

GDYN Q3 2026 Earnings Call

Recording Transcript

Company Participants

- Leonard Livschitz, Chief Executive Officer and Director
- Anil Doradla, Chief Financial Officer
- Eugene Steinberg, Chief Technology Officer
- Cary Savas, Director, Branding & Communications

Other Participants

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

Cary Savas, Director, Branding & Communications:

Good afternoon, everyone. Welcome to Grid Dynamics' third quarter 2026 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; and CTO, Eugene Steinberg. Following the prepared remarks we will open the call to your questions.

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

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

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Leonard Livschitz, Chief Executive Officer:

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

Q3 2026 was a pivotal quarter with record financial results. Revenue of \$114.3 million is the highest in our history and came in above the high end of our guidance range and well ahead of Wall Street expectations. Non-GAAP EBITDA was \$22.9 million, also a record. Our efforts are paying off. We are growing faster, more profitable, and in the verticals and applications where AI enterprise spend is centered. We enter the fourth quarter with confidence and with scalable client demand, setting a positive backdrop for 2027.

In the third quarter our AI revenues grew by 45% on a year-over-year basis. This marks the third consecutive quarter where our AI revenue has grown over 45% on a year-over-year basis, and is now



approaching 32% of our total revenue. Companies that recently initiated AI exploratory projects are now signing multi-quarter production programs with us.

Last quarter I set a goal — 90% of our engineers trained on AI SDLC by the end of October. I am happy to report we are currently at 93% and continue to expand. Grid Dynamics has always been a technology first engineering company, and investing in our people ahead of client demand is simply how we operate.

Going forward, I am optimistic about our revenue growth trajectory. And that optimism is grounded in structure, not sentiment. As we look into 2027, we expect to revert to healthy double digit growth and sustain that momentum over the following years. Our AI revenue is compounding on an ever larger base. As it approaches and exceeds 40% of our total revenue, the growth rate of the overall business will increasingly reflect the growth rate of the AI practice. Our AI-based GAIN solutions continue to grow, we generate more revenue per headcount at an accelerated pace. We expand our physical AI and capital markets offerings. And our hyperscaler and NVIDIA partnerships create a co-sell motion that complements our direct sales. All together, they are the reasons to be optimistic.

We committed to 300 basis points of margin expansion in the fourth quarter of 2026 over the fourth quarter of 2025 — and we exceeded our goal a quarter early. The structural drivers are: a greater mix of AI projects, higher billing rates, optimal location strategy execution, and disciplined OPEX management. These margins represent a new norm and in 2027 we will continue to execute on the same operating framework.

One of the most important trends in our business this year is the growing revenue per employee. In the third quarter, we exceeded \$100K for the first time. Let me remind you that this is based on the total headcount and not just billable engineers. In the second quarter, revenue grew 7% year-over-year while headcount declined 3.5% — a divergence of more than 10 percentage points. In the third quarter, that gap widened further: revenue grew 9.7% year-over-year while headcount declined 8.3% — a divergence of 18 percentage points. We believe this is one of the strongest headcount-to-revenue decoupling metrics in the IT services industry today.

This divergence reflects systematic changes across how we run our operations and deliver to clients. Internally, AI tools are transforming every non-engineering function — recruitment, RFP response, knowledge management, finance, and HR. We are processing more candidates, responding to more proposals, and managing more client relationships with the same or fewer people. Doing more with less is becoming the signature of every AI-native program we run.

Beyond operations, the shift toward platform-based, fixed-price and output-based engagements means we are monetizing IP alongside headcount. When a client engages with our GAIN platforms, they get a combination of talent, processes, and IP. As that component of our revenue grows, the link between headcount and revenue weakens by design. In a sector where headcount and revenue have historically moved in lockstep, Grid Dynamics is demonstrating that the two can and should be decoupled.

Now about AI-Native delivery. Twelve months ago, AI-Native Delivery was the direction we were heading toward. Today, it's how we deliver. A few examples. At a leading global technology company, we secured a large AI-native, fixed-price project. At one of the largest food distribution companies in the world, we delivered a production solution in half the planned time with 40% fewer engineers. At a leading global technology platform, an agentic solution reduced defect review time from 30 days to 4 hours. Our GAIN platforms are deployed across multiple active projects, and our embedded engineers arrive with codified IP that clients are paying a premium for. The commercial headline is clear: the AI-native model is validating its economics. Our CTO will take you deeper into the technology progress in a moment.

Our vertical diversification continues to reshape the composition of our business. Technology and financial services now dominate our top account relationships. The retail exposure that once defined our revenue mix is now smaller and we are less dependent on them for growth. The growth engine of



this business is firmly in the sectors where AI adoption is accelerating — and that is precisely where we have concentrated our investments and our talent over the past few years.

Our capital markets practice is growing rapidly, with expanding teams across US, UK and India. In manufacturing and supply chain, a leading global energy infrastructure company selected us for AI-native application modernization. A major automotive parts retailer is expanding its modernization program. And a leading global construction and industrial equipment manufacturer is advancing from a discovery to implementation on an autonomous systems program. In Physical AI, our first intralogistics humanoid deployment is on track for delivery at a global pharmaceutical company.

