

13-Aug-2025

Mastech Digital, Inc. (MHH)

Q2 2025 Earnings Call

CORPORATE PARTICIPANTS

Jennifer Ford Lacey

Manager-Legal Affairs, Mastech Digital, Inc.

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

OTHER PARTICIPANTS

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Marc Riddick

Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Mastech Digital Second Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jenna Lacey, Manager of Legal Affairs. Thank you. You may begin.

Jennifer Ford Lacey

Manager-Legal Affairs, Mastech Digital, Inc.

Thank you, operator, and welcome to Mastech Digital's second quarter 2025 conference call. If you have not yet received a copy of our earnings announcement, it can be obtained from our website at www.mastechdigital.com.

With me on the call today are Nirav Patel, Mastech Digital's Chief Executive Officer, and Kannan Sugantharaman, our Chief Financial/Operations Officer.

I would like to remind everyone that statements made during this call that are not historical facts are forward-looking statements. These forward-looking statements include our financial growth and liquidity projections, as well as statements about our plans, strategies, intentions and beliefs, concerning the business, cash flows, costs, and the markets in which we operate. Without limiting the foregoing, the words believes, anticipates, plans, expects and similar expressions are intended to identify certain forward-looking statements. These statements are based on information currently available to us, and we assume no obligation to update these statements as circumstances change. There are risks and uncertainties that could cause actual events to differ materially from these forward-looking statements, including those listed in the company's 2024 annual report on Form 10-K filed with the Securities and Exchange Commission and available on its website at www.sec.gov.

Additionally, management has elected to provide certain non-GAAP financial measures to supplement our financial results presented on a GAAP basis. Specifically, we will provide non-GAAP net income and non-GAAP diluted earnings per share data, which we believe will provide greater transparency with respect to the key metrics used by management in operating business. Reconciliations of these non-GAAP financial measures to their comparable GAAP measures are included in our earnings announcement, which can be obtained from our website at www.mastechdigital.com. As a reminder, we will not be providing guidance during this call, nor will we provide guidance in any subsequent one-on-one meetings, calls.

I will now turn the call over to Nirav for his comments.

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

Thanks, Jenna, and good morning, everyone. We entered the second quarter in a market that remained cautious but are now beginning to see early signs of stabilization, particularly in North America, where trade-related uncertainties appear to have become the new normal. Across industries, we are seeing clients continue to remain cautious, prioritizing investments that deliver clear business value, while managing budgets prudently. Hiring decisions and project commitments also remain measured.

Against an uncertain macroeconomic environment, I am pleased with our performance in the first half of the year marked by continued year-over-year growth across both our IT Staffing and Data and Analytics business segments. We believe this performance demonstrates the strength of our portfolio and our disciplined execution.

In our IT Staffing Services segment, we saw steady demand for high value work as clients focused on flexible, cost efficient and value generating workforce strategies. While activity levels were lower than the prior year, we are seeing encouraging signs as macroeconomic conditions improve. I'm particularly pleased with our gross margin performance. We achieved our highest gross margin to date in second quarter through our focus on revenue quality, particularly among our financial services clients. Our Data and Analytics Services segment also showed positive year-over-year growth, while our bookings came in lower than expected, driven primarily by slower decisions on capital programs by our top customers.

Beyond our financial performance, we have made good progress this quarter on our strategic initiatives and have been methodical in preparing the organization for internal alignment and execution readiness. As part of this process, we have mobilized teams and started organizing our structure to help position the company for the future. We've also focused on driving initiatives designed to unlock efficiency across the organization, starting with the recent transition of our finance and accounting function to India. We believe this implementation of our strategic initiatives will energize our teams, deepen client relationships, and reinforce our position as a trusted partner for enterprises navigating [ph] in AI-first world (00:12:57).

In summary, we believe we delivered a solid quarter in a measured and cautious market, demonstrating the resilience of our business and the relevance of our offerings. We remain focused on executing against our priorities and preparing the company to seize future opportunities. I would like to thank our employees, clients, and partners for their continued trust and support as we move forward with the implementation of our new strategic initiatives.

With that, I will hand it over to Kannan for a deeper look at the quarter's results.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

Thanks, Nirav, and good morning, everyone. Our second quarter results reflect disciplined execution in a cautious, but stabilizing market. Year to date, we have delivered revenue growth across both segments. IT Staffing Services remained stable on a year-on-year basis, supported by continued demand for high value, flexible workforce solutions. In our Data and Analytics Services segment, we saw a modest decline this year, consistent with the more measured decisions on capital programs that Nirav highlighted earlier. Order bookings in our Data and Analytics segment were lower, reflecting the slower decision making environment. We remain confident in our ability to deliver value as we move forward with implementing our strategic initiatives.

