GLOB Earnings Call Transcript

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Quarter: 2

Arturo Langa: Good afternoon, and welcome to Globant's Second Quarter 2025 Earnings Conference Call. I am Arturo Langa, Investor Relations Officer at Globant. [Operator Instructions] Please note, this event is being recorded and streamed live on YouTube. By now, you should have received a copy of the earnings release. If you have not, a copy is available on our website, investors.globant.com. We will begin with remarks by our Chief Executive Officer, Martin Migoya; our Chief Financial Officer, Juan Urthiague; and our Chief Technology Officer, Diego Tartara. This will be followed by a Q&A; section. Before we begin, I would like to remind you that some of the comments on our call today may be deemed forward-looking statements. This includes our business and financial outlook and the answers to some of your questions. Such statements are subject to the risks and uncertainties as described in the company's earnings release and other filings with the SEC. Please note that we follow IFRS accounting rules in our financial statements. During our call today, we will report non-IFRS or adjusted measures, which is how we track performance internally and the easiest way to compare Globant to our peers in the industry. You will find a reconciliation of IFRS and non-IFRS measures at the end of the press release we published on our Investor Relations website announcing this quarter's results. I will now turn the call over to Martin Migoya.

Martin Migoya: Good afternoon, everyone, and thank you for joining us once again for Globant's quarterly earnings. It's always a pleasure to connect and share how we are continuing to evolve and improve. For us, innovation and reinvention are occasional events. They are part of our DNA. And right now, we're building on that tradition with a clear and steady focus on the future. In the second quarter, we delivered revenue of $614.2 million, representing 4.5% year-over-year growth. Our pipeline is at all-time high, $3.7 billion, up 25% from last year. Although the macro environment has extended sales cycles, our teams are laser-focused on converting this pipeline into signed work in the coming quarters with large potential deals in health care, financial services, CPG and gaming, among others. These large engagements, many already in advanced stages, position us well for conversion in the coming months reinforcing our focus on high-value clients with strategic impact. Internally, we are fine-tuning the organization to be not only more efficient and profitable, but also more nimble and better aligned with the needs of the next generation of business models. Our aim is to ensure Globant is structurally agile and positioned to compete and win in an evolving landscape while continuing to deliver strong results for our shareholders. Juan will walk you through the details shortly. Globant's AI pods, which I introduced last quarter, are the virtual teams for the digital workforce. They are powered by Agentic AI and orchestrated by our experts. The way companies access our AI pods is unique in the industry through our monthly subscription model. It is a consumption-based outcome-aligned pricing that provides guaranteed time and cost savings shifting the value proposition to concrete results. After just 1 quarter, we already have 18 clients who have chosen this new model, and our subscription model accounts for a significant portion of our recent pipeline growth. We look forward to expanding this in the future. The AI world is moving at incredible speed, and there are 2 major races going on. The first is over who builds the best foundational models or agents. And that race is OpenAI, Anthropic, Meta, xAI and other. Every week, new models, frameworks and tools emerge, but this is not our race. The second is about who applies AI better, faster and with greater return on investment on specific business cases for every company in every industry. For companies, the expansion of all these new foundational