The last couple of years have been a period of transition and execution as the company focused on growing revenue, enabling AI expertise, and improving margins. During this time, our targeted approach to capability-driven acquisitions in Capital Markets and Robotics served us well.

We will enter 2027 in a stronger position. The business is growing, margins are expanding, and the strategic clarity we have built around AI-native delivery, productized engineering, and physical AI gives us a sharper lens for evaluating acquisition targets. We are acquiring capability, domain knowledge, and engineering depth that either accelerates an existing practice or opens a new one.

In 2027, our focus is on building a pipeline of larger and more strategically impactful opportunities. After two years of disciplined execution we are ready to acquire larger companies in 2027.

During the quarter, Grid Dynamics delivered some notable projects:

For a leading global technology company, Grid Dynamics built the data foundation for the launch of a new subscription package that brings together multiple online services as a bundle. The new system enables accurate tracking of the entire subscriber lifecycle, including acquisition, retention, churn, and transitions between subscription offerings, while ensuring reliable revenue attribution and engagement analytics across multiple services. Delivered in time for the global launch, the engagement involved modernizing interconnected production data pipelines, ensuring data accuracy at scale, and establishing a scalable foundation for additional subscription models. The solution provides the critical analytics and financial reporting capabilities needed to support the successful launch of the new bundled offering across more than 100 markets, serving millions of subscribers worldwide.

For a leading US-based global bank, Grid Dynamics continued expanding the enterprise AI platform that powers AI-driven productivity and automation across the organization. This quarter, we delivered new capabilities that enable employees to launch long-running AI agents directly from their AI productivity workspace, as well as a centralized self-service analytics platform that provides management with detailed visibility and control over AI adoption, access permissions, and costs. These innovations enable employees to delegate complex, time-consuming tasks to AI agents, freeing up their time to focus on higher-value work, while giving management greater transparency and control over AI operations at scale. These enhancements extend the capabilities of an AI workspace used daily by more than 180,000 employees across the bank.

For a leading global payments company, Grid Dynamics modernized its core financial crime prevention platform, introducing machine-learning fraud detection models, self-service Anti-Money Laundering capabilities, and agentic AI tools for sanctions research and alert prioritization. The modernized platform now screens approximately 14 million cross-border transactions annually for financial crime, which is a 20% increase year-over-year, while reducing screening time per transaction by nearly 70%. Compliance false positives dropped by more than 90%, significantly reducing unnecessary manual reviews. AI-powered automation saves compliance analysts more than 1,200 hours annually, while self-service capabilities enable teams to launch new AML rules in minutes instead of weeks. The platform also achieved 99.99% availability, supporting reliable, continuous payment processing.

For an advanced humanoid robotics company, we are leading simulation efforts using NVIDIA Isaac Sim and Google DeepMind MuJoCo. We are focused on advanced physics-based simulation to refine complex articulated movements for industrial applications such as welding automation. Leveraging our broader robotics capabilities, our technical scope quickly expanded into autonomy and manipulation

architecture. Next, we plan to extend our engagement by helping the robots better perceive their surroundings and develop more dynamic movements.

With that, let me turn the call over to our CTO, who will present our exciting technology offerings and AI-driven innovations. Eugene ...

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Eugene Steinberg, Chief Technology Officer

Thank you, Leonard. Good afternoon.

Leonard described revenue decoupling from the headcount. Let me show you the engineering behind this process. The mechanism is transition to fixed-price projects and AI native delivery for billable work and doing more with less by using AI for our internal productivity.

It all comes down to one idea: the software factory powered by our GAIN platforms. On every client project, we start by building a software factory, which is a client-specific harness for general-purpose AI coding agents. Since this factory does much of the heavy lifting, this allows a small team to deliver a large scope. Most importantly, it makes change cheaper. Such a factory approach makes projects shorter and more predictable. At the end of the day, this is what allows us to commit to a fixed-price project in the face of scope uncertainty.

Every fixed-price project starts half-understood and half-specified. But much of the detail only emerges during delivery, including problems nobody could predict. In traditional delivery, this risk is covered by padding the timeline and team size.

The factory changes this situation. First and foremost, it makes change significantly cheaper and faster. When something unexpected comes up, the factory rebuilds affected components quickly and reliably so that the project becomes more flexible and easier to manage and control. While AI agents provide the execution capacity, engineers provide specs, exercise judgment, and ensure verification and control. This is why we can bid with an aggressive timeline and a smaller team, while still delivering profitably.

Here is an example: an AI bid manager assistant for a major food distributor. Previously, every RFP bid required hundreds of hours from dozens of specialists. Now, the AI assistant matches the RFP request with the distributor catalog and best supply offers. The first phase of this program is now in production with the goal to achieve faster, cheaper, and more competitive bids.

We are building this program with a factory approach. The work runs in several workstreams of four to five engineers each. These factory teams are measured to deliver twice as much progress as conventional AI-assisted teams on the same program.

When we build a software factory, our GAIN platforms, like Rosetta or Allium, provide reusable engineering components and tools. After the project is done, we carry the learnings back to those platforms to continually compound knowledge.

The critical aspect of AI delivery is security. Clients want the speed of AI native delivery without adding new vulnerabilities, and new agentic threats require an adequate agentic response.



Traditional security tools check code after it is written. We go further by shifting security left. Our AI agents work inside the development process itself, so security checks happen while the code is being specified and developed.

