhance our capabilities, geographic presence, and industry verticals.

Coming to the fourth quarter guidance, we expect revenues to be in the range of \$105.0 to \$107.0 million. In the fourth quarter, all our business will be considered organic in nature. We expect our fourth quarter non-GAAP EBITDA to be in the range of \$13.0 to \$14.0 million. For Q4 2025, we expect our basic share count to be in the range of 85.0 to 86.0 million and our diluted share count to be in the range of 86.0 to 87.0 million.

Based on our fourth quarter revenue outlook, we expect our full year revenue outlook of \$410.7 to \$412.7 million. This would be 17.1% to 17.7% growth on a year over year basis.

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

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Questions and Answers

Cary Savas, Director, Branding & Communications:

Thank you, Anil. As we go into the Q&A session of this call, I will first announce your name. At that point, please unmute yourself and turn on your camera. The first question comes from Puneet Jain of JP Morgan. Go ahead, Puneet.

Puneet Jain, Analyst, JP Morgan:

Hey, thanks for taking my question. So it was good to see an increase in number of billable headcount this quarter, which you also expect to continue to 4Q. Talk to us, like, about the trends you are seeing for 2026. Like, can growth rates next year meaningfully accelerate from the broad set of clients compared to what you are guiding for 2025?

Leonard Livschitz, Chief Executive Officer:

Thank you, Puneet. You know, it's good to talk at the time when we can be comfortable to discuss the growth. First and foremost, we are the highest billable headcount in the history of the company. The rate of growth has also picked up quite a bit, and we see that going into the Q4. But why we're comfortable looking forward for the next year at this point? First and foremost, the programs we have recently renewed, or we signed for, are longer in the nature. They're not going on a short duration; they're going on multi-quarters.

The second part of that is that the programs are related to the AI initiatives, a lot of technology application, which brings the core of us—the bread and butter of our business. The other part which is important is that we don't get only stuck with the traditional renewals in the beginning of the year because some of our clients now have the sliding schedule for the new fiscal year. So notable clients had their fiscal year starting in October, which means that we are very comfortable to see the growth coming for, again, longer duration.

And finally, as we have told you guys before, we have a number of our top 10 clients who elected Grid Dynamics to be a preferred vendor. It wasn't as evident in the last few quarters because they were a little bit slow on expanding their technology investments. Now they're full swing, and we're taking advantage of that—benefiting from being a preferred partner.

Puneet Jain, Analyst, JP Morgan:

Understood. And then, a question on agentic AI, like, the benefits to clients from transitioning to agentic AI-based solutions, it's clear. But perhaps talk to us about the constraints that are limiting adoption, and what will change that? Like, could that unlock higher level of discretionary spend among clients for the overall IT services companies next year?

Leonard Livschitz, Chief Executive Officer:

Evidently. I would let Vasily talk about some specific cases because obviously, we're in the midst of the big transformation, and, you know, there are a lot of talks about what agentic AI can do and cannot. Remember, it's our Phase 2 of our horizon the agentic AI is at scale, so Vasily...

Vasily Sizov, Senior Vice President, Head of Americas:

Yeah, thank you, Puneet, for the question. Yeah, so...agentic AI and AI in general is the fastest-growing practice for us. So, and we definitely see the expansion with the business cases, which we already kind of applied during the last few quarters. But the technology doesn't stay on where it is, and it continues evolving, and we are expanding our capabilities to a broader spectrum of business problems to solve. And, there are a few notable examples, which we already mentioned during the prepared remarks.

And, some of them, for example, apply to the cases where lower-skilled employees can be replaced with higher-skilled employees in a lower number of, I would say, people, augmented by sophisticated AI solutions. And for one of the core clients of us, we are implementing right now the bug trash solution, which is basically, assumes small number of highly expert team augmented by AI, replacing hundreds of engineers, of low-skilled, who are basically, don't possess enough skills to re-qualify, and can be freely replaced by the more sophisticated processes and solutions.

