David Straube, Head of Investor Relations

Thank you, operator and good morning, everyone. By now, you should have received your copy of the earnings release for the Company's fourth quarter and full year 2022 results. If you have not, a copy is available on EPAM.com in the investor section.

With me on today's call are Arkadiy Dobkin, CEO and President, and Jason Peterson, Chief Financial Officer.

I would like to remind those listening that some of the comments made on today's call may contain forward-looking statements. These statements are subject to risk and uncertainties as described in the Company's earnings release and SEC filings. Additionally, all references to reported results that are non-GAAP measures have been reconciled to the comparable GAAP measures and are available in our quarterly earnings materials located in the investors section of our website.
With that said, I will now turn the call over to Ark.

Arkadiy Dobkin, CEO and President

Thank you, David. Good morning, everyone. Thank you for joining us this morning.

Twelve months ago, on Feb 17th we were looking forward to 2022 with optimism. We had just been added to the S&P 500, and we expected to grow almost 40% and generate over $5B in revenues in this year.

Even with some early warnings, the Russian invasion shocked the world one week later and put us on a very different path of priorities. The new reality redefined the meaning of success for us, and we are very grateful today to the tens of thousands of EPAMers and our customers around the world who mobilized support for our people and our business during the past year.

Our Success in 2022 was defined by new criteria and priorities, many of which we've shared with you in our regular calls and updates during 2022:

- Priority one was to do everything possible for the safety of our people in Ukraine.
- Next, our 'global mobility' mission was immediately repurposed and scaled to support over ten thousand EPAMers who chose to stay with EPAM while relocating to new for them countries, and many with their families.
- In addition, our business continuity strategy was adapted to include an exit of our business from Russia.
- And throughout the year, our customer-focus was further elevated to ensure that even with an environment that was anything but normal, our clients continued to get the consistently high-quality of delivery and level of service that they would expect under normal business conditions.
- 2022 was in every way, the most disruptive year for EPAM I remember, and I have a privilege to remember all of them.

You might ask why we are considering 2022 a "relative" success.

As a result of our 2022 efforts, in 2023, we have a global delivery footprint and an organization that makes EPAM one of the most geo-diversified IT services companies in the world, and one that now operates in more than 50 countries. When we began 2022, roughly 60% of our delivery was in just three largest locations bordered together, and today only 30% of our talent is there, while we expect that will fall closer to 20-25% concentration by the end of this year with accelerated growth outside.

We also did not lose any significant clients during the last 12 months, despite actively running a global delivery location rebalancing program.

And in real-time, we were continuously developing new capabilities across our major markets.

We were also proving that our delivery out of Ukraine can consistently demonstrate productivity and quality very much in line with pre-war expectations, and, finally, that our new locations are very much in-line with EPAM productivity and quality engineering standards too.

Why then we use the 'relative' qualifier to the stated success up to date?

Simply, the war is in Ukraine is not over, and we believe that it will be our daily reality for some time to come. Having accomplished what was an extremely difficult transformation, and while finding ourselves a much stronger, more capable, and effective company than we have been before, and with the strong foundation to build upon to the next leg of our journey, we do realize that it is a very much an ongoing process which demands our even higher-level preparedness for new and unexpected challenges.

Additionally, as we mentioned during our last earnings call – some of our partners and customers have been messaging their expectations for a global slowdown in demand and started taking resulting actions to better align their businesses to a new environment.

While we also expected correspondent slowdown, our reality happens to be more complex than the 'typical' slowdown, indicated by others.

When we shared our Q3 results in November, we were not yet seeing a detailed picture of what EPAM's specific demand environment would become in 2023.

Today, what we are experiencing is slightly more than 'caution' related to macroeconomic conditions. The emerging view is specific to both - the overall global market conditions, and, also, reflects the client expectation of impact of our mitigation and diversification plans, and their correspondent decision making process during the last year.

First, we now understand that some of our clients did not expect that we would navigate the past 12 months as well as we did, so, at some point, they chose to mitigate the risks associated with our situation in advance and to consider alternatives for them new work streams. We believe, that while they are now comfortable with our diversified delivery footprint, and committed to continue working with us, a number of decisions made 2-3 quarters before became visible to us just now.