Specifically in capital markets, banks want correctness they can prove in front of regulators. This is where we deploy Allium. It helps to clearly specify functionality, and find and fix vulnerabilities before they might leak into release.

We apply the same factory approach inside Grid Dynamics. It contributes to the productivity gains Leonard described outside client work. Our internal tools team can deliver more with less and growing numbers of agentic applications and workflows already run in a Grid Dynamics environment. We drink our own champagne.

Additionally, we continue to build up Physical AI capabilities, pipeline and projects.

Next-generation robots are trained on a mix of real-world examples and simulation. This is where Grid Dynamic's fits perfectly. We bring deep robotics research, simulation experience, and AI engineering that runs reliably at enterprise scale. We are working with our clients and partners to take AI-controlled robots from labs to the production line.

That is the work behind the two programs Leonard mentioned. One is the autonomous vehicle program of the industrial equipment maker, the other is a humanoid robot for the pharmaceutical company moving materials inside its facilities. Both programs are growing.

Grid Dynamics continues to expand its robotics partnership network, adding three robotics partners in the third quarter. Together we participate in top-tier industry events like GTC in Berlin, actively building our physical AI and robotics business.

The Grid Dynamics Team is proud of the progress we are making on AI transformation and we are excited about the journey ahead.

Anil, over to you.

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Anil Doradla, Chief Financial Officer:

Thanks, Eugene. Good afternoon everyone.

The third quarter came in at \$114.3 million, above the high end of our guidance range of \$112.0 million to \$114.0 million. That represents 9.7% year-over-year growth and 5.7% sequential growth. Our top customers continued to execute well with our top 10 customers growing at 8.6% on a sequential basis.

Non-GAAP EBITDA was \$22.9 million, our highest quarterly EBITDA on record, representing 20.0% of revenues and coming in well above our \$16.5 million to \$17.5 million guidance range. The strong sequential improvement in EBITDA was driven by a combination of strong quarter-over-quarter revenues growth, aided by our cost improvement initiatives and AI driven productivity improvements that resulted in better-than-expected cost of sales and operating savings.

Looking at performance of our verticals:



TMT remained our largest vertical and accounted for 32.3% of total revenues for the quarter, with a growth of 7.6% sequentially and 29.3% on a year-over-year basis. The growth was primarily driven by higher demand from our largest technology customers.

Retail contributed 27.2% of total revenues in the third quarter of 2026. Revenues grew 8.5% sequentially and 13.3% on a year-over-year basis, primarily driven by increased demand from specialty and home improvement retailers.

Finance accounted for 22.5% of total revenues in the quarter. Revenues grew 3.9% sequentially, largely driven by global capital market customers.

CPG & Manufacturing represented 10.9% of quarterly revenues and grew 5.8% sequentially. The growth came from a leading wholesale food distributor and from our manufacturing customers.

Turning to our remaining verticals:

Our Other vertical contributed 5.3% of third-quarter revenues, while Healthcare and Pharma accounted for 1.8% of our revenues for the quarter.

We ended the third quarter with a total headcount of 4,559 down from 4,838 employees in the second quarter of 2026 and from 4,971 in the third quarter of 2025. Our total headcount trend reflects productivity gains, particularly from our non-engineering functions.

At the end of the third quarter of 2026, our total US headcount was 377, or 8.3% of the company's total headcount. Our non-US headcount, located in Europe, Americas and India was 4,182, or 91.7%.

In the third quarter, Revenues from our top 5 and top 10 customers were 45.4% and 63.3%, respectively, versus 40.1% and 58.3% in the same period a year ago.

Moving to the income statement, our GAAP gross profit during the quarter was \$46.1 million, or 40.3%, compared to \$39.6 million or 36.6% in the second quarter of 2026 and \$34.7 million, or 33.3% in the quarter year ago. On a non-GAAP basis, our gross profit was \$46.5 million or 40.6% compared to \$40.0 million or 36.9% in the second quarter of 2026 and \$35.2 million or 33.8% in the year ago quarter. On a sequential basis, gross margin expanded by approximately 370 basis points on both GAAP and non-GAAP basis. The increase in both GAAP and Non-GAAP gross margin percentage on a sequential basis was primarily driven by a combination of improved resource utilization, efficiencies with non-billable resources, and working time.

Our Non-GAAP EBITDA during the third quarter that excluded interest, taxes, depreciation and amortization, other income and expenses, fair value adjustments, stock-based compensation, transaction and transformation-related costs, and restructuring costs as well as geographic reorganization expenses was \$22.9 million, or 20.0% of revenues versus \$14.7 million or 13.6% of revenues in the second quarter of 2026, and was up from \$12.7 million or 12.2%, in the year ago quarter.

Our GAAP net income in the third quarter was \$6.2 million or \$0.08 per share, based on a diluted share count of 81.9 million shares, compared to the second quarter net income of \$2.9 million or \$0.03 per



share, based on a diluted share count of 83.0 million and net income of \$1.2 million or \$0.01 per share based on 85.8 million diluted shares in the year ago quarter.

On a non-GAAP basis, in the third quarter our non-GAAP net income was \$14.7 million, or \$0.18 per share based on 81.9 million diluted shares, compared to the second quarter non-GAAP net income of \$9.0 million or \$0.11 per share based on 83.0 million diluted shares and \$8.2 million or \$0.09 per share based on 85.8 million diluted shares in the year ago quarter.