Puneet Jain, Analyst, JP Morgan:

Understood. All right. Thank you.

Leonard Livschitz, Chief Executive Officer:

Thank you, Puneet.

Cary Savas, Director, Branding & Communications:

Thank you for your questions, Puneet. The next question comes from Bryan Bergin of TD Cowen.

Go ahead, Bryan.

Bryan Bergin, Analyst, TD Cowen:

Hey guys, good to see you, good afternoon. I wanted to follow up, actually, a little bit on that last question as it related to the agentic work and some of the TAM expansion. So, particularly, the agentic managed services activity that seems like it's brand new as far as an opportunity for you, versus the custom build activity that you're known for.

When you think about the work, the agentic work that you're doing for clients, is there a way to segment how much of it is in this kind of new managed services area versus what would be, kind of, just SDLC-enhanced agentic activity? Because I think, obviously, that's a huge market, the IT managed services industry, that you could penetrate here in a new way.

Vasily Sizov, Senior Vice President, Head of Americas:

Yeah, yeah, so thank you so much, Bryan, for the question. I would say, currently majority of the revenue which we see are actually related to solving the business cases. SDLC fuels, I would say, expansion of existing programs and helps to open new accounts, but this is broad in nature, so it's actually... it goes through majority of our engagement, so it's very difficult to discern what exactly would be the incremental gain, I would say. It just fuels overall growth, which we saw in Q3 and was significant.

Leonard Livschitz, Chief Executive Officer:

So, just to comment more specifically, the complexity of scaling the business with agentic AI lies in the fact that we cannot just take off-the-shelf program and apply it to the client. You know, when we talk about AI-first deployments, or more commonly known as, you know, forward-deployed engineers, it's more or less straightforward. The agentic AI unveils a very strong combination of the traditional hyperscalers, whether tools, solutions, their ISVs, or some specialty tools, and tools created in-house by Grid Dynamics.

And mind you, quite a few initiatives are actually driven by Grid Dynamics to be their client zero, which is now very popular within the company. So we train the programs within the company on a business process, as an example, and then we carry out to the client. So, we're expanding directly with the market because it's a combination of our traditional, kind of open-sourcing world, but with embracing the partnership and big employers.

That's, by the way, one of the reasons I brought Rahul to the call, because the success of enrollment into broader-based agentic AI applications is driven by how many capable solutions are developed by our partners in conjunction with us, doing something in the middle of their preparation for releases.

Bryan Bergin, Analyst, TD Cowen:

Okay, alright, that's helpful, it's clear.

Leonard Livschitz, Chief Executive Officer:

Sure.

Bryan Bergin, Analyst, TD Cowen:

Alright, my follow-up, I'll touch on the numbers here. So, just help us with reconciling the 4Q

growth view that comes in here a little bit below versus what the prior implied would have been on the fiscal 25 outlook. With all the optimism you're conveying here on billable base, on client behavior, is there... is it just some of the signed work is not immediately starting? And it's kind of 26 and thereafter? Is it any client-specific issues? Just anything on the near-term numbers stand out?

Anil Doradla, Chief Financial Officer:

Yeah, so Bryan, very simple. It's a timing thing. So there are 3 layers of this timing. The pickup and ramp. Right? We thought it would be a little earlier; it just was a little delayed, but we're getting to the same point. Second thing is that in the year, we had two significant clients that had an impact on us. That was of what, \$25, \$26 million, roughly there. And these two things. And the third thing was that, look, if you look at the high end, there was certain M&A also plugged in. So when you look at these three things, there's nothing structural. As a matter of fact, one of the clients, a top 10 client that gave us a little bit of a headache early in the year, that's coming back strong. So it's all about timing. And that's why, you know, when Leonard started off with his opening question—what we are seeing right now, going into the fourth quarter, sets up very well as we get into 26.