models present an immense opportunity, but also a challenge of determining the right combination of models, tools and approaches for their specific needs while managing data privacy and compliance. It is more like entering in a dense and constantly changing forest where familiar paths disappear and new ones open overnight. In that environment, you need not chest him up, but an experienced guy who knows how to adapt the route as the terrain shifts. At Globant, we take on that role, helping our clients find the safest and most effective path forward. We remain 100% client-centric while leveraging our deep partnerships with all major AI leaders to ensure our clients get the best of each ecosystem. This means we can select or combine the most advanced models and capabilities available in the market, integrating them in ways that are tailored to each unique task and business context. Globant Enterprise AI is the toolkit we bring into that complex forest. It is the golden path for our customers' generative AI adoption and impact. Offering seamless access to all major LLMs, it provides traceability, auditability and granular access and cost control. It includes a library of hundreds of industry-tailored plug-and-play business processes and a state-of-the-art retrieval augmented generation pipeline optimized for proprietary corporate data, delivering faster, more relevant and contextual precise insights. Enterprise AI integrates with major enterprise platforms, manage AI-driven workflows across department, connects human teams with intelligent agents and is fully compatible with A2A protocols and MCP servers. The platform use a token-based execution model to align AI usage to measurable business value. We launched the 2.0 version of Globant Enterprise AI. Diego will go into more detail on this shortly. When you combine that with the industry-specific expertise of our AI studios, you get a fully integrated engine for transformation across the entire AI value chain. We go beyond offering AI services. We architect and connect every layer of the AI stack, then deliver it as scalable subscription-first solution. Our AI studios continue to drive deeper engagement with major global clients, unlocking cross-selling opportunities and deploying specialized talent from across our global network and restricted by regional boundaries. Part of growing is partnering with the best. A couple of weeks ago, we announced a multiyear collaboration with OpenAI as one of their few global services partners. By combining their world-class models with our engineering capabilities, we're delivering secure, responsible and scalable AI adoption worldwide. We're already integrating GPT-5 across all layers of our enterprise AI platform and embedding it into our AI Pods processes. Along a similar line days ago, we took a big step forward by becoming one of the few global partners to sign a strategic collaboration agreement with Amazon Web Services. Diego Tartara will expand on this later. We have teamed up with LaLiga, Spain's premier football league on a multiyear transformation program through Sportian, our sport tech joint venture. This is not just a technology project. It is a game changer. By embedding our AI pods at the heart of their operations, we will unlock the full power of AI agents in sports to boost team performance, deepen fan engagement and drive operational excellence across the league. It is a clear example of how global enterprise AI is helping world-class organizations to embrace AI at scale and win in the most complex high-profile arenas. We have strengthened our position in the robotics and AI ecosystem by investing in InOrbit, a leading robotics integration company. This expands our capabilities, enabling advanced orchestration of different fleets of robots and autonomous systems across industries. It ensures we can integrate physical automation into enterprise workflows at scale, connecting AI agents not only to digital process, but also to real-world robotic operations. Today, our revenue mix is more diverse than ever. North America remains our largest market with 54.1% of our revenue. Latin America accounts for 19.7% and is showing strong recovery with new records in bookings. Europe represents 19.6% and is our fastest-growing region sequentially, up 8.1% with major wins in aviation and financial services. New markets grew an impressive 84% year-over-year and is currently 6.6% of our total revenue. The Middle East leads this surge, driven by our work on several Giga-projects. Our 100 square program continues to gain momentum with our client base growing and diversifying. And Diego will share more on recent client wins and large-scale engagements that illustrate this strong momentum. 49 clients now generate more than $10 million in annual revenue, up from 39 a year ago. 339 clients generate over $1 million annually, up from 329 last year. Over the past 21 years, we have earned a unique position in our industry by fusing advanced technology, human creativity and a deep understanding of our clients' needs. In 2025, the complexity of the environment is matched only by the scale of the opportunity as AI redefines business models, value chains and competitive advantage. Our mandate is to help clients

navigate this change with precision and foresight, capturing value across every layer of the AI stack. With AI Pods, our subscription model, AI studios and the 100 square approach, we're delivering Globant as a full stack AI company, one that designs, builds and integrates technology platforms and industry-specific expertise into scalable solutions. This integrated model ensures we remain not just relevant but indispensable as enterprise embrace the AI-powered future. We're as energized by the challenges ahead as we are by the opportunity. And with this team, I have no doubt we will capture them all. Thank you very much.

Arturo Langa: Hello, everyone. I'm happy to be back. I want to expand on the offering of Globant's Enterprise AI 2.0 version that now includes and Agent to Agent and the marketplace of Agent for its users, among other new features. It enables a full AI adoption addressing 3 core needs of our clients. First, governance. Organizations need to be in control of their own AI journey with strong security, risk management, traceability and guardrails for both models and conversations. Globant Enterprise AI provides leaders with the control they need to map their exposure to both cost and risk. Second, build capability. Companies need the tools to create and deploy solutions connected to the enterprise systems. Globant Enterprise AI platform is home to the lab for Agent creation, orchestration and ensuring interoperability. As of this quarter, the lab now supports the model context protocol and the agent-to-agent protocol. These enhancements allow seamless integration of agents and tools from across the AI ecosystem like Google Cloud, Azure AI Foundry and Amazon Bedrock. And third, impact, the ability to explore, combine and share solutions and to operate them so they can generate measurable business outcomes. This is where AI moves from pilot to scale adoption, ensuring that investments translate into tangible value across the organization. In this layer, we have recently launched a specific module for our clients called the station. It offers a curated searchable library of in-house built AI agents tailored to diverse business and industry needs, streamlining discovery while removing friction. With just a few clicks, users can now deploy agents via intuitive orchestration tools, speeding time to experimentation and value. Organizations using Globant Enterprise AI have reported an 80% reduction in legacy systems modernization times and a 50% increase in software development costs. Globant Enterprise AI also powers a lineup of hundreds of industry-specific agents along with 3 flagship agents tailored to each of our core studios. Globant CODA is our Agentic suite for our digital studios, a key component of how we reimagine software development life cycles and how we deliver value. Navigate for our enterprise studio. It optimizes business operations and performance and FUSION from GUT Studio launched at Cannes Lions this year, it enhances full funnel marketing, communications and advertising. It streamlines processes from content creation to campaign optimization. Now let's discuss our work with some fascinating clients as we partner with them on their reinvention journey. In gaming, we're working with one of the leaders in producing real-time 3D content to deliver interactive solutions to high-growth sectors, including digital twins, automotive, health care, life sciences and manufacturing. By employing our global delivery network, we will be helping this company to expand to new commercial markets, unlocking new business for them. On the technology side, we will be integrating their products into enterprise technology stacks, supporting new go-to-market strategies and codeveloping tailored solutions. Our sustainable business studio is proud to be collaborating with the Worldwide Fund for Nature. Together, we are developing tools that link traceability with carbon footprint assessments. This initiative engaged multiple stakeholders, including national agribusiness entities, industry leaders and civil society, facilitating the transition towards more sustainable meet production practices. The complexity and the time-sensitive nature of the challenges the WWF faced led them to unlist our low-code GeneXus platform. This collaborative effort will accelerate the adoption of sustainable practices, support regulatory compliance and empower producers globally. We're excited to announce a partnership with a world leader in premium spirits to develop a generative AI-powered commercial insights agent. This innovative tool will provide our clients' employees with immediate access to critical data insights, streamlining decision-making in product development, marketing, sales and strategy. By automating data retrieval, we are helping them to reduce the time and cost of traditional business intelligent workflows, allowing the teams to focus on strategic initiatives. The agent will enhance efficiency through self-service decision support and tailored recommendations. This initiative is just the beginning as the commercial insights agents will lay the groundwork for future applications in brand planning, commercial forecasting and innovation. We are