On September 30, 2026, our Cash and cash equivalents totaled \$304.3 million, up from \$298.4 million on June 30, 2026.

During the third quarter, we repurchased approximately 0.9 million shares for a total consideration of \$6.7 million. Cumulatively, since our Board authorized the \$50.0 million share repurchase program, we have repurchased approximately 5.5 million shares for a total consideration of \$37.5 million, reflecting our continued confidence in the long-term value of the business.

Coming to the fourth quarter guidance, we expect revenues to be in the range of \$113.5 to \$115.5 million. We expect our fourth quarter non-GAAP EBITDA to be in the range of \$20.0 million to \$22.0 million. For Q4 2026, we expect our basic share count to be in the range of 81.0 to 82.0 million and our diluted share count to be in the range of 82.0 to 83.0 million.

That concludes my prepared remarks. 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 today comes from Maggie Nolan of William Blair. Go ahead, Maggie.

Maggie Nolan, Analyst, William Blair:

Hi, I think the video is disabled by the host, but hopefully you can hear my audio.

Cary Savas, Director, Branding & Communications:

Yeah, go ahead. You can start it now.

Maggie Nolan, Analyst, William Blair:

Okay, great. Hi, thank you. And congratulations. Leonard, so much went right this quarter across growth, margins, and productivity. So, if you had to distill it down to what really happened here, maybe. What changed most meaningfully in the business, and how sustainable is that over the next several years?

Leonard Livschitz, Chief Executive Officer:

Thank you, Maggie. You know, it's always good to start the conversation in such a nice moment of time. It's been long awaited for.

Anil Doradla, Chief Financial Officer:

Yeah.

Leonard Livschitz, Chief Executive Officer:

So I think instead of making a long speech about all these details, I think that fundamentally, we have approached the structural change of the company. And, we're making the change implemented through our various organizations. So there are several parts of it. On the client side, you heard the prepared remarks. You will hear from the guys. We're doing more fixed bid projects. We're having a better positioning with the growth of AI implementation solutions. So we're doing the right things, so it actually helps us with the margin profile.

On the cost side, there are several elements. And one of the very key one is that, we've been talking for quarters in terms of that we are the client zero for many of the solutions we roll out to the clients. And that actually helps us with the ability to create more efficient backend organizations: tooling, recruiting, hiring, operations.

You've noticed there is, probably, the most significant diversions from the perspective of revenue versus headcount. And that's a reason for that. And the reason being is, not only we're automating more of the solutions, but we are impacting virtually the ability of us to kind of consolidate many of the functions.

Remember, in 2022, we kind of grew to so many countries, and we had to contain the ability to actually manage the organization through all these different countries and offices. I think we've come to the point, we are fully in control. So that's one thing on the cost side. The other one is, again more efficient deployment of engineers. I think we are having more predictive tools. We understand where technology leads, so we can have enough time to prepare the engineers and proper right size the teams where they're properly deployed.

Maggie Nolan, Analyst, William Blair:

Thank you. Very helpful. And then Eugene, you know, as CTO in the middle of this transformative technology cycle, I'm curious where you're spending most of your time and how that's maybe shifted over the last year.

Eugene Steinberg, Chief Technology Officer

Yeah, I'm spending my time ... I'm spending my time across the three horizons I've been, always, talking about on these calls. I'm scaling things which work. Things like AI-first modernization of applications and data, GAIN platforms, which are taken off the ground, and scaling. On the second horizon, I'm working to nurture and help to take off the ground the things which are emerging, like AI harness engineering, physical AI projects. And of course, I'm always looking ahead, and what happens next, things like AI native cybersecurity, sovereign AI, and many other interesting emerging themes, which we consider as the next horizon for us.

Maggie Nolan, Analyst, William Blair:

Great, thank you.

Anil Doradla, Chief Financial Officer:

Thank you, Maggie.

Cary Savas, Director, Branding & Communications:

Thank you, Maggie. The next question comes from Puneet Jain of JP Morgan.

Go ahead, Puneet. You can start your video now if you need.

Puneet Jain, Analyst, JP Morgan:

Hey, thanks for taking my question. So you recently announced winning, like, the Partner of the Year award at Sysco. Given that the client also works for... works with other large vendors that have much larger accounts, could you share, like, how you were able to outperform other vendors, how you were able to punch above your weight, if you will, at that account? And is that replicable at other accounts?

Leonard Livschitz, Chief Executive Officer:

Sure. Well, the hero of the day is not here today. We will have our earnings call early next year, and you will have Vasily, who runs our sales operations. He will tell you all the details, but I was actually, Puneet, very intimately involved with the account as well. So, what happened is, many things start with the understanding of the customer tasks. And usually for Grid Dynamics, you know, you need to rely on the previous background, even though it's not a traditional retail, but it has many things logistics related to B2B instead of B2C, we developed and governed many of the capabilities and accelerators well in advance. So the people who we engaged with, they actually realized that our expertise would give us a good chance to start the relationship.