Leonard Livschitz, Chief Executive Officer:

But just to clarify, Bryan, even when we were meeting with you a quarter ago, we could not pinpoint exactly the time of the inflection point. We're, you know, we were relying first on some time during Q2. Then, we were not sure. And then finally, in the second half of Q3, it happened. So when Anil refers to the timing difference, if you would trace the rate of growth, not from Q1 to Q1, but from Q2 to Q2, you will see significant upside. And what's very important, again, what Anil said. Taking away these two clients, and there's some delays we've had with them, we're in a fantastic organic rate of growth. Now, there's always something happens, so we can't say it will never happen with anyone again. Of course it happens. But, what really carried us out into the more success rate of growth is a broader base of clients with the application of technology tools. We're less dependent on a certain variations, especially from our traditional legacy retail and, you know, the service business around retail customers as a total.

Bryan Bergin, Analyst, TD Cowen:

Okay, just, just one clarification. Did you scale that engineering base, the billable base? That's up. I know, I know you've got some things flowing through the net headcount from 2Q to 3Q? Did you scale the engineering side?

Leonard Livschitz, Chief Executive Officer:

Right, right. So this is very, very simple, because, you know, when we do reporting, we're trying to follow the same numerical disclosures, right? So, if you look at the number of the billable headcount, it's significantly higher. So what happened? There are two things happened. Number one, we're a much more aggressive of optimizing the OPEX. Right? The others... so OPEX is really a big thing. So we're not reducing the bench or anything like that.

The second part is, it's a small variance of our internship programs. We continue to hire interns, but it happens in the beginning of the quarter. So when they come to the end of the quarter, it's really not less meaningful, but we really have a robust pipeline of projects, and also trained engineers, both of them—the internship program, Grid Dynamics University, etc. But it really...it looks a bit weird because how you can grow when you have overall headcount, but when you see all our engineering headcount,

billable headcount utilization, we're extremely positive going forward.

Bryan Bergin, Analyst, TD Cowen:

All right! Thank you, guys.

Leonard Livschitz, Chief Executive Officer:

Of course, thank you, Bryan.

Cary Savas, Director, Branding & Communications:

The next questions come from Surinder Thind of Jefferies. Go ahead, Surinder.

Surinder Thind, Analyst, Jefferies:

Thank you, guys. I'd like to start off with a question about the partnership program. Can you talk a little bit about, the... when you think about the future of where those numbers could get to, I feel like we've been kind of stuck in the 16, 17, 18% range as a contribution, or a percentage of revenues. Can you talk about where we are in that process, and where you think you can ultimately get to, and why the numbers are what they are today?

Anil Doradla, Chief Financial Officer:

Yeah, you go.

Rahul Bindlish, Senior Vice President, Global Head of Partnerships and Marketing:

Thank you for that question, Surinder.

A little bit about myself—I was the first salesperson, who joined the company more than a decade ago. And we started the partnership program about 4 years ago with the intention to grow our business, increase pipeline, and accelerate the sales cycle. And we're doing pretty well on all those parameters. Now, specifically in terms of percentage of revenues influenced by partnership, you know, we have grown pretty nicely to about 18%. We started off with the goal of getting to about 21-odd percent, but given the growth we have had, I do expect in the long term we'll end up somewhere between 25% and 30%.

Now, you did make a statement that we have been stuck between the 16-18%. In fact, if you look at the trajectory, they are growing from 16% to 18%. If you look at... we have also done acquisitions. A lot of our acquisitions, when they come in, they don't come with partner-influenced revenues. So, our overall percentage is still growing on a total basis, including acquisitions. Effectively, on a dollar basis, our rates are significantly higher.

Surinder Thind, Analyst, Jefferies:

Cool. And then maybe a question on the decision to go with the share repurchase program. Any color there in terms of... I realize it's not a very large percentage of the cash, but for a growth company, just, can you talk about that, and what you're trying to signal there? Obviously, I think people recognize, you know, valuations are generally depressed, but what's the benefit here?