redefining the potential of AI-powered enterprises and unlocking new growth opportunities. Regarding our partnerships, days ago, we advanced our relationship with AWS by establishing a strategic collaboration agreement to accelerate AI adoption and enable Globant to provide clients in specific industries with enhanced support for cloud migration, generative AI adoption, industry-specific solutions while helping them to optimize their cloud usage and manage expenses efficiently. We're collaborating with Salesforce to deploy Agentforce and Data Cloud across multiple industries, automating their teams and enhancing their ability to support their customers, tailor marketing journeys and better segment their clients. As Globant's creative industry pillar, GUT advanced on large-scale projects for top brands, including Progressive, Procter & Gamble, DoorDash and more as well as new projects for Havaianas, RIMOWA, among others. Thank you, everyone, for joining us again.

Juan Ignacio Urthiague: Hello, everyone. I will now review our Q2 2025 financial results before providing our outlook. Our performance this quarter is very aligned with our expectations back in May. Revenue for the second quarter came in at $614.2 million, representing 4.5% year-over- year growth or 1% in organic constant currency and 0.5% growth sequentially. Our non-IFRS adjusted operating margin was 15% for the quarter, holding steady despite some FX headwinds in LatAm currencies and demonstrating pricing and cost discipline in a tough market environment. Non-IFRS adjusted diluted EPS for the quarter was $1.53 an increase from the $1.51 we reported in the second quarter of 2024. Turning to the balance sheet. Our cash and cash equivalents and short-term investments totaled $174.2 million. Net debt as of June 30 was $255 million. During this quarter, we increased our debt capacity to up to $1.1 billion. Free cash flow for the quarter was negative $2.9 million compared to negative $28 million from the same period last year. As always, we expect to generate strong free cash flow during the second half of the year. This quarter, we executed a business optimization plan. As explained by Martin, during Q2, we launched a new go-to-market strategy centered around our AI industry studios and our 100 square accounts. The recently launched Globant subscription model based on AI and our proprietary Globant Enterprise AI platform is getting traction with our customers. While we have delivered strong growth for many years, we have observed a more tempered demand environment over the last few quarters. The business optimization plan is part of our response to this organizational and demand changes and to best position ourselves for the next wave of growth. The primary goal of this plan is not only to protect our near-term profitability, but more importantly, to create the capacity to increase our investments in strategic growth areas for the rest of 2025 and beyond. This plan ensures we have the right talent and resources to execute on our AI-centric strategy and capture future opportunities while managing our cost base on the current market. The main actions under this plan included a comprehensive review of our workforce to align skills and size with our strategic priorities, which resulted in a reduction of approximately 1,000 employees or 3% of our workforce during Q2, a consolidation of our global office footprint based on an analysis of our facilities and lease contracts and the strategic prioritization of our delivery centers to support future expansion. In connection with these actions, we recorded a onetime charge of $47.6 million in the second quarter. This plan should generate $80 million in annualized savings. These savings will be critical in protecting our profitability in the short term despite FX headwinds in LatAm and will also be reinvested to fuel our growth engines, specifically our AI platform development and our people. We are taking decisive action now to build a more resilient and agile organization, ready to lead when the market accelerates. Now let's talk about our business going forward. Based on current visibility for the third quarter of 2025, we expect revenue to be at least $615 million, which implies 0.1% year-over-year growth. This expected growth includes a positive FX impact of 50 basis points. We expect a non-IFRS adjusted operating margin to be at least 15% and the IFRS effective income tax rate is expected to be in the 20% to 22% range. Non-IFRS adjusted diluted EPS is expected to be at least $1.53 per share, assuming an average of 45.6 million diluted shares outstanding during the third quarter. For the full year 2025, we now expect revenue to be at least $2.445 billion, representing 1.2% year-over-year growth. This expected growth includes a positive FX impact of 25 basis points. For the full year, we now expect our non-IFRS adjusted operating margin to be at least 15% and the IFRS effective income tax rate is expected to be in the 20% to 22% range. Our full year non-IFRS adjusted diluted EPS is expected to be at least $6.12 per share, assuming 45.5 million diluted shares outstanding during 2025. Thank you for your continued support.