Second, due to the immediate re-distribution of our talent to new locations, our overall cost structure, and the cost to our customers of our offerings were disrupted at some level. During the high demand environment, such changes were accommodated with relative ease, but in current “slower” environment, the new location and pricing mix presents a greater challenge, at least while we are fixing the disbalance.

Third, there are several key for us verticals – such as Software & High-Tech for example – which were disproportionately impacted by the current slowdown. And there are also several large clients, which were impacted by their own specific circumstances during the last several months, who had to delay previously committed initiatives, and

Finally, our attention on bringing in net new logos during the last 12 months was de-prioritized, as we focused on retaining our existing customers and repositioning our global delivery as our key priorities.

So, because of those EPAM-specific factors, we believe we are now seeing a lower revenue growth outlook at the beginning of 2023, than we historically would expect at this time.

Our current view for the year now shows relatively low growth during the first half of the year with acceleration in growth in the second half of 2023, potentially approaching the high teens in Q4 and with an opportunity to come back to our pre-pandemic 20%+ organic growth profile right after that.

At this point, we are investing in our customer and partner relationships and working across our global portfolio to build on our strong engineering differentiators with value added services in consulting, cloud, data, and customer experience. These are long-term programs which we've had underway for several years and our current positioning as a top tier partner to our clients and an additional credibility we built during the last 12 months should help us to create uplift in demand going into the second half of 2023.

Today we continue to stabilize our delivery global platform and develop talent across new geographies. A significant part of those continuous efforts will allow us restoring the balanced cost structure across our major delivery centers.

At the same time, while we are fully committed to continuing our investments in our strategic differentiators, we are watching very carefully the balance of those investments to our current and immediately visible demand. Given the necessity of looking at our business both from a long & shorter term points of view, we are heavily utilizing our digital platforms, which have been instrumental in guiding our decisions so far and allowing us to monitor our business on a daily basis and making real-time calibrations when necessary to ensure that we protect our best talent as a key priority, while still driving toward our historic growth and profitability levels.

On general slowdown issue, we do believe, that in today's technology dependent world the real impact of slower demand on the IT services global market most likely should be limited just to several quarters. The pull-back will encourage new players to enter the market with new technology-led business solutions and push enterprises to respond with new investments in order to protect their competitive positions, which in turn should accelerate growth for EPAM, as our proposition is focusing exactly on helping them to bring new strategy and implementations simultaneously in most coordinated and efficient ways.

So, our goal today is to prepare EPAM exactly for that time and to be able responding fast to the next growth & capabilities challenges. That is why we plan to focus our attention in the next quarters to further stabilize our global operations and to continuously invest into new talent, new capabilities, new offerings, and new markets, and to maintain our strong engineering DNA but this time as much more globally diversified company than ever in the past.

Looking at our results for 2022, we generated over $4.8 billion in revenues, reflecting a greater than 28% year-over-year growth. Non-GAAP earnings per share were $10.90, a 20% increase over fiscal 2021; and we also generated $382 million of free cash flow.

And one more time, we did all that during the year, when we had almost 60% of our talent in regions directly or indirectly impacted by war, and when we were supporting many thousands of EPAMers and their families during the continues relocation process.

In 2023, we are committed to accelerating our mission of becoming a true value orchestrator for our customers, and we are working every day to stay focused on our customers' needs and demands, even while we continue evolving our geographic expansion, our capabilities, and our commercial offerings of a larger, more diversified, and more capable EPAM.

It is a bit strange to talk today again, 12 months later, about crossing the $5 billion revenue mark in 2023 as we did back in February of 2022. The war took a year of our life, of our growth, but we all know too well that it is just nothing in comparison to what people in Ukraine must go thought today or what is happening on the ground in Türkiye as we speak right now.

So – that is why with all that, what did not change at all is our confidence, that with what we built and are continuously building, we would be able to navigate the challenges and come back to our 20%+ organic growth rate within next several quarters and to our $10 billion aspirations within next several years.

With that said, let me turn the call over to Jason who will talk about our Q4 and full year 2022 results and our business outlook for 2023.

Jason Peterson, CFO

Thank you, Ark, and good morning, everyone.