Anil Doradla, Chief Financial Officer:

So, Surinder, I think the first and foremost thing is a signal that we're sending to the markets. We believe that we could... our deployment of this capital at these levels is a clear, you know, good return

on investment. You're absolutely right. We are a growth-oriented company, so there's a second aspect of our whole story, which is M&A. And we're fully committed towards M&A. This year, we thought we'd close one or two deals. It took a little longer, but the second aspect of our capital allocation is definitely M&A.

Leonard Livschitz, Chief Executive Officer:

And just to add on this point, I think it's very important. We believe we really passed from the trough. We're in a clear growth inflection point. And we listen to our investors, we understand the market trends, and we believe it's a value which we will coordinately bring to the market, to our shareholders, while it can maintain a very good position on the cash.

And also, there's another added factor, we believe we'll generate more cash as the business grows. And those questions are related to how we're going to improve our EBITA margin? Why is it important? Why we specifically said something in our commentaries about how actively we're gonna do that? Because we're not just giving away cash. We're making a business-wise decision while demonstrating ability that will replenish the cash as we grow with the M&A process forward.

Surinder Thind, Analyst, Jefferies:

The final quick question here, just on the margins and the idea of generating 300 basis points of expansion over maybe the next 12 months. You know, I understand this was a year of investment, but... can you put that into context, why now? Why not continue to invest, given all of the change? And is that kind of a one-time step function change that we should then build off of, or how do we think about the decision to kind of focus on margins at this point in the cycle?

Anil Doradla, Chief Financial Officer:

Yeah, no, no, great question, Surinder, and that's a perfect question. Look, there are a couple of things that are going on here. The first thing is the timing of it. So on that one, there... we believe that the macro is going to be what it is. And we're not... we're assuming that we're taking a little bit of a conservative outlook on the macro front. And saying that, you know, given what it is right now, let's look at the way the business is.

We've also reorganized our headcount. There were many, you know, non-repeatable one-off things, whether it is a certain expansion of geographies, whether, you know, one-off discounts, as we went through vendor consolidation with some of our big clients, and non-repeatable events which we've landed with. So we're taking a look at that. And the final thing is that we're embracing these new technologies. So, as we embrace many of these new technologies, we believe that we could get some of the return.

So where we are on the macro front, on... almost like now we're in this new world where we're at 19 countries. Remember, about 3 years ago, we were at 7? We've rapidly expanded. So we're now taking a look at, okay, how should the company look like? What is the optimal model? And we're looking at it on an account-by-account level, region-by-region level.

Leonard Livschitz, Chief Executive Officer:

Let me just add more, strategic comment in that. So, there are 3 ways you can manage cost. Number one is on the pricing side. Number two on the cost, and in this case, Anil alluded to specific regions

which have been affected by the unfavorable exchange rate, and also the transition we had to India, as an example. And the third one is a technology investment, and I think you alluded to make sure that we understand how to balance. So, answering that question, we are definitely bringing the value to the clients, which is reflected in our new contracts. We bring our GAIN model, which helps us to identify the business solutions. It's giving us a bit more run rate on the favorable pricing. The cost is what priority is for Anil to work on. We're not slowing down on a technology investment. Had we slowed down in technology investment, we would be a significantly higher number.

Anil Doradla, Chief Financial Officer:

Exactly.

Leonard Livschitz, Chief Executive Officer:

But my goal in life is to bring Grid Dynamics in the future of the growth with the same or better technology improvements as we had before. So, out of those three elements, we pursue the first two.

Surinder Thind, Analyst, Jefferies:

Thank you.

Leonard Livschitz, Chief Executive Officer:

Of course. Thank you, Surinder.

Cary Savas, Director, Branding & Communications:

Thank you, Surinder. The next question comes from Mayank Tandon of Needham. Go ahead, Mayank.

Mayank Tandon, Analyst, Needham & Company:

Great, thanks, guys. I had a couple of quick ones. First is, are you getting any indication from your clients around a potential budget flush in 4Q? If there is upside to your numbers, would that be the main driver, or are there other factors that could also be potential upside catalysts based on your guidance?

