

NASDAQ:INOD Q2 2025 Earnings Call Transcript

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Thank you. Thank you. ¶¶

Operator:

Good day, ladies and gentlemen, and welcome to the InnoData to report second quarter 2025 results conference call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require any assistance, please press restart, followed by the number zero for your operator. This call is being recorded on Thursday, July 31st, 2025. I would now like to return the conference over to Amy Agrest. Please go ahead.

Amy Agrest | Investor Relations:

Thank you, Sergio. Good afternoon, everyone. Thank you for joining us today. Our speakers today are Jack Applehop, CEO of InnoData, and Maryse Espinelli, Interim CFO. Also on the call today is Anish Penderkar, Senior Vice President, Finance and Corporate Development. We'll hear from Jack first, who will provide perspective about the business and then Maryse will follow with a review of our results for the second quarter. We'll then take questions from analysts. Before we get started, I'd like to remind everyone that during this call, we will be making forward-looking statements, which are predictions, projections, and other statements about future events. These statements are based on current expectations, assumptions, and estimates, and are subject to risks and uncertainties. Actual results could differ materially from those contemplated by these forward-looking statements. Factors that could cause these results to differ materially are set forth in today's earnings press release in the risk factor section of our Form 10-K, Form 10-Q, and other reports and filings with the Securities and Exchange Commission. We undertake no obligation to update forward-looking information. In addition, during this call, we may discuss certain non-GAAP financial measures. In our earnings release filed with the SEC today, as well as in our other SEC filings, which are posted on our website, you will find additional disclosures regarding these non-GAAP financial measures, including reconciliations of these measures with comparable GAAP measures. Thank you. I'll now turn the call over to Jack.

Jack Applehop | Chief Executive Officer:

Thank you, Amy, and good afternoon, everyone. Thank you for joining us. We're very pleased to report that Q2 2025 was another outstanding quarter for InnoData. We beat analysts' expectations across the board on key metrics, revenue, adjusted EBITDA, net income, and fully diluted EPS. Revenue grew 79% year over year to \$58.4 million. and adjusted EBITDA grew 375% to \$13.2 million, reflecting the operating leverage that's inherent in our model. We also continued to strengthen our balance sheet. Cash increased from \$56.6 million at the end of Q1 to \$59.8 million at the end of Q2, and a few days after quarter closed, we collected an additional \$8 million that typically would have been received by June 30th. Our \$30 million credit facility remains undrawn, giving us flexibility to support future growth. Our business momentum continues to accelerate. As a result, we are raising our full year 2025 revenue growth guidance to 45% or more organic revenue growth, up from the 40% we communicated last quarter. Our forecast reflects significant new deals that have been finalized since our last call, as well as several deals that we believe are highly likely to close in the near term. We have a robust pipeline that includes significant dollar values positioning us for strong