What happened then, it was not your typical land and expand. Of course, the common gravity was the partnership with one of the major hyperscaler but then we had a runaway train because we quickly not only uncovered the challenges the customer needed to solve rather rapidly but scaled the solution and proved the real-time return on investment fairly quickly. So to make the story short, we're well-positioned in multiple regions. The customer utilizes us across the globe. Right now, part of our team is actually in one of their offshore locations, helping them to catch up, because we are very, very friendly with the clients. We don't want to, you know, cannibalize everything from themselves to take over. Our business is to be partnering with them. So the business is growing, and I was there at the presentation, and what really humbled me is how necessary and how timely our engagement has happened. So, capabilities, unrelentless support, knowledge, and factual performance.

Puneet Jain, Analyst, JP Morgan:

No, that's great to hear. And, also nice to see this new factory approach. But given the adoption of this new model will require thousands of employees across the globe, embracing and execute against this delivery model. So, talk to us how you..., like, your approach to achieve that, both from a change management perspective, as you de-link revenue from headcount, headcount was down this quarter, as well as from a technical skill perspective for your employees?

Leonard Livschitz, Chief Executive Officer:

Well, there are multiple facets of this question. You know, I think Puneet, you asked to show the secret sauce of Grid Dynamics. And there are many spices. So maybe it's good to wait for a celebration to give you some more. You know, runway, but in short, there are a few key elements. First of all, it starts with

a really tiresome, or I would say not tiresome, shoulders of our CTO and his organization. Many of the practices, when it comes to the implementations, need to be trained and run internally. We need to evaluate multiple models. We need to weed out solutions, which perhaps are a bit too optimistic, and more important, you know, being a gifted company as we are, we need to make sure that there's no overreach and overextend, you know, there are companies who are reporting on that season, and some of them are very much overextended. We don't want that to happen to our clients. So I think what happens, and first and foremost, we build a mousetrap for the client to deliver the capabilities within a reasonable time and control cost.

Of course, the solution changed rapidly, so we have to build more and more internal know-how, which we do. But the pressure comes on actual implementation teams. And that's where you..., and you will see that a little bit as we come forward, that we have more on-prem, onshore resources, our talented enterprise architects, and our leading specialists who work very closely with the customer, trying to track down exactly what they need. And this is ultimately what fixed projects are.

You have to be able to understand the much higher level of granularity: the expected outcomes. So we're learning that we're training that, it's on our R&D side, on the delivery side. And it also really comes from the ability for the customer to build their stepping stone in the solution. We're not offering just one solution fits all. And that's why we kind of enjoy being placed between two very large campuses. So we're not heavy on OpEx, we're not spending a huge amount of money on the back end, you know, hardware capability, and we're not married to one particular enterprise software product. So we're kind of on our groove with the AI deployment solution, as we were years ago in digital transformation and cloud migrations.

Puneet Jain, Analyst, JP Morgan:

Got it. Thank you.

Anil Doradla, Chief Financial Officer:

Thank you, Puneet.

Cary Savas, Director, Branding & Communications:

The next set of questions comes from Bryan Bergin of TD Securities. Go ahead, Bryan.

Bryan Bergin, Analyst, TD Cowen:

Hey, good afternoon, and good to see you.

Anil Doradla, Chief Financial Officer:

Hey, Bryan.

Bryan Bergin, Analyst, TD Cowen:

I wanted to start first... Hey, I want to start first on the encouraging commentary here on 2027. So the growth profile that you see, the recovery there getting back to double digits, but you know, not trying to get too far ahead of ourselves, but just based on what you're seeing in the conversation today, do you expect the growth to kind of be more broad-based growth attribution across industries and across clients, or is it more so you have visibility into some of these really large, strong relationships and that they're going to really carry the load or continue to carry the load?

Leonard Livschitz, Chief Executive Officer:

It's a little bit of both. I think Bryan the right answer is the clients where we have a very strong long lasting relationship, we do a lot of experimentation, we see a little bit better. The...you know, the budget versus returns going more than just a quarter ahead, and sometimes more than a year ahead. We started signing much longer deals than we had before. So this is factual. And that gives us a little bit more productivity from a planning perspective.

You have been with us for many years, and you've been instrumental with us. The biggest question is, how the engineering company can live out of every quarter resigning new SOW, right? So that has changed dramatically. We expanded it beyond the year more horizon. We're not there yet on a BPO type of style, you know, five, seven years renewables, but we are getting very, very well controlled. So that's on existing clients. The partnerships brought us to the clients who need solutions the most right now, right? And those relationships start accelerating way more faster than they were before.

You know, typically, in the past world, we would start with the proof of concept, and it would take 3 to 6 months just to analyze the situation. Now, it's a fail fast. In other words, we quickly determine what works what doesn't work. Something always works in a new world, right? So we just need to be experts on consultancy, technology consultancy, which we have become and growing. So when we looked at forecasting the business, you know, it's too soon to guide exactly where we are, and you guys love the numbers. And for me, I just look at now, and I look back where we were during the good years, and I see so many proven similarities. So that's why we look for the next two-three years with a very high level of confidence, plus the mousetrap is widening, and there are more and more partners creating the relation with us in new verticals. And those verticals may not give us revenue in the next three to six months as much as the existing business, but they're rapidly getting deployed.

Anil Doradla, Chief Financial Officer:

And adding one point to that, Bryan, if you look at our top customers, we talked about this, right? Vendor consolidation. So as vendors are getting consolidated, we get more wallet share, too. So we're seeing that also.

