THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

GLOB - Q4 2018 Globant SA Earnings Call

EVENT DATE/TIME: FEBRUARY 14, 2019 / 9:30PM GMT

CORPORATE PARTICIPANTS

Juan Urthiague *Globant S.A. - CFO & IR Officer*

Martín Migoya *Globant S.A. - Chairman, CEO & President*

Paula Conde *Globant S.A. - IR Officer*

CONFERENCE CALL PARTICIPANTS

Arvind Anil Ramnani *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Ashwin Vassant Shirvaikar *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Avishai Kantor *Cowen and Company, LLC, Research Division - VP*

Drew Kootman *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Francis Carl Atkins *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Margaret Marie Niesen Nolan *William Blair & Company L.L.C., Research Division - Analyst*

Moshe Katri *Wedbush Securities Inc., Research Division - MD of Equity Research & Senior Equity Research Analyst*

Puneet Jain *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Globant Q4 and Full Year Earnings Conference Call. (Operator Instructions) Please also note, today's event is being recorded. At this time, I'd like to turn the conference call over to Ms. Paula Conde, Investor Relations Officer. Ma'am, please go ahead.

Paula Conde - *Globant S.A. - IR Officer*

Thank you, operator, and thanks, everyone, for joining us today on our quarter review our 2018 full year and fourth quarter financial results. 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. Our speakers today are Martín Migoya, Chief Executive Officer; and Juan Urthiague, Chief Financial Officer. 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 results. I'd like now to turn the call over to Martín Migoya, our CEO.

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Thank you, Paula. Good afternoon, everybody, and thanks for joining us today. Happy to be here to review our 2018 full year and fourth quarter performance. At the end of the call, Juan will share our financial outlook for 2019. 2018 was another very successful year for our company. We achieved a robust revenue growth while improving profitability and cash generation. Our full year revenue for 2018 amounted to $522.3 million, representing a 26.3% year-over-year growth. At the same time, revenue for the fourth quarter 2018 amounted to $140.1 million, a new record for the company as an increase of 21.4% compared to the same period in 2017. This remarkable revenue growth was driven by the acquisition of new customers and by the expansion of our deals with current customers. Most of this growth comes from media entertainment, finance, technology, travel, consumer, retail and manufacturing. This expansion across verticals signals that digitalization is reaching more industries. It's opening new opportunities for a pure play company in digital and cognitive technologies, like we are.

During the last 12 months ended December 31, 2018, we render service to 373 customers, 90 of which had annual revenues over $1 million compared to 82 one year ago. During the last 12 months, we had 5 accounts above $20 million in annual revenues and 9 accounts over $10 million in annual revenues. We've continued to grow the size of our accounts aligned with of our 50-Squared strategy. Finally, our adjusted diluted EPS amounted to $1.74 and $0.50 for full year and the fourth quarter, respectively.

Later, during the call, Juan will share more details on our financial performance and our guidance for the rest of the year. Our sustained growth showed that we are on the right path to address demand and market needs. Companies are still looking to transform their business as new users and requirements arise. At the same time, we see that many organizations try to transform themselves but some are not following an effective approach. For many, it becomes difficult to build a digitally native culture from scratch or change the status quo of the current IT department. It is hard to be successful using old practices to create innovative technology products.

As Forrester points out, transformation starts with developing the right set of strategy choices and the ability to help shape digital thinking and a digital culture that supports continuous innovation. It is cemented through effective change management. As a pure digital and cognitive player, Globant is the best partner to help organizations transform their businesses. We do these with a comprehensive approach that includes: evolving their culture, we can help them get ready for new paradigms with our future of organizations and asset delivery studios; second, creating digital products. Through all our studios and our Agile Pods, we can create digital journeys from the inception of idea to the complete execution; third, bringing digital and cognitive to the back office. With our AI, cloud computing and cloud implementation practices we can accelerate IT departments to be more reactive to ever-changing business needs; and fourth, creating a full digitally native culture. We can also take over the entire technology organization and evolve it to the next level. We can turn it from a traditional IT department into a full digitally native and agile organization. This model demands for players that can offer strong expertise in some of the most demanded technologies. To continue expanding our capability, last month, we announced the acquisition of Avanxo, a leading cloud-transformation company. This operation enables us to expand our broad expertise in corporate process optimizations and cloud technologies. Avanxo shares our vision on how to deliver profound digital and cognitive informations.

They pioneered the cloud system integration market in Latin America. They become the first independent platinum-consulting partner of Salesforce in the region, and they are also an advanced consulting and MSP-certified partner of Amazon Web Services. The company has 310 IT professionals, exceptional skilled in cloud capabilities. They work for renowned brands, such as AB InBev, SulAmérica, Eko Petrol, Sika, Allianz, Terpel, Samsung, La Meridional, Audi, SaudiMac and several others. We have found an amazing team that complements our model, and we are confident that the acquisition will help us propel our positioning as leaders in the digital and cognitive arena.