second half of the year. Many of these deals are not incorporated in our forecast, leaving room for possible further increases. Demand for our services is strong and accelerating, and we are seeing success across a diversity of existing and new customers. I'll talk about our largest customer first. We recently won several new projects with our largest customer, and we have others in pipeline that are not yet included in our forecast, but which we think are reasonably likely. Several of these new projects are under the second SOW we reported signing with this customer last quarter. We believe that the second SOW potentially gives us access to an even larger generative AI revenue pool with this customer. With another big tech customer, we were recently awarded a number of significant engagements, and we have additional significant engagements in late stage pipeline, enabling us to forecast \$10 million of revenue from this customer in the second half of this year. It is worth noting that we did just \$200,000 of revenue with this customer over the entire trailing 12 month period. So this is a very significant upswing that we believe will ignore to our benefit significantly next year. These are just two examples. There are more. The traction we are now seeing is exhilarating. We have built a marquee set of customers whose trust we've worked hard to earn and whose demand for our capabilities is expanding. Our big tech customers are in an all-out race towards super intelligence and autonomy, which we believe will be driven to a large degree by high-quality complex training data. We believe we are ideally situated to supply them with this high-quality complex training data. Moreover, we believe we are ideally situated to help them test models, diagnose performance issues, and prescribe data mixes required to improve performance. This is a frontier area. We believe that the future of LLM improvements lies not only in scaled data, but in smart data, knowing exactly what kinds of post-training data are required to achieve specific improvements in factuality, safety, coherence, and reasoning. At the same time, we're positioning ourselves to help enterprises build and manage AI that can act autonomously, often referred to as agentic AI. This will require simulation training data to capture how humans process multivariant problems. It will also require sophisticated trust and safety monitoring and management. We believe agent-based AI is going to serve as the cornerstone technology that unlocks the full value of large language models and generative AI for enterprises. Moreover, we believe that progress on agentic AI is likely to soon result in a chat GPT moment for robotics. Within the next several years, we believe agentic AI will be served at the edge in hardware devices with which we will commonly interact in many respects in our lives. We believe the market for simulation data services and evaluation services to drive agentic AI and robotics is likely to dwarf the market for frontier model post-training data. Our growth opportunities are significant and multidimensional. We intend to invest in ways that we believe will enable us to continue our growth path over the next several years. These include short cycle high return growth initiatives like custom annotation pipelines, verticalized agent development, and expanded global delivery. Strategic platform development, especially for LLM testing, safety, and real world deployment. Also, advisory and integration services for enterprises building AI-native systems, expansion into new domains such as multi-agent systems and robotics, and expansion into new markets. We believe now is the time to lean in, investing in capabilities that can compound value over the next decade. This year, we intend to substantially increase investments most of which will be expensed while at the same time beating 2024 adjusted EBITDA. In the second quarter, we incurred approximately 1.4 million of operating expenses that we think of as investments. This largely consisted of new hires and delivery, product innovation, go-to-market expansion, and talent acquisition. At the heart of this performance is a simple truth. we are deeply aligned with the most significant technological invention of our era, generative AI. Across the entire lifecycle of generative AI model training, from pre-training to post-training, to evaluation to safety, we're delivering the services that unlock the performance of gen AI models. I'll now turn the call over to Maryse to go over the financial results, after which Maryse, Anish, and I will be available to take questions from analysts.

Maryse Espinelli | Interim Chief Financial Officer:

Thank you, Jack, and good afternoon, everyone. Revenue for Q2 2025 reached 58.4 million, representing a year-over-year increase of 79% and demonstrating strong continuing momentum. Adjusted gross margin was 43% for the quarter, up 33% in Q2 of last year. Our adjusted EBITDA for Q2 2025 was 13.2 million, or 23% of revenue. compared to \$2.8 million, or 9% of revenue in the same quarter last year. Net income was \$7.2

million in the second quarter, up from loss of \$14,000 in the same period last year. In Q2, we were able to utilize the benefit of accumulated net operating losses, or NOLCO, to partially offset our tax liability. Looking ahead to the coming quarters, barring any changes in the tax environment, we expect our tax rate to be approximately 27% to 28%. Our cash position at the end of Q2 2025 was \$59.8 million, reflecting a sequential increase of about \$3.2 million, shaped by strong profitability and disciplined cash management. As Jack mentioned, we collected an additional \$8 million in early July that in ordinary course would have likely been collected in Q2. We still have not drawn down on our \$30 million Wells Fargo credit facility. The amount drawable under this facility at any point in time is determined based on borrowing base formula. I'll reiterate what Jack said. The momentum in our business is nothing short of amazing. We believe we've got a tiger by the tail and we're investing with a goal of positioning the company to align with what we project the market needs are going to be over the next few years. In Q2, we incurred approximately \$1.4 million of operating costs to build out a variety of technical capabilities to expand our go-to-market as investment towards a future that we believe is truly exciting. Thank you, everyone. Zorio, we're ready for questions.

Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press the star followed by the number one on your touch-tone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press the star followed by the number two. If you are using a speakerphone, please lift the handset before pressing any key. One moment, please, for your first question. Your first question comes from George Sutton from Keck Helm. Please go ahead.