Bryan Bergin, Analyst, TD Cowen:

Okay. All right, very good. My follow-up is on the announcement we had this week on the business consulting launch. So, as it relates to a couple here, really, how much of this opportunity would you say is incremental kind of consulting-led spend versus simply pulling forward AI engineering work you were already pursuing? Kind of what you see as being the biggest challenges as you try and blend this model with the engineering prowess that you have? And just how would you say it's different than traditional management and advisory consultancies?

Leonard Livschitz, Chief Executive Officer:

Okay, well, I think we'll split the question with Eugene. You want to start?

Eugene Steinberg, Chief Technology Officer

Yes. So the business consultancy which we are talking about is not about strategy. It's about functionality and the product. What is happening right now is with AI agents which are doing the heavy lifting of the coding itself, the value shifts very quickly towards what to do and why? And this is where we see a lot of value which we can bring advising our clients not only on how to do things, but also

what to do, why to do that, and bringing our best specialists, architects and product managers to the forward deployed roles and help them to get their head together what is possible right now with AI, where to invest and how to connect all these to technology. This is the essence of this practice right now, not talking about grand strategies of customers.

Leonard Livschitz, Chief Executive Officer:

Well, and also to add to that, I think it's important to understand, Bryan, that the definition of, as Eugene alluded, to the... business consulting has changed. Some of those companies who are very strategic business consultants come to us. And they want us, together with them, to create this kind of gap filler between the high-level business needs and realistic implementations. We usually worked, as you know, historically with the technology teams: with the CTOs, CIOs, VPO engineering, in some cases, marketing people. Now we're going to be instrumental across all the facets of the companies because they want to see their spend to be projected and understood for years to come. And of course, with the token factories, with all this spend, many of the top decision makers and boards are a bit worried. So we're giving them a bit more, I would say, concise and more confident roadmap of how the spend will convert into some of the solutions we're offering as engineering organizations.

Bryan Bergin, Analyst, TD Cowen:

Okay. All right, very good. Thank you very much.

Anil Doradla, Chief Financial Officer:

Thank you, Bryan.

Cary Savas, Director, Branding & Communications:

The next set of questions comes from Mayank Tandon of Needham and Company. Go ahead, Mayank.

Mayank Tandon, Analyst, Needham & Company:

Great. Thank you. Congrats on the quarter.

Anil Doradla, Chief Financial Officer:

Thank you, Mayank.

Mayank Tandon, Analyst, Needham & Company:

So I wanted to just start with Anil. You made a comment about growth potential within your top five, top 10 accounts. So, how much capacity do you have left to grow with them? And then, as you've tried to grow low double digits or whatever, I think Leonard mentioned double digits. I shouldn't say low double digits. Do you need a certain level of new logo activity to be able to drive that level of growth, or can you grow within your existing base, and growth from new logos would be maybe more gravy on top of that?

Anil Doradla, Chief Financial Officer:

So, look, I mean, if I look at the wallet spend of my top 10 customers, I think we're not even a rounding error at this point. I mean, it's been very small portions. Mayank, if the question is, based on the spend of our top 5, top 10, top 20 clients, can we continue growing? The answer is yes, and you've seen it, right? Our top five, top 10 continue to grow quarter after quarter, year after year. I think a couple of things are changing. Grid Dynamics is approaching half a billion. We're now, I call, a global company, a truly global company, where we are having our engineers in the locations where most of our global

clients are. So the way they're treating us is slightly on the higher scale, so to speak.

And I made a comment with, I think it was Puneet or Bryan. Vendor consolidation is a very important theme over the last two years. See, at these very, very large logos, they've got dozens and dozens of partners. And as this technological revolution is taking place, they want to focus. They want to consolidate. Grid Dynamics was always an outlier. Our DNA, our structure, and you know, another interesting thing in the past, scale was considered a positive thing. Now, the lack of scale or smaller size is considered a very positive thing.

So the number of conversations we're seeing with C-level Fortune 1000, Fortune 100 customers, I love your size, Grid Dynamics. You're in the 4-5 thousand. You know, when we kick off this AI project, 50 people, 100 people, you bring the granularity, you bring the focus, you bring a high quality. When we look at the well-established vendors, they're in hundreds of thousands, and they're still thinking in terms of headcount. So I gave you a little bit long answer, but in a nutshell, we will continue on.

Now, Leonard pointed out something on the partnerships. That's very exciting. And through partnerships, we find we get different types of clients, clients that we never were able to get access to. And in some cases, these clients have grown very fast. So, the pipeline of new clients through our partnership is a multiplier effect, and within our existing book of business, we're just becoming more meaningful to our partners.

Leonard Livschitz, Chief Executive Officer:

So just to be very clear, Mayank, we can grow double digits without major new finds, where we would need to go and search like a new business with a new client. There is, as Anil said, there is a strong position with existing clients, top 10, 20. The share of the wallet goes up. At the same time, you know very well, there were years, and it may happen in the future as well, there could be some of the fluctuation with these clients. So now we have the faster growing acquisition of the new clients. We talk about Sysco Foods. It has been a matter of two years when we got to that level and faster. But even more on the technology side, on the capital market side, on the manufacturing, industrial, on robotics, on solutions for pharmaceutical companies, US, Europe, south-eastern Asia.