We also continue to put a lot of focus on latest technologies and trends to provide the best practices and services to our customers. In this sense, AI remains our top priority. We launched several initiatives to develop what we call an augmented Globant, where we're shaping our internal areas, leveraging AI to improve our business and better serve our customers and employees. We also recently published our AI manifesto available at stayrelevant.globant.com. This set of principles reflects what we believe and encourage within Globant. This serves as a guide to our projects as we expand on our digital and cognitive approach.

In parallel, we launched 2 reports to cover different trends that will share business needs in the future. The first one is Globant's newest Sentinel Report that focuses on the importance of culture when going through a profound transformation. The report shows how to build a culture that enables innovation and relevance across organizations. To read more about this, visit sentinel.globant.com. In addition, last Monday, we launched our 2019 block chain technology business guide. This report is a resource for organizations considering investing in block chain integrations. We survey more than 650 U.S. senior-level decision-makers and their priorities regarding block chain technologies. The report determines what steps organizations need to take to go from being excited about block chain to executing on block chain. To read it, please visit blockchain.globant.com. I'm glad to share with you that last month, we signed the Cybersecurity Tech Accord. This agreement gathers 79 companies, including LinkedIn, Microsoft, Rockwell Automation and Salesforce under the same goal: to protect and empower civilians online and to improve the security, stability and resilience of the cyberspace. Today, challenges make it important to have a global understanding of cybersecurity and its implications. We are aligned with the Accord's goal of providing the community with better information about current and future's threats. We will continue creating digital pods that puts first security. In regard to our business, we have largely expand our portfolio, adding new logos such as Rockwell Automation, [Atos] Montréal and Square Enix among many others. Let me also share a few examples of the new deals that show our consistent growth. Rockwell Automation selected Globant as a strategic software development partner to enable the digital transformation of the organization. The multiyear partnership leverages Globant's studios, Globant's product acceleration methodology and Globant's cultural transformation operating system to build the capabilities required to meet customers' most challenging expectations. Our expertise in the finance industry continues to grow. We have signed a long-term agreement, BBVA Francés, to accelerate their digital transformation in retail banking through new technologies and processes that will improve our customer experience. For another leading bank in Latin America, we are working to transform their IT delivery area into an Agile department. We're also supporting the expansion of this transformation initiative towards other divisions of the company. Also, we are working with a leading musical label to consolidate their music artist data between their internal data platform, social media and radio reproductions.

The goal is to feed their current reporting system and do trends detection based on AI techniques. We are extremely delighted that the organizations rely on Globant as they embark on a profound transformation. The impact of our work is also recognized by prestigious awards, such as the BIMA Awards.

Last year, we received 3 BIMA Awards for the work we performed together with the London metropolitan police as part of their digital transformation. We won for transformation and consultancy in impact and the overall category. We also received the night's biggest price, the BIMA Advance Grand Prix. These recognitions reflects the award's mission and they celebrate British digital work that pushes the limit across innovation craft and impact. Globant has also won 2 Comparably Awards of the best company culture and best company for diversity. Comparably releases a set of awards each quarter, celebrating top-rating companies and their leaders, based on assessments by employees. These recognitions are a result of our commitment to our Globers. We take great pride in creating a workplace where people enjoy coming to every day that is being recognized by the community.

Lastly, let me remark that our pipeline and backlog remains strong with a number of high-potential new customers and several long-term projects within our current customers. We continue investing in our studios to remain at the forefront of innovation. We also keep expanding geographically to better serve organizations around the globe. We remain optimistic about our ability to deliver sustainable growth in the future. With that, I will turn the call over to Juan Urthiague, our CFO, for a further detailed financial review on the fourth quarter 2018, and also, to provide guidance for Q1 2019 and for the full year 2019. Juan, please? Thank you very much.

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Thanks, Martin, and good afternoon, everyone. I will spend a few minutes taking you through the fourth quarter and full year 2018 results. Then I will talk about our outlook for 2019. Let me start by saying that we're very pleased with our overall results for the fourth quarter and full year 2018. Q4 was a solid quarter of revenues, closing at $140.1 million, 21.4% over the prior year and 4.1% over the last quarter. Disney was, once again, our largest customer for Q4 2018 with remarkable growth. The account experienced a solid year with good perspectives of growth for 2019. Moreover, revenue for our top 10 accounts increased 20% over the fourth quarter of 2017, and revenues for customers 11 and beyond increased 22.5% over the fourth quarter of 2017. Our customer concentration numbers for Q4 remained fairly consistent with past quarters, with our top 1, top 5 and top 10 accounts representing 10.9% , 30.9% and 42.7% of total revenues compared to 10.4%, 28.5% and 43.2% of total revenue, respectively, for the fourth quarter of 2017. Our vertical diversification remain balanced across the different industries, with media and entertainment and financial services leading the pack accounting for 26.6% and 21.8% of revenues, respectively. And we continue to be well diversified in terms of customers and industries.