George Sutton | Analyst, Keck Helm:

Thank you, Keaton. Nice results. Congratulations. So I wondered if we could talk about during the quarter your largest competitor, ScaleAI, was a large majority purchased by Meta. And we've had a few of the large tech companies come out and say they would no longer work with Scale AI. These ostensibly would be tech companies that you have statements of work with. So I'm just curious if you can kind of give us the after effect of that acquisition as you've seen it.

Jack Applehop | Chief Executive Officer:

Hi, George. Well, thank you. Thank you for bringing the call. So I guess, you know, first, you know, we congratulate Scale for, you know, having delivered a great success for their shareholders. And, you know, we believe their success and their valuation is a proof point of, you know, the key role that data plays in model performance and the path towards superintelligence. You know, we compete with them successfully. And, you know, we believe that their shift in focus is likely to accelerate market opportunity for us.

George Sutton | Analyst, Keck Helm:

Let's think about it a little more holistically. So they obviously were working with major tech companies. How quickly should we start to see that business shift? So if, for example, OpenAI comes out and says we are no longer going to be working with them, does that shift very quickly? And how do you go to market differently or more aggressively given the opportunities that will get created?

Jack Applehop | Chief Executive Officer:

I think even before this, you know, we were and continue to, you know, very aggressively outreach to market participants and to market our capabilities. You know, we have, in light of this, stepped up that effort with certain companies, and there are certain conversations that are going on and are now planned to be happening over the next couple of months that I think, you know, could be very exciting for us. I don't know that I can get into particulars much beyond that, but I'll reiterate that we do see an opportunity to accelerate our market presence.

George Sutton | Analyst, Keck Helm:

Okay, and lastly for me, you throw out an interesting nugget about robotics and the attachment to hardware creating significant impact. even more significant opportunities than the large language model training. So can you just walk through how you envision that would work for you and just lay out that opportunity?

Jack Applehop | Chief Executive Officer:

Sure. So I think that we tend to read about these technologies somewhat as if they exist in isolation. But the reality is that as large language models become, you know, more and more competent and able to interpret ambiguous language and, you know, have capabilities to plan and articulate, you know, multi-step responses to problems. You know, there are technologies that will be added to that capability, you know, enabling those models to invoke external APIs or other tools, enabling for multi-step tasks using greater memory and planning capabilities. But when you take that and then you think about deploying that at the edge within devices, what you have is a very capable robot. So I think what this means for us is there's a whole new set of activities both to train these devices to fine-tune models and to evaluate their performance that together constitutes a market that I believe will exceed that of creating post-training data and evaluating models for frontier model builders. So it's something we're hugely excited about and intend to be investing very significantly in.

George Sutton | Analyst, Keck Helm:

Perfect. Thank you.

Operator:

Thank you, George. Your next question comes from Allen Klee from Maxine Group, LLC. Please go ahead.

Allen Klee | Analyst, Maxine Group, LLC:

Yes. Good afternoon. So when you reported last quarter, you kind of said that you thought revenue might be down around 5% in the second quarter. Your actual number was flat, very slightly sequential. So you outperformed. So I'm kind of curious. Like, where did the variance come from?

Jack Applehop | Chief Executive Officer:

Sure, I'll start, and then, Ramesh, if you want to give any additional color. I think that, you know, what we were trying to communicate last quarter is, you know, revenue was up. We were up on a run rate basis from our largest customer, and we were, of course, very happy about that. But we wanted to focus, you know, our investors on the guidance that we were giving because there are a lot of, you know, pluses, you know, puts

and takes that get factored into that guidance. And underlying the work that we're doing, you know, there are dependencies on engineering teams that we're working hand in glove with. So it's entirely possible that, you know, a quarter could be up or down, and that isn't necessarily something that should be extrapolated out and considered, you know, locked and loaded, you know, permanently. We weren't anticipating that it would necessarily, you know, be down, though, and we're very happy to see that it wasn't. You know, as I said, you know, looking at the largest customer as well as several, you know, quite a number actually of other customers, we see, you know, an incredible pipeline of opportunity right now. We're very excited about that. And, you know, we're only baking into our guidance and our forecast things that we think are highly likely to close within the next, you know, really 30 to 60 days. There's a lot beyond that I think that we're going to be winning as well. So, hope that's helpful.