So, just the sheer momentum is exactly where we want to be to be confident on the growth. And of course, being where the clients are. I think they need to have fewer but extremely relevant people. And we may not be staying at this 4,000 to 5000 people. I think we're going to grow. But it's not going to be incremental growth to meet the client demand proportionally to the headcount. We crossed 100,000 per employee, we crossed significantly faster than we expected, and we're growing, of course, by billable engineers and all this good stuff. So, just keep watching us.

Mayank Tandon, Analyst, Needham & Company:

Very helpful. That's super encouraging to hear. And then maybe turning to margins. Obviously, you're going to end up with your target goal of 300 basis points year on year. So, just thinking about 27, again, not looking for specific guidance, but just directionally. As you approach half a billion dollars in revenue, potentially with double-digit growth, how should we think about gross and EBITDA margins into 27?

Anil Doradla, Chief Financial Officer:

I knew this was gonna come. Look, I mean, you're absolutely right. We delivered one quarter before. But remember, the work started in Q4 of last year. Right? This is not something we've started working on one quarter, 2 quarters. It's been in the works for some time. The timing happens as that, you know, sometimes things align sooner, we're executing better. I think, in Leonard's comments, a very important thing he said, which is structural.

Look, and now I know we're very excited that our margins are getting up, but look back, way back when? We're approaching our historical margins, right? So it's not like we've never done this. We used to do it, but obviously, over the last 3 years, you know what happened. So we're approaching that. All the things that we're doing are not a one-quarter thing, right? Whether it's on the COGS side, whether it's on the OpEx side. And we've listed almost half a dozen of these. So all I can say is that some of these things that we're doing are not one-quarter. Obviously, you're going to have seasonality in the course of the year, so you know, that goes without saying. And what we are trying to get to is a company, as we get into 2027, where we have a certain growth vector on the revenue and a certain structure on the margins. So I'll just leave it at that, and look, we'll come back and give more color.

Leonard Livschitz, Chief Executive Officer:

And Mayank, very important from me, as a CEO perspective, we're not trying to squeeze the water out of the stone. There are a couple of areas where investment will only continue to grow. There's unrelentless commitment to technology investments. We have to do it. This is the foundation. And training and developing proper engineers. You know, we talk about 90 plus percent, you know, SDLC training, we're you know, leveraging our GAIN model, 93 plus percent. Those are not just numbers. This is huge work behind the scenes. And to me, we will properly position ourselves from a margin investment perspective to make sure you guys will see our growth continue for a long time.

Mayank Tandon, Analyst, Needham & Company:

Great, thank you. Appreciate it.

Cary Savas, Director, Branding & Communications:

Thank you.

Anil Doradla, Chief Financial Officer:

Thank you, Mayank.

Cary Savas, Director, Branding & Communications:

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

Surinder Thind, Analyst, Jefferies:

Thanks, guys. I'd like to revisit the margin debate or question here. Obviously, there's a big boost in margins between where you were in 2Q versus what you're producing 3Q and the guide. How should we actually think about the run rate at that point, right?

Anil Doradla, Chief Financial Officer:

Yeah.

Surinder Thind, Analyst, Jefferies:

I mean, we're talking about completely different levels of margin versus a blended year-end rate, right? Is 4Q the right starting point for seasonality? Or how should we think about that, or is there some one-time adjustments that we need to think about here?

Anil Doradla, Chief Financial Officer:

Yeah, so let's look at what happened during the optics of it, right? Revenue grows up by 6... 1 million. The COGS is flattish, the OpEx goes down a little bit. So effectively, the revenue pickup happens because of... you have more billable headcount. The other very interesting thing is, look at the average revenue per person. So, the margin... the contribution margins are also picking up at an individual engineer level, right? And there are reasons for that.

On the COG side, we made comments. There's more efficiencies due to the incorporation of these tools, AI included. There is more upskilling in there, and also, there's more utilization. Of course, in Q3 we had working time. There was a benefit from there.

Surinder Thind, Analyst, Jefferies:

Yep.

Anil Doradla, Chief Financial Officer:

And as you go down on the OpEx, we started our efforts late last year, and we fully realized the benefits in Q3. So there was a little bit of a compounding effect by the fact that it was Q3. Now, the question is, look at where we are on Q4, 20 to 22 million EBITDA, right? I mean, you do the math, obviously, there's a setup point. Now, historically, you know, as we went from, call it, Q3 to Q4, somewhere in that range, maybe a step below flattish. We've been there. But the point is, we enter 2027 with a fundamentally different structure. And it's a structure that involves headcount. It's a structure that involves tools, and it is a structure that, to some extent, involves clients that are paying us differently as you get more and more AI projects. Now, as we go into Q1, you have seasonal. That's the lowest margins every quarter, right? Every... in the whole year.

But, I like to believe that we are entering 2027 structurally different than what we have had over the last couple of years. Now, I have to balance that with investments, as Leonard said, there's a lot of work going on robotics. There's a lot of work going on physical AI, a lot of work going on cybersecurity. So there will be some investments. But in general, the average revenue per engineer is going up. The contribution margins of engineers are going up. And we're benefiting from a little bit of a decoupling of spending money. So I think these things are all playing out. Now, I thought it would show up in Q4. It just happened to show up in Q3.