During the fourth quarter of 2018, 77.4% of our customers were in North America. The U.S. as our top country. 13.5% were in Latin America and others, Argentina as our top country, and 9.1% were in Europe, Spain as our top country. During the fourth quarter of 2018, 85.6% of our revenues were denominated in dollars, protecting our top line against currency fluctuations. During the last 12 months, we render services to 373 customers. Our 50-Squared strategy continues to drive growth, and we now have 5 accounts over $20 million in annual revenues, 9 accounts over $10 million, and 90 customers with annual revenues in excess of $1 million compared to 3, $9 million and 82 respectively, one year ago.

Turning now to profitability. We are seeing solid improvements compared to 2017. Our adjusted gross profit for the period increased to $58.4 million, 41.7% adjusted gross margin compared to $45 million, 39% adjusted gross margin in the fourth quarter of 2017, also showing a sequential increase of 50 basis points compared to the previous quarter. The increase in adjusted gross margin was primarily driven by a higher revenue per head combined with FX tailwinds in most Latin American currencies. We finished the quarter with 8,384 Globers, 7,821 of which were IT professionals, experiencing, once again, a record quarter in terms of net additions, with a total headcount increase of 577 employees.

Attrition for the past 12 months was 18.2%, showing a sequential decrease of 100 basis points quarter-over-quarter. We continued to generate SG&A dilution. Adjusted SG&A decreased 60 basis points compared to Q4 '17, accounting for 19.3% of our quarterly revenue compared to 19.9% for the same period last year. Our adjusted operating income for the quarter improved relative to Q4 2017. It amounted to $23.4 million or 16.7% of revenues compared to $17.9 million or 15.5% for the fourth quarter of 2017, a 30.9% year-over-year growth.

Share-based compensation expense for the quarter amounted to $3.4 million. This expense is mainly related to the plan of restricted stock units granted to certain key employees and directors of the company as part of our long-term retention program. This expense represented 2.4% of revenues for Q4 2018 compared to 2.8% of revenues for the same quarter last year. Financial income and expenses net amounted to a loss of $1.5 million. This net result is mainly comprised of FX gain and losses resulting from monetary assets and liabilities in local currencies and interest income.

Other income and expenses resulted in a $1.4 million loss, primarily resulting from the remeasurement of investments and associates and contingent liabilities related to our acquisitions. Our effective income tax rate for the quarter was 23.5%, in line with the average effective income tax rate for the full year. Adjusted net income for the fourth quarter of the year totaled $18.5 million, 13.2% adjusted net income margin, an increase of $4.4 million or 30.9% compared to the fourth quarter of 2017. Adjusted diluted EPS for the quarter was $0.50, based on 36.9 million average diluted shares for the quarter, increasing from $0.39 a year ago.

Let's now move to our full year 2018 performance. Revenue for 2018 amounted to $522.3 million, implying our robust 26.3% year-over-year growth. We experienced good momentum among our 50-Squared accounts, and we expect to see more benefits in the coming quarters. Revenue for our top 5, top 10 and 11 to the end accounts increased 40.1%, 32.5% and 21.9%, respectively, compared to the previous year, showing solid growth across the board. Adjusted gross profit for 2018 was very strong at $212 million, 40.6% adjusted gross margin compared to $160.3 million or 38.8% adjusted gross margin for 2017, an improvement of 180 basis points year-over-year. This significant improvement was mainly due to a combination of higher revenue per head and tailwinds from the FX currencies in Latin America.

During 2018, once again, we achieved significant dilution in our adjusted SG&A as a percentage of sales, decreasing from 21.5% for 2017 to 20% in 2018. We have been very disciplined in managing our costs as we gain scale, while we continued investing for the future, primarily to expand our sales coverage in the U.S. and Europe. As a result of this, our adjusted operating income for 2018 increased substantially to 16.1% of sales from 13.7% a year ago, an improvement of 240 basis points. Share-based compensation for 2018 amounted to $12.9 million, 2.5% of revenues compared to $14.5 million, 3.5% of revenues for 2017. This expense is mainly driven by our long-term incentive program, as explained before.

Financial income and expense net amounted to a loss of $5.6 million. This net result is primarily comprised of FX gains and losses resulting from monetary assets and liabilities in local currencies and interest on our investments and on our liabilities. This result was mainly driven by the significant depreciation of the Argentine peso during Q3 2018. Other income net resulted in a gain of $6.2 million, mainly related to the remeasurement of the contingent liabilities of certain acquired companies. This line item is adjusted for our non-IFRS measures.

Our effective tax rate for the year was 23.5%, an increase versus 2017, mainly due to the impact resulting from the volatility of some currencies in LATAM. Adjusted net income for the year amounted to $63.7 million or 12.2% of revenues compared to $46.1 million or 11.1% of revenues in 2017. This represents a [13.4%] year-over-year increase. Adjusted diluted EPS for the same year was $1.74, based on 36.7 million average diluted shares compared to $1.28 in 2017 based on 36.1 million average diluted shares.