Arturo Langa: Thank you, Juan, and hi, everyone. So as we go through the Q&A; section of this call, I will announce their name. [Operator Instructions] So with that in mind, thank you very much. And we'll take the first question from the line of Tien-Tsin Huang from JPMorgan.

Tien-Tsin Huang: I wanted to ask just on the AI-based delivery model. And I think you mentioned on the subscription side, you had 10 clients that chose that model. I think I heard that. Can you tell us a little bit more about that? What work is being done? And how would the work and maybe the contract terms compare to what you would normally see in a more traditional model? Maybe start with that, if that's okay.

Martin Migoya: Thank you so much for the question. It's -- actually it's 18 customers.

Tien-Tsin Huang: 18, sorry.

Martin Migoya: 18 paying customers. And yes, look, the pipeline grew incredibly fast in terms of opportunities. We also were able to generate those 18 paying customers under the subscription model, and that has been very well received by our customers. What we do is on the back of all these customers who were doing Agentic AI, generating the code, the development, the need -- the software that our customers need. And we are charging that with that subscription in which we are taking the risk on our side of supervising what the agents create. So supervision -- we hope that, that supervision with time will go down. And now it's at levels in which we want to be sure that we get the same quality as the traditional model that we have. So we're extremely excited with what we are seeing with our customers and the type of contracts is sometimes like the large portion of the discussion with the procurement offices and so on and so forth because it's kind of a new place where they haven't -- they never heard about. But I'm very happy with the results. I'm very happy with the pipeline, how well received was with our customers. Kind of they are used to -- or they understood the model of having a subscription and limits on tokens. So I don't know, Diego, maybe you can.

Diego Tartara: No, I think, Tien-Tsin, for the most part, -- the most mature aspect is actually how we deliver value, which is how do we build software and the approach that we took. I think it was the most difficult and risky because this is actually changing rethinking about the way of doing it. This is not infusing AI into an existing processes. We reshuffle the whole thing to make the most out of it. And that's actually complex because you need to convince your client that has been working on a certain way for a long time. You need -- you even charge for this service in a different manner, but you bring and make reality what has been a promise, which is the positive impact of AI on an enterprise environment. And like Martin said, reception was amazing. I thought getting traction out of this would have been a little bit more complicated, et cetera, but the market and then our clients understood this perfectly well. We received the right type of questions, which is amazing. So pipeline is growing healthy. And I'm actually convinced that this is a major change that will definitely propel the future of Globant.

Martin Migoya: And by the way, Tien-Tsin, the growth on the pipeline -- a good portion of the growth of the pipeline between last quarter and this quarter is because of this. So it's new conversations and now things are triggering out. So we're very happy.

Tien-Tsin Huang: Okay. I know it's a lot of -- and I respect you guys are pushing for this so hard so quickly. It's great. So just you mentioned the pipeline, and it sounds like there's a lot of AI content overall in the AI side -- on the overall pipeline. So are you assuming a lot of conversion of the pipeline in the outlook in the second half? What's changed there? And do you expect some of these deals to close, for example, in the second half? Or could they get pushed even further out given the newness and what's happening there?

Martin Migoya: We're seeing the conversion -- I mean, the macro still is pretty uncertain. So we decided to go on the conservative side. We're seeing conversion in August and conversion like doing very well and much better than expected. And so we're positive about that. But we want to remain very cautious around the idea of the second half of the year.

Arturo Langa: The next question comes from the line of Bryan Bergin from TD Cowen.

Bryan C. Bergin: So I'll ask on the optimization. Maybe can you talk about how far through those initial changes you have progressed? We could see the 3% billable headcount reduction on a sequential basis. Should we expect any further activity kind of carry through into 3Q as well? Or is that now

through the system?

Juan Ignacio Urthiague: So on the headcount side, you're going to see some additional reductions happening in Q3, which already happened by now. The costs have all been accounted for during the second quarter because the plan was all provided at that point in time. There is also additional effects that are going to happen throughout the rest of the year in terms of the office consolidation and the talent development consolidation that we are doing. But the vast majority of the plan has been already implemented, especially on the people side. Between what we did in Q2 plus some additional adjustments in Q3, that's already done.