Anil Doradla, Chief Financial Officer:

So, Mayank, this is a question that I challenge our teams internally. Right? You know, in the timing of it. So, some very interesting things are happening here. Number one is that, and the gentlemen have alluded to, but let me rehash it.

Number one, if you look at all our new deals that we're signing, we're signing at levels—the pricing at that level or higher. Second thing is that all these fiscal ending deals, we're now talking about 2026. So, people who are starting their new fiscal year, that's a very fundamental thing. And the third thing which Leonard pointed out. See, the year of 2024, going into 25, was all about vendor consolidation, and in some, many cases, we went from several to a handful, and we've succeeded. We had to give one-off discounts, but now they are looking at ramping us, and we're talking about 2026.

So if you look at my top 10, top 15, which is what, you know, 50% to 80% of my revenues, we're now talking about 2026. That is a fundamental thing. But you're absolutely right, this is something I challenge the team. At this stage, we do not believe it's a budget flush. I'm sure there might be some marginal things, but our fundamental tone here is driven by what we're seeing in 26.

Leonard Livschitz, Chief Executive Officer:

And what's more important from the business standpoint, this is a financial... very good financial. From the business standpoint, we opened new programs. When you have traditional, what you define as a budget flush, it's unused funds, which are used for some existing projects. This is not the case. We're opening big, multi-quarter programs now, which tells you that it would be very difficult for people to appropriate sums just related to the end of the year. So we're very bullish that this is not a just budget for short term.

Mayank Tandon, Analyst, Needham & Company:

Got it, that's very helpful. And then just a quick follow-up on margins. I wanted to just clarify, so the 300 basis point expansion that you're calling for in 2026, is that gross margins, or is that EBITDA margins? And then, Leonard, you did go through the levers. Could you just go through them again? I think you went through them. A little bit quickly for me, at least, so I would love to get a little bit more granularity on what the drivers are.

Leonard Livschitz, Chief Executive Officer:

All right, so let Anil first talk about his favorite topic. Gross margins with EBITDA margin. He loves to talk about it. I'm the one who used to make it happen, but let him talk about it.

Anil Doradla, Chief Financial Officer:

Alright, well, look, at the end of the day, Mayank, you know, EBITDA margin...the gross margin is part of the EBITDA margin, right? So, look, we are looking at the whole P&L holistically, including the cash generation, so we're looking at the costs, we're looking at the OPEX, we're looking at capitalization, we're looking at every aspect of it.

We have at least 300 BIPS that we're talking about, so by the fourth quarter of next year. We have some aggressive internal targets. And we're balancing that with some of our investments in technologies. So, I don't want to say it's coming from this, this, and this. It's coming from everywhere, and the bottom line is that you'll see expansion. The bottom line, I'm hoping that expansion, both on gross margin and EBITA margin, but we'll see in the final numbers.

Leonard Livschitz, Chief Executive Officer:

So, now I'm gonna repeat what I tried to say to Surinder with a little bit more granularity, so be a little bit patient with me. So there are three elements. One of the pricing increase, the second was cost optimization, and the third one is a technology investment. Okay? So on a pricing side, there are a couple elements which are critical. One of the main ones is the application of our GAIN model. GAIN model for us, as we talked about it before, it's all about Grid Dynamics AI application, solution, enhancements. We talked with Bryan about agentic AI and other elements.

So some of the problems we're assigning now become more favorable. It's not because we're just hammering on the dollars per employee. I mean, that happens for some renewals. But it's not the most effective way. You actually need to make sure that ROI plays a huge role. ROI was a beat-up term for a long time, because when you have a traditional T&M business, what is ROI?

Now, when you start applying the business solutions and business practices and eliminating a lot of

waste on the client side, it becomes tangible. So that's on increasing the profitability of the prices. On the cost side, then you ask a very important question. And, on the two parts, on the gross margin part, obviously, with, especially with the dollar versus euro swing, some of the European locations, particularly the European Union Zone, become less favorable. So we're looking at that, how are we gonna improve our gross marginality. Of course, you increase the price, but you also look at some of those less favorable locations of the business. That's one of the parts.