Moving onto the balance sheet. Our cash and investments as of December 31, 2018, amounted to $87 million compared to $60.7 million as of December 31, 2017. Our balance sheet remains strong, with current assets of $214 million accounting for 48.5% of the company's total assets. Total shares outstanding as of December 31, 2018, was 36 million common shares.

During 2018, we significantly improved our cash generation. Our free cash-to-net income ratio for the year reached 75%. The cash that we generated was mainly used for CapEx and earn out payments related to our acquisitions.

To wrap up, I would like to share with you our outlook for Q1 and for the full year 2019. Let me start with the demand environment and the implications for our revenues. We continue to be bullish in terms of our service offering, which we believe is fully aligned with market demand. At the same time, we are very optimistic with the progress we are seeing in our 50-Squared accounts.

Finally, hiring remains strong. With regards to our gross margin, we will stick to our long-term target of 38% to 40% we pointed out in last few calls. We will continue our turning programs and gathering technology and implementation of our 50-Squared strategy. We will continue managing very carefully our SG&A expenses, while investing in increasing sales coverage to expand our businesses.

During 2019, we faced some headwinds from a temporary withholding tax in Argentina, so we expect our adjusted SG&A as a percentage of revenues to decrease 10 to 20 basis points compared to 2018. Finally, effective tax rate is expected to remain in the 21% to 23% range. Now let me provide you with our revenue and EPS guidance for Q1 fiscal year '19 and for the full year. Based on current visibility, we expect revenue for Q1 2019 in the range of $144 million and $146 million. In terms of adjusted diluted EPS, we're estimating a range of $0.45 to $0.49, assuming 37.1 million average diluted shares outstanding for the quarter.

Looking into the full year 2019, we expect revenues to be between $635 million and $645 million, and adjusted diluted EPS to be between $2.10 and $2.20, assuming 37.4 million average diluted shares outstanding for the year. Thanks, everyone for participating on the call and for your courage and support. Let's please now move into the Q&A section of the call. Operator, can you please queue questions? Thanks.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from Joseph Foresi from Cantor Fitzgerald.

Drew Kootman - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

This is Drew Kootman on for Joe. I had a quick question on the growth for the top 10 -- outside the top 10 clients, it looks like it accelerated while the top 10 decelerated. Could you touch on what you saw in those groups and what you expect moving forward?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

This is Juan. So, no, overall revenues increased 14.6% year-over-year, and when I look at our top 10 accounts, we saw a 20% year-over-year growth in Q4. And when we look at customers 11 to the end, we see a revenue growth of 22% year-over-year growth. So I think that we saw good growth across the board in our top 1, top 5, top 10 and even 11 to the end accounts. So I'm not so sure which is the number you're looking at.

Drew Kootman - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

I was looking compared to last quarter. I think the top 10 accounts, let me see, I think it was growing like 38%?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Look, overall, I mean, we were 21.4% overall in the quarter. I think that, when we look at -- I mean, I don't have the number that we are looking in front of me, but overall, we see 21.5% -- 21.4% for the all the company, 22% for 11 to the end, and as I said before 25% year-over-year. So I think it's still very good growth. There's nothing really to worry about. We see -- we continue to see good growth among our top accounts, all our high potential 50-Squared names are performing well, in line with our expectations, and we are confident over next year.

Drew Kootman - *Cantor Fitzgerald & Co., Research Division - Research Analyst*

Okay. And then for the Argentina tax, could you go in a little more detail? I know you mentioned 10 to 20 bps decrease in SG&A, I was just wondering, if it all affected anything else? Or just any more detail around that?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes, yes. So the new Argentina withholding tax basically has an impact on the exports totally from Argentina. Argentina is now about 35% of our headcount and about 20% of our costs. That part is basically 4 pesos for each one of our exports. In the guidance that we provided both for adjusted EPS and also when I discussed our expectations for SG&A, we are already including the impact of that tax. And I think that, that tax should be around $12 million to $13 million for the year at this point.

Operator

Our next question comes from Tien-Tsin Huang from JP Morgan.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

This is Puneet sitting in for Tien-Tsin. So, Juan, you talked about seeing higher revenue per head. Is it more of a function of mix as you diversify away from Argentina towards more on-site, or are you also seeing like-to-like price increases, which is driving high revenue per employee?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes, yes, so, we'll close this year at $74,000 per employee, which is a 3% year-over-year growth. But if you look at the breakdown and you'll probably see those numbers in the percentage that we will post in our IR website tomorrow, you will see that actually the offshore share of the total headcount increased during this year. So this is actually -- this is not a mixed-driven increase. It's actually driven by higher pricing, which is also driven by the demand of the services that we have in our service offering.