Bryan C. Bergin: Okay. Okay. And then my follow-up is on the creative performance. So can you give us a sense how GUT performed here, really the creative pillar relative to other studios. And I ask because there's incremental concerns on the street about these particular areas from Gen AI risks, right, and the ability for enterprises to do more themselves. So I'm curious if you're seeing any trends specifically around that creative area that would support or refute that perspective.

Martin Migoya: Yes. It's a quite small operation, though, but it has been growing nicely.

Diego Tartara: 18%.

Martin Migoya: So we're very happy with that. And I would say that from the quality and the caliber of work that we do, it's not the work that would be affected faster by the AI. I think that for those that are doing like the outsourcing of generation of images and creation of specific campaigns for different channels, that impact could come faster. Our FUSION agent is targeting those kind of customers that want to automate that pipeline of creation of content. So I'm very bullish about the idea of how our entering into that creative space will grow in the future. So what we are seeing is that between all the technology that is coming into the marketing space plus the amazing brand that we have with GUT in the space, we're creating like a very good momentum for the future. And we are -- I'd say we're fully aligned with all the efficiencies that can be made in that space. So I don't see that as a threat even more, I see it as an opportunity.

Juan Ignacio Urthiague: And also, Brian, when you look at how we create revenues in that, the vast majority comes from branding -- company branding, company positioning, it's very high level, very strategic positioning of companies. It's not that much at the kind of campaign or short- term campaign or advertising that you could assume that might get impacted. So we are not seeing impacts there. On the opposite, it's one of the fastest areas of growth at Globant.

Arturo Langa: The next question comes from the line of Maggie Nolan from William Blair.

Margaret Marie Niesen Nolan: I'm wondering if the enterprise AI platform is creating enhanced stickiness with your customers compared to maybe traditional more project-based engagements.

Martin Migoya: That's a great question, Maggie. Look, I think that there's -- the enterprise AI platform is like the golden path for generative AI adoption for our customers. It's an enterprise class kind of integration of all the very, very complex AI ecosystem that is there to make it tangible, to make the things work. So you don't just marry with one LLM provider, but you can choose which to use. And then you can integrate all the workflows in your company and then you can connect with all the corporate information systems and then you can create your agents to generate those processes that companies need. So we are using enterprise AI for every single engagement on the AI pods side. We are using enterprise AI for many customers that are finding or trying to find a safe path to implement AI inside their corporations. So it's becoming like a key component, as I mentioned on our last earnings call, it is a key component for the creation of the AI ecosystem inside corporations where you don't just need to access LLMs, but you need to administer permissions, you need to administer access, you need to control costs of the things that you do. There's a lot of things that happens on the inner work of an enterprise class implementation of AI that is bring to life or brought to life by enterprise AI. So for me, it's extremely essential. It can be mounted on top of all the big hyperscalers platforms. It can use many of those services. So it is very well integrated into our solutions. And I think moving forward, it will be a key component of everything we do. So I don't know, Diego, if you want to.

Diego Tartara: No. Just to add to that, Maggie, I think Globant type of services and delivery quality have created a great stickiness with our client. And you can see that by the low churn and maturity, especially on the top accounts, which have more than 10 years with us right now. However, from a model perspective, in this specific case, you're actually -- the service as a software model where you

actually build someone that's bespoke but based on a platform and you have the opportunity to operate that as well I think it's a great way of outsourcing functions as opposed to the traditional BPO. So from the software delivery perspective, you leave something with your client, which is they have the opportunity to use GeneXus Enterprise AI to build their agents, et cetera. And we can help them build custom maintain and operate solutions for them. So from the pure model itself, I think the answer is clearly yes, it provides more stickiness.

Margaret Marie Niesen Nolan: That's really interesting and kind of exciting to hear for the business model. And then one other thing I wanted to ask about the script, it sounded like there were a couple of larger deals that were close to closing. Maybe comment on those and the growth trajectory you're expecting by geography, by vertical kind of revenue growth and how the pipeline is shaping up?

Martin Migoya: Okay. So Maggie, just a couple of deals that we are seeing now, a big deal on the financial services space, which is right in the final stages and also another big deal on the health care and life science space. Both of them in the U.S., which are pretty exciting to see how the market is recovering. Also, we are seeing some deals on the enterprise side for CPG companies in Latin America. Also, Latin America is recovering as is explained on the numbers, too. So we're seeing like good signals across the board. And it looks like the U.S. is recovering, Latin America is recovery, which was the 2 big things that we had on our last earnings call. I don't know, Juan, if you want to.