Anish Penderkar | Senior Vice President, Finance and Corporate Development:

Anisha, anything you want to add to that? Yeah. I think you framed that correctly, Jack. Just to kind of reiterate, Alan, we're not seeing any slowdown with our largest customer. In Q2, we generated approximately \$33.9 million of revenue from this account. And as Jack mentioned, we secured several new projects and have additional opportunities in the pipeline that, while not yet included in our forecast, appear reasonably likely. So again, we feel very bullish and optimistic of our prospects in the back half of the year and remain very excited.

Allen Klee | Analyst, Maxine Group, LLC:

Thank you. You highlighted, one of the things you highlighted was the enterprise and the opportunity there. There's a lot of enterprises out there. I'm just curious how you think about the go-to-market to attack it.

Jack Applehop | Chief Executive Officer:

Yeah, it's a great question. Well, we're attacking it already. And what we're finding is that the interest in the technology and the opportunities to, you know, instantiate into, you know, workflows exist across markets. So, you know, naturally we're looking at the markets where we have the most penetration and the most relationships today. But we're also reaching out to companies in markets where we don't have as much reach. And we're finding great you know, receptivity. So, you know, I think the highlight there is that agentic AI, as it's proven, is going to be the catalyst that unlocks enterprise opportunity. And I think that, you know, among enterprises that I talk to and, you know, more broadly, you know, they're no longer just looking at this like a, you know, a frontier technology that's interesting to monitor. They're seeing it as, you know, new economic infrastructure that they're going to need to be embracing and they're going to need to be adopting. And I think that we can play a very significant role in that. When we have conversations with them about the things that we think they need to do and our consultants are working with them to figure out what's the right order of operations and how they gain control of their data in order to harvest these opportunities, we've got a lot of experience. both from working with the large big techs on the frontier model, such that we know where things are going and how they can best utilize them, and also on all the work we've done historically, taking apart workflows and thinking about how to integrate new technologies into workflows to make them more efficient. So, yeah, super excited about the opportunities there.

Allen Klee | Analyst, Maxine Group, LLC:

That's great. I'll ask one more and then I'll jump back in the queue. You highlighted a certain amount of money this quarter spent that you operating expenses that you viewed as like investment. Is there any reason to think that the scale of how much you're going to be investing for growth in the second half is going to change meaningfully from where it's been?

Anish Penderkar | Senior Vice President, Finance and Corporate Development:

Great question, Alan. So we, as you rightly pointed out, we said we invested about \$1.3 million in Q2 across several functional areas, including sales, delivery, and product solution capabilities. We anticipate that stepping that up from Q2 to Q3 by approximately another one and a half million dollars. And the reasons for doing that is we see tremendous opportunity in the space and we want to be able to capitalize on that. So we will be making some incremental investments in sales, delivery, solutioning and product to be able to capitalize on what we think is a very significant opportunity right now.

Allen Klee | Analyst, Maxine Group, LLC:

Great. Congrats. Thank you.

Operator:

Thank you. Your next question comes from from PWS Financial. Please go ahead.

Analyst | PWS Financial:

Hi. So my first question was could you just talk about why you mentioned organic growth and what your intentions are there?

Jack Applehop | Chief Executive Officer:

Sure, Hamid. I think we mentioned it to draw attention to the fact that this is organic growth. You know, I think if you look across a, you know, companies who are reporting and reporting, you know, growth, a lot of them are growing, you know, inorganically, and that can be a great strategy for them, but it's a different strategy. And I think our strategy And the kind of growth that we're reporting is testament to the product set and the capabilities that we've developed. And from a risk-adjusted basis, I think that's probably a safer bet for investors. So we're very proud of it. We're very proud of what we've been able to accomplish and looking ahead to how well aligned we are with what we see as today's market opportunities and tomorrow's likely market opportunities, we think that organic growth can continue.

Analyst | PWS Financial:

And the organic growth that you're seeing in your business, is that coming with any kind of competitive pressures on pricing or you're able to maintain pricing and capture new customers?