Puneet Jain - *JP Morgan Chase & Co, Research Division - Computer Services and IT Consulting Analyst*

Understood. And then one question we often get from investors is potential impact of macro uncertainty on clients' digital spending. Are you seeing any adverse impact on client decision making or spending on discretionary digital projects at all?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Puneet, this is Martín. The overall, I would say, feeling that we have in the accounts, as I mentioned, is that the pipeline is still very strong. I mean, I'm not seeing that macro uncertainty being translated into the forecast or the spending that our customers are planning to do. I mean, this is something that we're seeing now and we're seeing that as the current quarter is going on too. During Q4, maybe a little bit of less of the high, high traction that we had on the previous quarters. But I think that overall, it was pretty stable. And now, I'm seeing the pipeline very, very strong. And in that sense, remember, the digital demand is not coming from the company itself but from their consumers pushing them to the changes or with a threat of changing the brand if they don't like it. So that demand is very strong, it's not based on just cost reduction but on expansion of revenue. So I don't see any change on that demand given the uncertainty that you mentioned. But I feel they are a little bit vertical really. So I feel good about that.

Operator

Our next question comes from Ashwin Shirvaikar from Citi.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

I want to start with asking about the growth forecast. So when I look at the 1Q top line growth estimate versus the full year, there is a slower growth on 1Q than the full year, and it seems to be because of the tough comp that you had. But I want to confirm that there are no other factors and also, I missed what you might have said about the Avanxo inorganic impact for the year.

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Yes, I will let Juan to cover the Avanxo inorganic impact, I will cover your first question. When you're comparing, we're comparing against a pretty good quarter for -- in 2017. So Q4 2018 is compared against a very good quarter in Q4 of 2017, so the comp is very complicated. But if you normalize that growth, it would be around 25%. If you normalize the growth of the -- of last year and compare the growth of the last quarter, compared with that, you will get about 25%. So if nothing change here, we are getting tough comps even the volatility on our growth rates during last year. So nothing that is connected to the business itself, it's plain execution and pretty tough comps compared to Q4 2017.

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

And I will talk -- to add on that, Ashwin. We are really happy with the acquisition with Avanxo. We -- very interesting we've already seen actually already 3 contracts that we closed together with them. It's actually brought additional capabilities into the company and our regions and all the business units that we have, have taken this acquisition really, really well, and they are really working in process together. So when we look at Avanxo and considering that there's going to be a lot of -- a very quick integration between the 2 companies, basically Avanxo is a company which came with about 300 IT professionals, all of them located in offshore locations, mostly Colombia, Chile and -- sorry, Colombia, Mexico and Brazil. So I think if you look at math with the offshore revenue per shares and then your used utilization and all that you would probably arrive to a number which is about 200 basis points for the year.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

Got it. Understood. And then a question I had was, it's about 6 months since the WPP ownership stake was sold, or since WPP sold its ownership stake. I'm curious as to whether you are beginning to see any sales momentum at WPP's competitors as far as the digital advertising type of services? I know that before they acquired a stake, you used to have good relationships with some of the competitors so can you talk about that market?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

No, we didn't change our behavior. Now before, we were trying to get the customers -- they get as part of the family and now we are trying to get that customers as not part of family. So I mean, doesn't change anything. We're not seeing very often WPP competing in the technology space as we are doing with any of their companies. So overall, no impact in terms of the business. And of course, we are not -- we were not being refrained, and we are not being refrained from trying to compete for those customers.

Ashwin Vassant Shirvaikar - *Citigroup Inc, Research Division - Director and U.S. Computer and Business Services Analyst*

No, I meant competing for, say, business from Omnicom and PGN, companies like that, that's what I meant. Not from...

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Honestly, on the customers we have -- and the potential customers that we are competing, we are not seeing them at all. I don't know, this is just my situation right now, maybe in the next quarter we see them. But right now, we're not seeing this.

Operator

Our next question comes from Maggie Nolan from William Blair.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Analyst*

You guys are talking positively about demand, and you gave a strong guidance for the year, and I know you're coming off of strong pricing and rev per head in 2018. Does this perhaps imply that you are expecting higher price increases compared to last year?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

I think prices will remain pretty stable during this year. I don't see any upside on that specific side. Yes, we'll continue in our trend to gain more and more efficiency on the SG&A, of course, on our gross margins and looking for efficiencies there as we always do, and as we have been doing since our IPO when we did 32% on SG&A, and this year, we are doing 20% on SG&A. So this is a representation of what we -- of our mentality and how we -- and how we'd like to conduct our business. In terms of pricing, of course, we can always try to increase them and to -- we're better at that. I would not expect it in a consistent manner to happen during this year.

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes, there is no pricing baked into the guidance, Maggie.

Margaret Marie Niesen Nolan - *William Blair & Company L.L.C., Research Division - Analyst*

Okay. And then, as you look forward to your plans for 2019, how are you expecting that headcount diversification initiative to play out, or how are you expecting to progress against kind of that goal you've laid out of having each location below 25%?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes. So right now, we now have our operation in Latin America, which is still the largest operation that we have. Within Latin America, you're seeing Columbia growing very fast, Mexico growing very fast, and then some other smaller countries growing as well. And then you see Argentina growing at a very -- at a much slower pace and becomes smaller as percentage of the total. Right now, Argentina is around 35% of the total. Colombia at 25%, became the second-largest location. And we see LATAM, overall, today, LATAM is overall about 80% of our headcount. We see that going slightly down over time, and we see India, which is right now at 12%, growing to between 15% and 18% over the next 2 years. And then we have a very small recent operation in Eastern Europe, where we are starting there and we went back to start showing into the headcount map over time. Then the U.S. and Europe, we continue to want to have those 2 --- those locations combined between around 12% of our headcount. So that's overall what we are looking for.