The second part is, if I mentioned before, if you recall, Grid Dynamics is a client zero. For a lot of internal initiatives, we're testing efficiency on our own business processes, and then we transfer to the clients. And it would be unreasonable for us to just investigate them and don't take advantage of it. So that's an operational efficiency. That operational efficiency in HR, recruiting, hiring, finance, and all these elements of the business, which don't fit traditionally into the you know, COGS. It's all OPEX. So that's an element - the second big part of the element of cost efficiency. We are putting a lot of effort here because we see that the trend for Grid Dynamics, in recent months and quarters after the start of the war, 3 years has been there already, has not been favorable. And it's time for us to tighten the belts from the operational efficiency, but more importantly, the tools. We have a lot more tools. So it's not just, say, okay, you just get rid of this group of people and hire this group. It's a lot about more intelligence.

The third part: we're not dodging; actually, we're increasing the investment. And again, Surinder asked this question, he wanted to make sure we are not stopping deployment of cash into our technology area. For one way or another, there is...it's a full P&L. So whatever we invest in technology is a part of the same EBITDA margin, right? And we invest into all three horizons, including the third horizon, which is the physical AI—robotics automation. We worked with some on the proof of concept and some first project with very large industrial companies. It all takes investments. The partnership work takes investments. So, we are investing in technology, partnership, three horizons of AI, maintaining a strong focus on innovation while looking at the efficiency both on a COGS and OPEX. And we're pushing the GAIN model to improve the rates on the client side. If I'm still slow, I think we need to talk offline.

Mayank Tandon, Analyst, Needham & Company:

I got it. Very helpful. Thank you so much.

Leonard Livschitz, Chief Executive Officer:

All right, all right. Thanks, Mayank.

Cary Savas, Director, Branding & Communications:

The next question comes from Matt Dezort from JPMorgan.

Anil Doradla, Chief Financial Officer:

No, no, from William Blair. Oh, sorry, from William Blair. From William Blair. Matt, you just got bumped up to JP Morgan.

Leonard Livschitz, Chief Executive Officer:

Or not, or not

Anil Doradla, Chief Financial Officer:

Is that an insult, or is that a compliment?

Leonard Livschitz, Chief Executive Officer:

Alright, alright.

Matt Dezort, Analyst, William Blair:

Hi team, it's Matt on for Maggie Nolan over at William Blair. Thanks for taking...thanks for taking our questions. I guess to ask another one on margins, Anil, maybe a slightly different way. I guess, it doesn't sound like it, but is it... is that 300 basis points of expansion dependent on your growth re-accelerating next year? Or can you guys expand margins, even if budgets and growth remain constrained into next year?

Anil Doradla, Chief Financial Officer:

Look, there is some leverage that you get and benefit from a top-line growth, right? But, as I said in the opening comments, we're not assuming anything much on the macro, not a big positive, not a big help, so to speak. So even if the macro, even if the demand environment stays the way it was in 2025, we think we... yes, we are going to expand at least 300 BIPS.

Leonard Livschitz, Chief Executive Officer:

Right, and I think what's important, again, Anil mentioned it before, Matt, we have actually stated this is kind of a bare minimum. So, the market favorable conditions should lift it further. The technology optimization should lift it further. Well, it's, look, with Anil today, it's our 24th earnings call together. It's the first time, we're so specific on the margin part because we believe that Grid Dynamics kind of been looked a bit on a negative front from the, you know, margins and kind of a little bit tuned down our technology excellence. And we look at that, and we say, look, we want to make sure that investors truly understand from the granularity how we gonna move forward with a growing business, improving on our technology and becoming really rigorous on our cost-effective initiatives.

Matt Dezort, Analyst, William Blair:

Makes sense. Congrats on 24 calls together. Maybe as a follow-up, can I ask about your guys' AI-advantage? I guess, within AI, where does your competitive advantage come from versus your peers? Is it GAIN? And I guess, is that helping drive the outsized traction and pipeline within any specific verticals where you guys have, you know, historical expertise, like e-commerce, for instance?