Jack Applehop | Chief Executive Officer:

It's a robust market. I think that we expect Well, we do experience, of course, a competitive environment, but what we're seeing is that the most important thing to our customers isn't our price. It's the quality of our data and the extent now to which we can work hand in glove with them in order to help understand model performance, understand model deficiencies, understand use cases, and make recommendations about the data sets that are required to remediate or to extend those capabilities. So it's a holistic service. And the investments that they're making are so extraordinary. And there's such a deep desire to win in this race, that when we're contributing as well as we are in so many accounts, they become much less price sensitive. Now, that having been said, I don't believe that we're the most expensive among our competitors, but I do think we're among the best. And that's a position that I think if we can sustain, that will significantly in order to our

benefits from a competitive perspective and a growth perspective.

Analyst | PWS Financial:

And lastly, last quarter, you had a series of different customers you were describing and talking about. This quarter, I think, sounds a little less, so I'm just trying to understand, where are you in terms of those relationships? Have they started up what you were talking about last quarter? So where do you sit as far as revenue opportunity goes when you look out into year-end 26?

Jack Applehop | Chief Executive Officer:

Yeah, no, there's actually more opportunity in this bigger pipeline today than there was a quarter ago. You know, I just looked at that earnings call and thought that maybe that was a little long and decided stylistically to try to condense it a bit. There's more opportunity. There are things that we talked about last time that have closed and that are now in our forecast. There are things that we're continuing to progress that are real interesting. By memory, I'm thinking about things we talked about. I think there's only one thing where that kind of went dormant a little bit, but everything else is either closed, moving forward well, advancing significantly in discussions, and that we feel very bullish about.

Operator:

Very good. Thank you. Thank you. Thank you. Your next question comes from Mr. Alan Clee from Marketing Group LLC. Please go ahead.

Allen Klee | Analyst, Maxine Group, LLC:

Oh, hi. I just had a follow-up. I thought it was really interesting how you said that you can make the data smarter for the customers to get better results. Could you go into that a little bit? Thank you.

Jack Applehop | Chief Executive Officer:

Sure. There are a lot of different dimensions that we use to look at data and analyze data. Our data science team is rapidly expanding. We end up for engineering teams producing what are the equivalent of, in many cases, the equivalent of white papers with all sorts of mathematical formula and statistical analysis that correlate what we benchmark as a model's performance or identify as a model's deficiency with what data sets are required in order to remediate that. And what that capability has resulted in is that we're no longer just providing data, but we're you know, our status, our role has been elevated to, you know, sitting at the table with the data scientists who are building these models and figuring it out with them. You know, the journey is about data. And it's about, as I, you know, said in prepared remarks, it's about not just scale data, but smart data. So being able to do all that, you know, deep technical scientific analysis of data, of model performance, of correlating the data that's required in order to achieve the level of performance that's required. In just the last, you know, I'd say several months, that's become a problem space that we're getting to occupy, and that's tremendously exciting for us.

Allen Klee | Analyst, Maxine Group, LLC:

Okay, great. Thank you so much.

Operator:

Thank you. There are no further questions at this time. I will now turn the call over to Jack Abelhoff for closing remarks. Please go ahead. Thank you, operator.

Jack Applehop | Chief Executive Officer:

So Q2 was a high-performing quarter with 79% year-over-year growth, and we're anticipating a strong second half to the year. In the second half, we anticipate potentially winning major new customers, significantly deepening relationships, and further broadening our base. We'll also be continuing to make investments in infrastructure, talent and platforms that we believe are key to continuing our growth trajectory over the years to come. As a result of our successful execution, we're raising our guidance today from 40 to 45% or more organic revenue growth for the year. And yeah, I mean, we're humbled by our good fortunes that scale data, our specialty is we believe the sine qua non of the greatest technological innovation of our lifetimes. And, you know, with the runway we see ahead, our goal remains to build in the data into one of the leading AI services companies for this era. So, you know, thank you all for your continued support. And, you know, we'll look forward to being with you a quarter from now.

Operator:

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.