Operator

Our next question comes from Avishai Kantor from Cowen.

Avishai Kantor - *Cowen and Company, LLC, Research Division - VP*

Can you give us maybe an update on the traction in the early days of the Services over Platform offerings? And maybe, you can share some internal goals, which should -- how should we look at revenues, let's say, 2, 3 years from now coming from that platform's offerings?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Yes, I think the traction overall is very good. I mean, we are receiving the customers that we are doing every -- that we are visiting, and the customers that this platform is opening for us is really very interesting. Because once you enter there, you get coverage, I mean, pretty much everybody knows you. And when everybody knows you then doing business inside those accounts it matches your soul. It open doors, it generates more awareness about our brand, and those things are extremely important. In terms of growth of the platforms, last year, it was about 1% of our revenue, and we have the expectations during the next 4, 5 years to -- for that to become about 5% to 10% of our revenues. This is something that we have as an internal objective. It's not something that we will disclose year-by-year. But our objective is for that to become a pretty consistent part of our revenue and our strategy of growth. Because when we enter into an account selling, some of the platforms we have to enhance the culture or to change or about the culture or as the digital culture, then the most probable scenario is that they end up buying other things, which are traditional services, and that's pretty foreseeable for us. And it's a very, I would say -- it's an excellent way to handle customers that we have discovered. So where they're happy with initiatives and we will keep on pushing more and more things on our platforms to be successful.

Avishai Kantor - *Cowen and Company, LLC, Research Division - VP*

Okay. And then regarding the strong growth that you talk client, is that coming from the Parkside of the business? Is that driven by the studios and media side of the business? Is that a combination? What's really driving that what seems to be very strong growth in the last few quarters?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Yes, last year, Disney had a great performance. It grew about 40%, which is pretty impressive for a certain account of this type. We don't expect Disney to keep growing forever at 40% a year, so as you may imagine, this is something we need to be very careful about. But Disney is very healthy, the relationship and now the expansions that they are getting with the acquisitions that they're doing is something that will impact us in very positive. But we need to be careful with that. I think the growth is coming from everywhere. I mean, all the accounts, like the one that I just announced, Rockwell, a few minutes ago on my speech. Rockwell will be a pretty good account, a pretty solid account in the next few quarters and the growth is coming from hunting and from farming and from many different -- if you see how we are diversified across many industries, you will see that the balance among many different verticals is very good and has been very good in the history. That means that our growth comes from media, entertainment, financial sector, travel & leisure, now manufacturing, also from -- well, from every segment that we have breadth in. So you see there like that the common factor there is that the need is across the board. The need is across the board, the need of the company like [Loren] is across the board. So I would not mention Avishai, a single line or customer or industry that is pushing more than others.

Operator

Our next question comes from Moshe Katri from Wedbush Securities.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD of Equity Research & Senior Equity Research Analyst*

How should we think about wage inflation in 2019? I think you have indicated where Argentina is in terms of total headcount. I think we've been waiting for the recent party to kind of continued inflation. Maybe you can talk a bit about that? And then how does this affect non-GAAP EBIT margin? I think the EBIT margin number in Q4 was very, very strong. Maybe some color on that as well?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Hello, Moshe. How are you doing? This is Juan. So right now, the company is much more diversified. Hence, Argentina being at 35% of headcount and about 20% in terms of costs. It's now less of an issue. In the past, inflation in Argentina have -- may have a significant impact in our numbers because we had about 50% or even 70% at the time of the IPO of our headcount in Argentina. But the strategy to pursue diversification that we've followed during the last 5 -- 4, 5 years has now put us in a much better situation. Having said that, Argentina is expecting the inflation that the government is estimating for the year is about 25%, which is of course, the highest inflation that we will have across the board. And then for all the other countries, we are talking about single-digit inflation. Maybe, India could be about 10%, but all the other countries are going to be about 3%, 4%, 5% for the year. We believe that we still have room, I mean, currencies continue to depreciate, the dollar is very strong. So we believe that the impact of certain inflation will be offset by currency depreciation in most countries. And in the case of Argentina, what we have already done was hedging for the first half of the year, basically selling dollars forward, so we are covered for the first half of the year in the case of Argentina.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD of Equity Research & Senior Equity Research Analyst*

So what sort of FX tailwinds are factored in your guidance for the year in terms of percentage points?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

No, we don't have any more tailwinds there. What we have is basically, the assumption is that FX, whatever happens with the FX is going to be offset by currency -- sorry, by inflation. So net-net, we expect not to have neither benefits nor headwinds coming from FX on our margin.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD of Equity Research & Senior Equity Research Analyst*

All right. And the non-GAAP EBIT margin for the year?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

The number -- what I guided was 38% to 40% gross margin, and I also guided about 19.8% to 20% SG&A. So that minus our D&A, which is going to be in the same range where we are today. We'll give you your operating margin number. If you do the math, it should be about 16%, something like that.