Vasily Sizov, Senior Vice President, Head of Americas:

Thank you, Matt. Our history of utilizing AI and in the past, everyone was talking about data analytics, predictive analytics, and machine learning. The story started, you know, from 2012, when we first started implementing natural language processing for the search engines for the biggest e-commerce and retail companies in the United States. In 2017, we wrote the first book on AI called Algorithmic Marketing.

And we have a long story and a lot of investment into building this expertise, and that's what creates a differentiation for us. So when the true AI boom started, we were ready. We have business cases, we had accelerators, blueprints, understanding on how to implement that technology on scale. And essentially, with utilizing LLMs, it's just another tool in our toolbox, which helped us to tackle things which were not possible to tackle before.

So, uh, I would say that that's the key differentiation. Right now, we are embracing more and more different business cases, different verticals—and with specific solutions, specific applications of the technology, I would say. And right now, it's difficult to say which industry benefits the most. I would say everywhere where we are present, we understand how the technology can help, and you know, help with figuring out the strategy and the roadmap for the implementation of AI technology. And going more and more into implementing AI platforms, which can help to implement AI technology on the scale of the enterprise.

Leonard Livschitz, Chief Executive Officer:

So, just to also look at the bigger picture, Vasily was very good to define some of the application part. You're absolutely right, you have to start from something. And, you know, e-commerce and the foundational part of the retail business drew us to expansion into the other areas, like CPGs, which is very similar in the application side. But if you look at the recent, more recent growth, where the applications of AI are becoming more and more prudent, we start looking at our growth in the technology TMT side. We're looking at, definitely, in fintech. That's been a very successful endeavor for us to expand. And now it's picking up on an industrial side.

So, it started from the foundations, but now it expands in the area. And the second part to your question, look, everybody tells that they have the best position for AI. You know, you can talk to the company which is now valued \$5 trillion. Or you can call a company which we're, you know, values very little today from what it's supposed to value, which is Grid Dynamics, and everybody tells you almost the same thing, you know, maybe not the jacket of the leather.

But the thing is, we are very, very laser-focused on the key technology foundational element, which, as you alluded, was built in the past 12 years, 13 years. So, we're not going for the super growth-based clients, we're always on a, you know, top 1,000, you know, clients in the world. And, you can see that we're tailoring to the programs where the skill and our past experience can benefit the most to the client. So you have somewhat narrower banded than some of the bigger guys who we are competing with but where we get into the business, we are getting an excellent job and partnering.

And that's where the partnership program also expands us because, you know, we started with Google, Microsoft, AWS, and all of that, NVIDIA, we have those fantastic partners, and when they see the value of Grid Dynamics, then it really speaks for what we are. But the time will tell who is gonna be better. So, we're very bullish. But thank you for checking on this point, because, you know, you need to keep us, and everyone else, honest about how good we and others are at AI.

Matt Dezort, Analyst, William Blair:

I appreciate all that color. Thanks for taking the questions, guys.

Leonard Livschitz, Chief Executive Officer:

Thank you.

Anil Doradla, Chief Financial Officer:

Thanks, Matt.



Cary Savas, Director, Branding & Communications:

Thank you to our analysts for all your insightful questions. With that said, this concludes the Q&A session for today. I will now pass it over to Leonard, our CEO, for closing comments.

Closing Comments

Leonard Livschitz, Chief Executive Officer:

Thank you for joining us today. Our results highlight the strength of Grid Dynamics' business expansion and formidable position in the AI-driven industry. We have many reasons to be optimistic about our outlook. A meaningful increase in billable headcount in the second half of 2025 positions us well for growth in 2026. We focus on double digit growth in our AI business, scaling our partnership ecosystem, and implementing margin-expansion. All of these underscore our confidence in the long-term potential. Grid Dynamics will continue to deepen its differentiation through technological leadership in the quarters ahead. I look forward to updating you on the next earnings call.

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