Juan Ignacio Urthiague: Yes, definitely. When you look at LatAm, after going down for a number of quarters, this is the first quarter it's sequentially up. So I think that's good news. It shows like a stabilization, and we are seeing and we are making progress towards the end of the year -- for the rest of the year, in LatAm. In the case of the U.S., when we exclude some of the impact from professional services and some of the -- some small impact on technology, the rest looks okay. BFSI with a very strong performance. Travel and Hospitality, very strong performance. So in general, yes, we are coming out of a number of quarters where the level of growth is lower. However, we start to see some positive numbers and some -- especially on the pipeline. When you look at the deals, it continues to expand. So in a way, we are just getting ready for that recovery whenever it comes.

Arturo Langa: The next question comes from the line of Jonathan Lee from Guggenheim.

Yu Wai Lee: Can you help unpack some of the assumptions around the revised growth outlook and maybe the level of conservatism you're assuming? And how should we think about any potential acceleration off of your implied 4Q exit rate, if any?

Juan Ignacio Urthiague: Yes, sure. So when you look at the guidance back in May and the new guidance, basically, there are a number of things that happened in the quarter. When we look at the second quarter, we were able to meet or slightly exceed actually the guidance that we provided. Looking into the full year number, I mean, as you remember, we had a significant reduction in the guidance for the year back in May. Now you look at the EPS for the year, it is slightly up. There's a small tweak on the revenue line, mainly coming from one professional service customer and some small things that happened in technology. But overall, just a small tweak there. At the same time, when you look at Latin America, it's not coming down anymore. Sequentially, it was up this quarter. We are seeing kind of a stabilization and starting to build up based on the pipeline. When we look at the end of the year, I think that when we look at the U.S. economy, at some point, things will start to get better. We're not seeing further deterioration, which is good news, but things will have to get better. Companies will need to invest in the near future. They cannot withhold investments forever. So that's something that's going to have to happen. When you look at the size of the pipeline, the pipeline, it continues to build. When you look at all the changes that we did in our go- to-market with AI industry studios, the success that we are starting slowly but steadily showing progress on the subscription model. I think those are good -- all good things that are shaping up, and we expect that to start getting traction in the future. So I think we are doing a lot of changes. We did a lot of changes on the structure. We did a lot of changes to have the right people with the right skills in front of customers, people with the right skills given the new technologies that are coming that resulted in a significant business optimization plan. So we are doing lots of things to make that progress that I think is going to happen in the near future. We are working.

Martin Migoya: And also as a general comment, I think that the amount of the opportunities are showing up on the pipeline. But I would say that as a general understanding of this -- of all the things that are

happening is that the amount of new projects, as we have been saying for many, many quarters, the amount of new projects is incredible. And the complexity in any corporate environment to implement any of these agents into production with the right railways for the LLMs, with the right access permission, with the complexity of connecting with production data, with the complexity of implementing that and then taking it to -- and spreading it out in a big organization, we are leaving it ourselves. We want to implement agents, it takes us a while to generate even using the most sophisticated tools, take us a while to make it happen in the whole organization because we need to connect to complex systems. And that is creating like a massive set of opportunities that before didn't exist. This is on top of all the digital transformation work. This is on top of all the enterprise migration that is happening and will keep on happening. So I think the opportunity for us is massive and it's reflected on actual numbers. First conversion has been slower, but I believe that little by little, these corporations will come to us saying, listen, we need help to implement this. Now we need -- we have seen the first cases. A year ago, I was saying well, this is like very small like small and proof of concepts that are happening. Now we're seeing customers saying, "no, I want like a full AI transformation program to change my processes" because I discovered that it's not that easy to make it happen, and we need help. So that's creating like a massive opportunity for us. And I believe that's why I'm so bullish about the future of our company and all the moves in which, of course, new ways of delivering the same things are needed, and we are delivering that. So I'm extremely excited about what's coming.

Yu Wai Lee: On the heels of those opportunities, can you talk through some of the pricing discussions you're having, particularly around potential impact to pricing from your AI pod model as well as just given the rather competitive environment that you're seeing today?

Martin Migoya: Yes. Jonathan, listen, the pricing of our AI pods leads us to a much better margin than what we have on a traditional project. So I think that explains by itself. I don't know, Juan.

Juan Ignacio Urthiague: No, at the same time that it has better margins. It is cost effective for the customer as well. So it's a model that so far, the way we are selling it, the way we are contracting with customers is a win-win. So they are getting part of the productivity gains. We're getting part of the productivity gain. So it's working well. We need to make sure, as Martin said at the beginning, that we continue to deliver the same quality that we have always delivered to our customers. So over time, as the coding gets better, the agents get better, we should even be able to hopefully improve a little bit those margins. But it's marginally positive and pricing, it gives customers some efficiencies straight away.

Arturo Langa: Next question comes from the line of Divya Goyal from Scotiabank.

Juan Ignacio Urthiague: We cannot hear you, Divya. We cannot hear you. It looks like you're on mute.

Arturo Langa: Let's go to the next question, and we'll come back to Divya, I'm sorry. The next question comes from the line of Sean Kennedy from Mizuho.