Surinder Thind, Analyst, Jefferies:

Fair enough. And then where does that actually put you guys at, from a utilization perspective? So are you at the target that you want to be at? Or is there more that you can squeeze here? To Leonard's point about not wanting to squeeze too much.

Anil Doradla, Chief Financial Officer:

So, look, I mean, we've always had a great handle on utilization. We've always had that. Now, if you look at, you know, some of the headcount metrics that you saw out here, maybe a little misleading because it's not like there was a big change in our engineers, total number of engineers. What ended up happening is that we've obviously had greater conversion to billability. So, in terms of our utilization,

you know, we have some movements every quarter, but we're not expecting a very fundamental change. You will see an increased headcount as our revenue picks up because we benefited in 2026 with some of the non-engineering resource optimization. So, you're seeing some of the benefits there. But in terms of engineering headcount, the utilization levels are in the same range, and we expect that to continue on.

Surinder Thind, Analyst, Jefferies:

But then, I guess as a point of clarification here. The reduction in headcount that occurred. How much was billable and how much was non-billable?

Leonard Livschitz, Chief Executive Officer:

So we don't guide on the specific breakdown, but pretty much it was all non-engineering. So instead of talking about the billable/non-billable part, we'll talk... I'll mention to you about utilization. The majority of reductions, significant majority, was purely from the non-engineering headcount. When it comes to... I understand where you're coming from. I think the rate of speed, how we deploy people, the time to billability becomes shorter. The onboarding become shorter. The training of people in advance, because again, the technology structural solutions become available sooner. So we're able to determine what kind of skills most relevant to the client become faster. So it's an efficiency game, not the reduction of engineers.

Surinder Thind, Analyst, Jefferies:

Fair enough. And then, as a follow-up, just commentary on it sounds like you're gearing up to use the balance sheet at this point for M&A. It sounds like you're working on some maybe a bigger deal in the pipeline, pipe... or bigger deals. How should we think about your capital allocation at this point? What's the minimum you want to keep your willingness to lever-up? Or where you want to end up from a capital structure perspective? Or how big a deal can you do at this point? And maybe what you're interested in from a technology perspective?

Anil Doradla, Chief Financial Officer:

So, I think the way I'll answer is pretty much the way Leonard commented, but it's very important. The last 24 months has been... changes in the environment, right? You know, we don't have to go through it. And we've done a lot of work. We enter 2027 with incremental confidence. We feel really confident about where we are, how we are settling in both, from the number of countries where we're located, the skill sets, the upskilling towards SDLC.

So we've gotten our house in order. Now the mandate from the board and Leonard to me is we need to, now, scale. So look, I'm not going to say what's in the pipeline or not, but the appetite right now is for larger acquisitions, which we hope to do in 2027. Now, as you know, Surinder, that it's not done till it's done, right? Of course, we've had many close calls, but the intent is there, and we are entertaining. And the areas that we want to entertain are areas where we want to scale some of our skill sets, entering into some of the new ones. And we believe we're ready in 2027.

Surinder Thind, Analyst, Jefferies:

And then in terms of the skill set, is there any appetite for when you start to think about the evolution of some of the consulting businesses towards a more product-oriented strategy, how do you guys think about that versus adding more, I'll just say technical skills or services oriented skills versus maybe coming in with a more of a product bend on perhaps a particular vertical that you're interested in?

Leonard Livschitz, Chief Executive Officer:

Yeah, I think we went a little bit too far, Surinder, in terms of philosophical discussion. Obviously not this quarter. The overall discussion in terms of what solutions and offerings can become a full-fledged product is an internal discussion between the services and consultancy. And everybody said, okay, if you have some solutions, you can, you know, kind of lean upon your business better. And that's what we do.

When we talk about product versus services, we're a services company, and we have a very clear path where the customers, where the partners are looking for us. Our job today is to assist our partners, our infrastructure with building accelerators on top of what they offer. When in terms of the pure product side, you may have seen some of our, I would say, explorations, but we're very, very clear, we're not competing with our partners. We are complementing, adding. Sometimes you build a solution, it's pretty much a product, but then you work with both vendors and clients to make it work. That ecosystem is very strategically aligned. So, I think more discussion about the topic would be great for our Investor Day when we announce, I mean, we're happy to have much longer conversation, but I appreciate you thinking about it, because obviously everybody wants to have even higher revenue per person. And from that perspective, obviously, we can serve many avenues.

Surinder Thind, Analyst, Jefferies:

Okay, I really appreciate the patience here, so thank you for the for answering the questions.

Anil Doradla, Chief Financial Officer:

Thank you, Surinder.

Leonard Livschitz, Chief Executive Officer:

Thank you very much.

Cary Savas, Director, Branding & Communications:

Ladies and gentlemen, this concludes our Q&A session for today. I will now pass it over to Leonard for closing comments.

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Closing Comments**Leonard Livschitz, Chief Executive Officer:**

Q3 2026 was a quarter of Grid Dynamic's success. The results validated our vision, strategy, and execution. Record revenue, record EBITDA, and AI-native platforms in production at some of the world's largest enterprises. Margin improvements that are structural and durable and a business increasingly anchored in verticals where AI is moving fastest. I am confident in the fourth quarter and in the momentum we are carrying into 2027.

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