Before covering our Q4 results, I wanted to remind everyone that in addition to our customary non-GAAP adjustments, expenditures related to EPAM's humanitarian commitment to Ukraine, the exit of our Russian operations, and costs associated with accelerated employee relocations have been excluded from non-GAAP financial results. We have included additional disclosures specific to these and other related items in our Q4 earnings release.

In the fourth quarter, EPAM delivered solid results. The Company generated revenues of $1.23 billion, a year-over-year increase of 11.2% on a reported basis and 14.4% in constant currency terms, reflecting a negative foreign-exchange impact of 320 basis points. Additionally, the reduction in Russian customer revenues resulting from our decision to exit the Russia market had a 440-basis point negative impact on revenue growth. Excluding Russia revenues, reported year-over-year revenue growth would have been 15.6% and constant currency growth would have been almost 19.0%.

Beginning with our industry verticals:

- Travel & Consumer grew 16.0%, driven by strong growth in Travel & Hospitality, with some moderation in Retail and Consumer Goods as customers exhibited incremental caution in the last few months of 2022. The ongoing exit of the Russia market also impacted growth in this vertical. Absent the impact, growth would have been 19.0% or 25.4% in constant currency.

- Financial Services grew 2.4%, with very strong growth coming from Asset Management and Insurance. Excluding our Russia customer revenues, growth would have been 17.8% and 20.8% in constant currency.

- Software & Hi-Tech grew 10.3% in the quarter. Growth in the quarter reflected a reduction in revenue from a customer, that was previously in our top 20, in addition to slower generalized growth in customer revenues across the vertical.

- Life Sciences & Healthcare grew 11.5%. Growth in the quarter was partially impacted by the unexpected ramp down of a large transformation program at a customer that was previously in EPAM's top 10. We currently anticipate further ramp downs in this customer's spending in Q1 of 2023.

- Business Information & Media delivered 10.9% growth in the quarter, and finally,

- Our Emerging Verticals delivered strong growth of 20.8%, driven by clients in Manufacturing and Automotive, as well as Energy.

From a geographic perspective:

- The Americas, our largest region representing 59% of our Q4 revenues, grew 14.7% year-over-year or 15.6% in constant currency.

- EMEA, representing 37% of our Q4 revenues, grew 18% year-over-year or 25.7% in constant currency. The accelerated growth in the quarter is partially the result of recent acquisitions.

- CEE, representing 1% of our Q4 revenues, contracted 71.8% year-over-year or 72.6% in constant currency. Revenue in the quarter was impacted by our decision to exit the Russia market and the resulting ramp down of services to Russian customers.

- And finally, APAC was flat year-over-year, and actually grew 3.8% in constant currency terms and now represents 2% of our revenues.

In Q4, revenues from our top 20 clients grew 8% year-over-year, while revenues from clients outside our top 20 grew 13%.

Moving Down the Income Statement:

Our GAAP Gross Margin for the quarter was 32.4%, compared to 34.3% in Q4 of last year. Non-GAAP Gross Margin for the quarter was 34.1% compared to 35.9% for the same quarter last year. Gross Margin in Q4 2022 reflects the negative impact of lower utilization and the positive impact of a more normalized variable compensation expense compared to Q4 2021. Gross Margin in the quarter was also negatively impacted by the timing difference associated with EPAM's ongoing efforts to align bill rates based on employee relocations, most of which have been accomplished in 2022.

GAAP SG&A was 16.6% of revenue compared to 17.2% in Q4 of last year, and Non-GAAP SG&A came in at 14.8% of revenue compared to 15.6% in the same period last year. The SG&A result for Q4 reflects efficiencies made primarily in our facilities footprint and lower variable compensation compared to Q4 2021.

GAAP income from operations was $170 million or 13.8% of revenue in the quarter compared to $166 million or 15.0% of revenue in Q4 of last year.

Non-GAAP income from operations was $220 million or 17.8% of revenue in the quarter compared to $206 million or 18.6% of revenue in Q4 of last year.

Our GAAP effective tax rate for the quarter came in at 22.9% versus our Q4 guide of 21.0%, due primarily to lower excess tax benefits related to stock-based compensation as well as the impact of a change in certain tax regulations. Our Non-GAAP effective tax rate, which excludes excess tax benefits and includes the impact of a change in certain tax regulations, was 23.5%.