Sean Michael Kennedy: So I was wondering about the North American deceleration. Was that due to certain like planned projects ramping down and lower conversion in the last few quarters? And how has the North American pipeline conversion been trending since May?

Juan Ignacio Urthiague: Thank you, Sean, for the question. So North America was sequentially down 2%. It's very much focused on a customer in professional services and some small customers in technology. But when you look at the pipeline, when we look at some of the deals that we recently closed that Martin mentioned in health care, in BFSI, and we are optimistic. I think that after several quarters of instability and changes and tariff discussions and macro and all that, things are not great, but at least they are more stable in a way. We are -- we look at the pipeline, the majority of the pipeline is getting built out of the U.S. And we believe that with the new go-to-market with AI studios, industry studios, we're going to be able to take advantage of that. So we are positive on North America. Of course, Martin mentioned at the very beginning, deals take longer to close. That is something that was not common in the past. I mean, at least a few years ago. We are now living with that. But we start to see some big deals getting closed, which was difficult a couple of months and quarters ago. So bigger deals are starting to close again.

Sean Michael Kennedy: Got it. And then in Latin America, it was nice to see the sequential growth there. Could you kind of discuss in more detail about what you're seeing on like country-by-country basis?

Juan Ignacio Urthiague: So Argentina is probably the best performing country around this time in the region. We start to see recovery in Brazil, Peru and Mexico. And they are not all of them growing, but we are not seeing the deterioration that we saw, for example, in Brazil and Mexico earlier this year or late last year. So we see the stabilization there, some recovery in the case of Mexico and a very strong Argentina.

Arturo Langa: The next question comes from the line of Nate Svensson from Deutsche Bank.

Christopher Nathaniel Svensson: I wanted to follow up on Jonathan's question on pricing. So nice to hear that the new subscription-based model is going to be accretive. But if we think about sort of revenue per head dynamics, excluding that, just 18 projects so far, a relatively small portion of the base. I think last quarter, revenue per head was up 2.8%. We have it a touch lower, maybe closer to 1% this quarter. So just wondering how you're thinking about pricing trends for the overall book of business for the remainder of the year, especially given all the dynamism and uncertainty in the macro.

Juan Ignacio Urthiague: Yes. So far, we have been able to either maintain or slightly grow our revenue per head, which I think given the market that we have seen in the last 2 to 3 years is quite remarkable. So we have been -- maybe at the expense of sometimes growth, we have been very consistent on trying to maintain our pricing, trying to maintain our margins, working hard to protect profitability and somehow the results have been showing that over the last 2 years. Pricing, yes, it's not a very hot market. So pricing is a challenge and you have to negotiate. But we, as a company, we believe that we need to protect profitability. We need to have deals that are -- makes sense for the company, right? We don't want to -- we always try to protect margin for -- since we were public. And our margins actually, if you look at gross margins, they've been between 38% and 41% for the last 15 -- 10, 12 years as a public company, right? So for us, we know it's easy to take prices down, but we work very hard to avoid those situations and the revenue per head shows that as well.

Christopher Nathaniel Svensson: Yes, makes sense and it's good color. And I guess related to margins, I wanted to ask about utilization as well. I think last quarter on the call, you talked about improving utilization as a potential margin lever opportunity. So I think last quarter, utilization fell sequentially and year-over-year to, call it, 78%. Any update on what that was this quarter? And then in light of the business optimization, I guess my guess would be that utilization maybe gets a little better, but expectations for the rest of the year?

Juan Ignacio Urthiague: Yes. Utilization is up about 40 basis points this quarter, and we expect to take it even further up with all the business optimization plan that we did, part of that creates or improves our utilization rates as well. So we always talked about 80% to 81% as a target utilization number, and that's still valid, and we are working towards that. We also mentioned in the past that in a very hot market, it's always easier to drive utilization up. But I mean, we are making progress. And this quarter, we were able to increase that by about 40 basis points.

Arturo Langa: The next question comes from the line of Leonardo Olmos from UBS.

Leonardo Olmos: Can you talk a little bit about the potential or not concentration of consultancy firms or IT services among clients? I mean, are clients talking to newer firms? Or are they just concentrating the biggest one? Because I thought and please correct me if I'm wrong, that you may be not growing that much with clients with revenue around on top of $1 million. If that's the case, please correct me. But all in, I want to know how competition is and how prices are and if clients are concentrating with lower number of IT services companies?