Moshe Katri - *Wedbush Securities Inc., Research Division - MD of Equity Research & Senior Equity Research Analyst*

Okay, understood. Last question, Martin was talking about this, I think last year. You have been looking at expanding more into Europe, and it's been an initiative that's been kind of a multiyear initiative. Where are we in that ongoing effort?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

I think we're in better shape. The difference in countries like Spain and England have propelled a lot now. We have also the inclusion of another delivery center in Eastern Europe. So we are pertaining to cover that in a really efficient way from those centers in Eastern Europe, and the business restructuring very well, I would say, in 3, 4 countries in Europe. So revenue is growing in a pretty healthy way. The engagements and the quality of engagements are really surprising in terms of what we are proposing to our customers. So right now full transformations and full -- like you cannot make additional transformation if your culture is wrong. So at some point, if you want to do additional transformation, you need to change your culture to change the whole thing. So we have seen those kind of engagements, where we can help those organizations to transform the culture, to do the additional transformation, to take them to the next level in a much more holistic approach than in other regions. So we're really very well surprised and very happy with the performance of our Europe team.

Operator

Our next question comes from Frank Atkins from SunTrust.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Wanted to ask first, nice progress on the cash flow conversion. Can you talk about a little bit how far there is to go on that and what are your goals for cash flow conversion improvement as well as CapEx going into this year?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes, thank you for your question, Frank. Yes, I mean, free cash generation was probably one of the highlights of 2018. Free cash to net income is about 75%, and free cash flow to adjusted net income is about 61%, and that's pretty much doubling from the numbers that we've had in 2017, so strong progress on free cash generation. For this year, our expectation is to stay at similar levels where we are today within that the number that we achieved during 2016 -- 2018 was really very solid for our company. We expect CapEx to come down as a percentage of revenues a little bit more. I mean, now, we are being much more efficient in terms of CapEx, the size of bureaucracies that we're building helps us a lot in terms of making some efficiencies in that CapEx spending, as well as when we are negotiating contracts for laptops, for computers, for licenses, given that we are getting more scale, the per person or per seat cost is actually getting lower. So free cash will stated to be at similar level where it was in 2018. And that will -- that might be held a little bit for -- from a lower CapEx as a percentage of revenues. But it was one of the highlights of the year, we're very happy with that number.

Francis Carl Atkins - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Okay, that's great. And can I ask a little bit about a Salesforce update? Can you give me a little bit of color in terms of how well you're staffed and how are the skill sets and staffing by studio, by region? And then kind of the balance of farming versus hunting as you look into next year?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Yes, sure. We are very focused now in all of our regions. We have been expanding our coverage in a pretty systematic way and reinforcing those regions that we have within the organization to have the right coverage. The sales investments that we -- that was not, although, we're diluting SG&A, the S is growing, and we're planning to keep covering more and more customers and to get deeper into -- and closer expanding our teams in the U.S., our teams in Europe, our teams close to where we generate the revenues. So the overall action is that also, we are thinking that it's not just the sales guys that they want that really cover the account and get the deals. I mean, more than half percent -- more than half of the time, deals are coming from our delivery teams. The teams that are close to customer and understanding what happens there and so on and so forth. So we are now like making this kind of transformation where we are pretending to have a much deeper sales force getting close to our customers. But that sales force not necessarily our traditional sales people but in essence, delivery people on the [taking out] side, on the pressure management side that understand very well how the customer develops and are able to detect those opportunity and transform them into real business. So this is the approach that we are having today. We are investing a lot of money there, not just from the sales force but also on the delivery side, to have a much better and deeper coverage, and that's reflected as a result on the growth rates that you are seeing in the top 10 and non-top 10 accounts. So I think this growth parameter is still extremely important for us. We still believe that we have already the first customer that is in the $50 million range, which is a huge achievement for us, and we'll keep on adding more customers hopefully to that at least, and this is the update. We are investing a lot of money in improving that coverage.

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

Yes, Frank. Just to add on that. In terms of hunting and farming, as you know, we have been focusing a lot on farming and the farming numbers for 2018 was actually very, very high, close to 94%. So most of the revenue that we generated last year actually came from farming, and we think that, that is a direct consequence of the 50-Squared program. But again, as Martin said, we continue to hand some great logos and we continue doing so as long as we believe that those accounts have high potential for the company.

Operator

(Operator Instructions) Our next question comes from Arvind Ramnani from KeyBanc.