Diluted earnings per share on a GAAP basis was $2.61. Our Non-GAAP diluted EPS was $2.93, reflecting a $0.17 increase and 6.2% growth over the same quarter in 2021.

In Q4, there were approximately 59.3 million diluted shares outstanding.

Turning to our cash flow and balance sheet:

Cash flow from operations for Q4 was $186 million, compared to $285 million in the same quarter of 2021.

Free cash flow was $165 million, compared to free cash flow of $228 million in the same quarter last year.

We ended the quarter with approximately $1.7 billion in cash and cash equivalents.

At the end of Q4, DSO was 70 days and compares to 69 days in Q3 2022 and 62 days in the same quarter last year. Looking ahead, we expect DSO will remain steady in 2023.

Moving on to a few operational metrics from the quarter:

We ended Q4 with more than 52,850 Consultants, Designers, Engineers, Trainers, and Architects. Production headcount growth was relatively flat compared to Q4 2021. Our total headcount for the quarter was more than 59,250 employees.

Utilization was 73.6% compared to 76.8% in Q4 of last year and 73.5% in Q3 2022.

Turning to our full year results for 2022:

Revenues for the year were $4,825 million, producing 28.4% reported growth and 32.4% on a constant currency basis when compared to 2021. During 2022 our acquisitions contributed approximately 5% to our growth.

Excluding Russia revenues, reported year-over-year revenue growth would have been approximately 32.1% and constant currency growth would have been approximately 36.3%.

GAAP income from operations was $573 million an increase of 5.7% year-over-year and represented 11.9% of revenue. Our non-GAAP income from operations was $818 million an increase of 20.6% over the prior year and represented 17.0% of revenue.

Our GAAP effective tax rate for the year was 17.3%. Our Non-GAAP effective tax rate was 23.4%.

Diluted earnings per share on a GAAP basis was $7.09. Non-GAAP Diluted EPS, which excludes adjustments for stock-based compensation, acquisition related costs and other certain one-time items, was $10.90, reflecting a 20.4% increase over fiscal 2021.

In 2022, there were approximately 59.2 million weighted average diluted shares outstanding.

And finally, Cash Flow from Operations was $464 million, compared to $572 million for 2021 and Free Cash Flow was $382 million reflecting an 59.3% adjusted net income conversion. Cash flow in 2022 reflected expenses associated with our ongoing humanitarian efforts in supporting our Ukrainian employees and certain cash impacts related to the exit of our Russian operations.

We are very pleased with our 2022 results given the significant amount of disruption and transformation which we navigated throughout the year.

Now let’s turn to guidance:

For 2023 we will resume providing a full year outlook in addition to guidance for the next quarter.

To date, our operations in Ukraine have not been materially impacted and our teams remain highly focused on maintaining uninterrupted production. Our guidance assumes that we will continue to be able to deliver from our Ukraine delivery centers at productivity levels at or somewhat lower than those achieved in 2022.

As we mentioned during our Q3 earnings call, we began to see signs of moderation in demand including delays in decision making and additional scrutiny on program budgets early in Q4. At that time, this was isolated to a few customers in the Retail and Consumer Good industries. Since then, we have seen further evidence of slower decision making and caution around spending including some program ramp downs. For most clients, caution around budgets has only resulted in a slowdown in growth, but for some clients we experienced actual reductions in spend in Q4 combined with continued cautious spend entering Q1. For two customers that were in our Top 20 in 2022 we have seen ramp downs in programs which will negatively impact Q1 revenues. We expect neither of these customers to be in our top 20 in Q1, but we already see one of those customers once again requesting incremental project teams. At this time, we are expecting a lower level of revenue in Q1 producing a slower start to our 2023 fiscal year.

Consistent with previous cycles where we managed through a temporary softening in demand, we will continue to thoughtfully calibrate our expense levels while focusing on the preservation of our talent in preparation for expected stronger 2023 second half demand. In the first half of 2023, we expect headcount will continue to decline as a result of a reduction in hiring combined with normal levels of attrition. We are planning on a return in growth in production headcount in the second half of 2023. We expect utilization in the mid-70's in the first half of the year as demand and supply normalize with utilization in the second half of the year expected to return to our more traditional 77-79% range.