Martin Migoya: Yes. We have been running a lot of these consolidation processes. And the good news is that we have been selected in all of them. And I think that -- or in pretty much all of them. So that's one thing. The second thing is we have more accounts yielding more than $1 million than a year ago. So that speaks by itself in the -- to your question. And the other thing is, yes, companies are looking for a differential offering. They are tired about the traditional big massive consulting firms that do not innovate or that they are not bringing anything new to the table. And one of the reasons why we are being able to maintain our position and leadership is that we are offering something new. And we are telling to the market, listen, the model will change, and we are changing faster than that. So I'm extremely excited about that. And I think that the future will keep on showing that smaller companies like Globant, right, has a much higher impact on how corporations transform themselves to become the

next versions of themselves. So I'm very bullish on that. But please, my teammates here.

Diego Tartara: No, no. I think like Martin said, vendor consolidation happens cyclically on a cycle. We've been through many of them, and most of our top clients have done that. And those were actually opportunities for us because we ended up -- in the vast majority, we ended up selected. I think that at this particular moment, what it's interesting is that procurement instead of coming up with consolidation, et cetera, because of a requirement of the business, on the contrary, opens up. And what this means is it opens the possibility to bring boutique type of companies. Why is that? They're smaller, they react fast to changes in the technological landscape. So typically, when these major changes happen, you see the opposite. As opposed to consolidation, open it up and soften the vendor selection. What's good about this is that we've been running alongside those companies and we've been getting those type of opportunities. In most of our clients, we're either leading AI or executing our client strategy. Many of our clients have either selected a Chief AI Officer or their Chief Data Officer has put together a strategy. And they said, "Globant, now I need your help to scale that -- this." So -- and I think that's the most important aspect that I would like to quote. It's not -- the other process has been running over and over for a long time. But when this happens, you set apart companies that innovate fast, that take bold decisions from the ones that take longer.

Martin Migoya: Yes. And also our focus on 100 square program, right? I mean we are paying a lot of attention to those accounts that can multiply for us that can -- that has the potential of having a larger need of making these massive transformations. And I think that, that approach is extremely important for our future, and we will keep on paying a lot of attention and our best people into those accounts.

Arturo Langa: Thank you very much, Leo. So that will be all for the Q&A; section of today. Thank you all. And with that, I...

Divya S. Goyal: Can you all hear me? Thanks for bringing me back. I really appreciate it here. I just want a little bit more color. I know you provided a lot of information on the AI pods. But could you help us understand what's the scale and scope of some of the engagements you're seeing? And are you seeing some of these engagements expand into existing clients? Or are you also seeing some net new clients adopting and getting interested in this AI pods methodology or a solution offering that you have?

Martin Migoya: Divya, listen, the pipeline contains like a lot of new customers, and I would say more than half is current customers. The conversion itself has been on current customers and the new customers -- and some new customers, but I would say that the vast majority of what we closed today are current customers plus 2 or 3 new. So -- but it's very interesting to see the dynamics inside the pipeline because inside the pipeline, you have a lot of customers transforming deals and making deals they used to be like traditional deals, but now moving into this new subscription model. And then we have a lot of new customers that we didn't have before. So we announced it. It was quite low profile. We just sent e-mails to some of our -- but I received, for example, an e-mail from a hyperscaler saying, "Hey, Martin, look, we understand this quite well. We like what you're doing, and we would love to know more about it," and that happens yesterday. So what I'm saying is creating momentum, Bain Capital -- sorry, not Bain Capital, Bain Consulting put out a report to talk about the new model like it was a very interesting report talking about how this new model should be the next choice model. And we're very excited. But I don't know -- covered it all. Okay. So that's the answer, short answer. You have one more.

Divya S. Goyal: It's great. It's very exciting. I can tell you, as an outcomes-based pricing models pick up across the sector you're definitely leading the trend is what I would say. One more question that I wanted to understand, like I know some of your peers have been talking about helping global enterprises set up global capability centers or GCCs, is that something Globant has been participating in, helping the global enterprises grow their offshoring unit? And what is the role, if at all, that you play in there? That's all for me.

Martin Migoya: Yes. The answer is yes. We are participating in many of those deals. One of the deals that we're just about to close or is closed already is about taking over one of these centers. Our proposal as opposed to the traditional proposal is a proposal that includes our AI pods, and it's something that we're pretty proud because we won because of that. And I think that is something that -- I mean, this new strategy, this new AI Pods model comes with 2 things. First, it makes savings tangible. And second, it provides a level of transparency of what we do that is unparalleled to any other model in

the past. So we can give you a report of every single token that we used and how we use it and which is the artifacts that has been created using those tokens and how we supervise that and how we make sure that all those things make sense. So in essence, I believe that it's a breakthrough on the offering is something that we're extremely excited. But yes, we are participating in all these deals. And hopefully, we will win them all.

Arturo Langa: Thank you Divya and I apologize for that. Thank you. So with that, we conclude the Q&A; section for today. Thank you all. And now I will turn it over to Martin for some closing remarks. Please go ahead, Martin.

Martin Migoya: Thank you, Arturo, and thank you, everyone, for participating, for your continued support and looking forward to see you on our next earnings call. Chau, bye-bye.