Arvind Anil Ramnani - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

I just wanted to circle back on the studios you all have talked about and that's going to center to your strategy. Are you able to share some specific metrics in the studios, specifically, what I'm looking for -- which of your studios are the largest? And also then, which are the ones which are a growing the fastest?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Well, we're seeing growth in many different studios. Some small studios are growing much faster than some big studios that are growing slower because they're already big. So I think that the studios are managing pretty much all our talent. As you know, there are big pockets of expertise on the different areas that we are discovering, for example, we are seeing a lot of growth on the artificial intelligence studio. We are seeing a lot of growth on the mobile studio. We are seeing also big data and the consultancy studio where ideation takes place. And we are seeing some other studios like, for example, the new Salesforce studio that we go together with Avanxo. The cloud computing studio that are growing at pretty consistent manner. Although, the performance is not stellar, those studios are very consistent year-over-year in the growth. So I think that also, there are some other studios and -- like cybersecurity, they are pretty new one, they are growing very, very fast because they are very small. But also, I think that in our some other studios, like for example, gaming, which are very performing in extremely great way. Although, the gaming industry itself is not booming, so it's not growing that fast. So there is a blend on performance but I would say, out of our 20 studios, more than 15 studios are really performing extremely well then the rest are connected to areas that are growing a little bit slower. So -- but then, for example, you have a future of organizations and are actual delivery studios, those studios are rocking because they are presently matching every single proposal that we are doing and that's something that companies really understand that need in a very big way. So this is an overall perspective of the studios and how they are performing.

Arvind Anil Ramnani - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Great. And from my understanding, your studios are not restricted by geography, right, like...

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Geography, no.

Arvind Anil Ramnani - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Okay. And then just to kind of follow-up on a question Maggie had asked earlier around this kind of expanding outside of Argentina and kind of with LATAM still being kind of a important geography. Do you all feel like pretty good from wage inflation and FX perspective? Or is that something you all feel you need to still manage a little bit carefully?

Juan Urthiague - *Globant S.A. - CFO & IR Officer*

So Argentina -- so hiring and firing isn't fun. So Argentina, when we went public, represented 70% of our headcount. So we have a very good culture to whatever was happening in the macro over here, right? But now, when we look at Argentina in terms of headcount it's about 35%, and it's going to become even less in the upcoming quarters as a percentage of the total. We are much more diversified. So -- and also, if you look at what's happened with the currency last year, it's actually depreciated quite a lot, quite significantly. So overall, even though there might be some wage inflation in Argentina, the fact that Argentina is smaller and that we already have the tailwind from the depreciation last year makes us feel comfortable in terms of our gross margin expectations for Argentina and also for the region. When we look at all the other countries in the region, Mexico, Colombia, Chile and Brazil, much more stable economies. So you don't see the currency moving a lot. And typically, the currency depreciates a little bit with the dollar, and that helps us to offset the impact on salary increases that we have. And they're all talking about low single-digit numbers, so that's not an issue. So inflation right now is becoming less of an issue for us, especially because the only country where we face high inflation is becoming less relevant in the overall headcount structure that we have.

Arvind Anil Ramnani - *KeyBanc Capital Markets Inc., Research Division - Senior Research Analyst*

Great, great. And then just last question for me is kind of more of the kind of the opportunity in SaaS and cloud, and there's certainly a view that the last, kind of, Chapter 1 of cloud was driven mostly by consumer-facing apps and the public cloud, and the next phase of SaaS and cloud will be driven more from the back-end systems and in hybrid cloud. Just want to see if you all agree with that and are you all repositioning your, kind of, capabilities to take advantage of the trend?

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

Yes, I think we -- when we work with the customers, we equally listen about private and public cloud. And it's something that really is picking up our attention and how company started kind of -- in some aspects but doing some backlash to the typical cloud, but also the concept is very -- but the concept, although, that is very strong. So they're trying to perform the same capabilities. So they have to use private clouds with their own -- within their own domain or within their own control. But we see the cloud movement in a pretty strong manner. We are heavy users, and most of our customers are heavy users of the cloud. We see a massive competition coming from the main players to fight for the leadership on that space, which I think is really attractive for the customers. And we see big savings also coming from the cloud. So the hybrid model is great. The private model is great. But I think the concept independently is private hybrid or you know -- public is the strongest part and what you need to pay attention to and what we are paying attention in our cloud studio. Connected to this, there's a lot of cybersecurity issues that need to be taken care. So it's like our cloud studio is very well connected to our cybersecurity studios because things happen where -- things that are out of control, and those 2 studios need to work together to keep the things under real control. So that's my take on what's going on right now with my customer. I don't know if I answered your question or not but this is what my understanding of the reality right now.

Operator

Ladies and gentlemen, that will conclude today's question-and-answer session. I'd now like to turn the conference call back over to Martín Migoya for any closing remarks.

Martín Migoya - *Globant S.A. - Chairman, CEO & President*

So thank you very much, everyone, for participating in our call and looking forward to see you on the next one. Cheers. Bye-bye.

Operator

Ladies and gentlemen, that does conclude today's conference call. We thank you for attending. You may now disconnect your lines.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

THOMSON REUTERS