As a reminder, the exit of the Russia market and the reduction in Russian customer revenue produces a tougher year-over-year revenue comparison primarily in the first half of 2023.

Starting with our full year outlook:

- Revenue growth will be at least 9% on both a reported and constant currency basis. The impact of foreign exchange is expected to be negligible on a full year basis. Additionally, at this time, there is no inorganic revenue contribution for 2023, so our guide includes organic revenue growth only. Excluding the impact of the exit of the Russia market, reported revenue growth is expected to be approximately 11%.

  We expect first half revenue growth to be in the single digits returning to double-digit revenue growth in the second half of the year. In Q4 2023, we expect revenue growth in the high teens.

- We expect GAAP Income from Operations to be in the range of 11.5% to 12.5%, and Non-GAAP Income from Operations to be in the range of 15.5% to 16.5%.

- We expect our GAAP Effective Tax Rate to be approximately 21.0%. Our Non-GAAP Effective Tax Rate, which excludes excess tax benefits related to stock-based compensation, will be 23%.

- For Earnings Per Share, we expect that GAAP diluted EPS will be in the range of $8.64 to $8.84 for the full year, and Non-GAAP diluted EPS will be in the range of $11.15 to $11.35 for the full year.

- We expect weighted average share count of 59.6 million fully diluted shares outstanding.

For Q1 of 2023, we expect:

- Revenues to be in the range of $1.200 billion to $1.210 billion producing a year-over-year growth rate of approximately 3%. Our guidance reflects an unfavorable FX impact of 2% and the year-over-year growth rate on a constant currency basis is expected to be approximately 5%. We expect a negligible contribution to revenue growth from acquisitions. Adjusted for the impact of our decision to exit the Russia market, constant currency revenue growth would be approximately 8%.

- For the first quarter, we expect GAAP Income from Operations to be in the range of 9.5% to 10.5% and Non-GAAP Income from Operations to be in the range of 14.0% to 15.0%. Income from Operations reflects the impact of the resetting of social security caps and lower utilization which we expect to improve throughout the year.
- We expect our GAAP Effective Tax Rate to be approximately 18.0% and our Non-GAAP Effective Tax Rate, which excludes excess tax benefits related to stock-based compensation to be approximately 23.0%.
- For Earnings per Share, we expect GAAP diluted EPS to be in the range of $1.66 to $1.74 for the quarter, and Non-GAAP diluted EPS to be in the range of $2.30 to $2.38 for the quarter.
- We expect a weighted average share count of 59.5 million diluted shares outstanding.

Finally, a few key assumptions that support our GAAP to Non-GAAP measurements in 2023:

- Stock-based compensation expense is expected to be approximately $152 million with $35 million in Q1, $36 million in Q2 and $81 million in the remaining quarters.
- Amortization of intangibles is expected to be approximately $22 million for the year, evenly spread across each quarter.
- The impact of foreign exchange is expected to be nominal for the year.
- Tax effect of Non-GAAP adjustments is expected to be around $44 million for the year, with $12 million in Q1, $10 million in Q2 and $11 million in each remaining quarter.
- And finally, we expect excess tax benefits to be around $23 million for the full year, with approximately $8 million in Q1, $6 million in Q2 and, $9 million in the remaining quarters.

Related to the support of our Ukrainian employees, through December 31, 2022, EPAM has spent approximately $45 million as part of the Company's $100 million humanitarian commitment to our Ukrainian employees and their families. We expect further humanitarian expenditures will be made during 2023.

Lastly, our Board of Directors recently approved a share repurchase program authorizing the Company to purchase up to $500 million of the Company's common stock over the next 24 months. This program will allow the Company to substantially offset dilution associated with the issuance of employee equity. We expect to continue to generate solid free cash flows in 2023 and even stronger free cash flows in 2024. With our significant cash position and our confidence in EPAM's ability to generate strong free cash flows, we believe the Company can both continue to pursue significant strategic acquisitions while evolving our capital allocation strategy to include a share buyback program.

Again, my thanks to all the EPAMers who made 2022 a successful year and who will help us drive growth throughout 2023.