Consolidated revenue during the second quarter of 2025 totaled \$49.1 million, a year-over-year decrease of 0.9%, compared to the corresponding quarter of 2024. Our Data and Analytics Services segment reported revenue of \$8.6 million in Q2 of 2025, which was 3.2% lower than Q2 2024. Additionally, second quarter 2025 order bookings totaled \$5.8 million, which was below last year's Q2 performance of \$9.2 million.

Second quarter 2025 revenue in our IT Staffing Services segment totaled \$40.5 million or 0.4% lower than revenue achieved during the second quarter of 2024. Our focus on revenue quality resulted in higher bill rate and higher gross margins in this segment, though our billable consultant base declined by 11 consultants. Consolidated gross profit dollars decreased by 1.1% in Q1 of 2025 compared to corresponding quarter of 2024. Consolidated gross margins dropped by 7 basis points over the second quarter of 2024, largely driven by the decrease in our Data and Analytics Services segment.

GAAP net income for the second quarter of 2025 totaled \$0.1 million or \$0.01 per diluted share compared to a net income of \$1.4 million or \$0.12 per diluted share in the second quarter of 2024. Non-GAAP net income for Q2 2025 was \$1.8 million or \$0.15 per diluted share compared to \$2.2 million or \$0.19 per diluted share in 2024 second quarter. However, our Q2 2025 performance was an improvement from Q1 2025, where non-GAAP net income was \$0.8 million or \$0.06 per diluted share. SG&A expense items, not included in non-GAAP financial measures, net of tax benefits are detailed in our second quarter 2025 earnings release, for all periods presented, which are available on our website.

On the financial position, during the second quarter of 2025, our liquidity and overall financial position remained solid. On June 30, 2025, we had \$27.9 million cash balance on hand, no bank debt outstanding, and cash availability of \$22.2 million under our revolving credit facility. Our days sales outstanding measurement on June 30, 2025 totaled 53 days, which is well within our target range and in line with our DSO measurement a year ago.

Operator, this concludes our prepared remarks. We can take questions now.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question comes from the line of Lisa Thompson with Zacks Investment Research. Please proceed with your question.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Good morning. I have a number of questions because you've got so much action going on. My first question is, is our finance and accounting fully moved? Are there any more one-time expenses there?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Hello, Lisa. This is Kannan here, thanks for that question. Yes, we are on track with the transition of our finance and accounting functions to India, and we are facing well against the targets outlined in our prior disclosures. We will be completing most of it by some time, by the fourth quarter of this year. We are seeing early gains, which have been encouraging, not just from a cost standpoint, but also in terms of profitability, turnaround time, and better alignment across teams. So that is how we see this. It's going as per the plan. And we hope that by Q4 of 2025, we should be complete with our transition.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

So are there any more one-time expenses going to be booked?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

We don't expect any other than that which has already been disclosed, Lisa.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Okay, great. And as far as Informatica, what's the progress on that and what's happening there?

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

A

Lisa, if I can understand the question, you're just asking the partnership on our Informatica that we announced a few months ago?

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Yes.

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

A

Yeah. So I think, look, we are continuing to accelerate our position on trying to build what I call a very differentiated offering in our portfolio. And among the many partnerships that we have been pursuing, one that we announced recently was with Informatica. And I'm very pleased with the initial progress that we have made. We have really started to create joint solution offerings where we are creating what we called an impact offering that really allows us to set up a lab that we are actually building our core capabilities around and sort of bringing the sense of our current capabilities and market-leading positioning for Informatica to join with our clients. And I think we feel pretty good with the progress that we have made and we are continuing to really broadly assess many more such partnerships that we think are going to really allow us to build what I call a truly differentiated offering in a portfolio for us, for our clients.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Okay. Interesting. So I want to compliment you, I'm so excited to be able to get 10-Q at the same time you report. And in that, I saw that CGI is down another \$2 million in revenues from last year. Is that number going to go to zero or is there going to be some base that they still are going to do with you?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Lisa, we do not expect a drastic change to that position. We are still working with that client, that is good client interaction that continues to happen and our client engagement has been good with that particular client of ours. So at this point in time, we do not expect any major deviation to the current position that we are guiding with CGI from a relationship standpoint.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Great. Thank you. That's my questions for now. Thank you.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Thank you.

Operator: [Operator Instructions] Our next question comes from line of Marc Riddick with Sidoti. Please proceed with your question.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Hey, good morning.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Hey, Marc.

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

A

Good morning, Marc. Good morning.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Wanted to touch a little bit on the commentary around the revenue mix and average bill rate. Maybe you could talk a little bit about the new assignments and the revenue mix there and maybe how that may have differentiated from prior year and how that affects your views going forward.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Sure, Marc. I'll take that. This is Kannan here.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Good morning.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

See, as of – as you would have seen as of 2025 our bill rates have increased to approximately \$85 to \$86, which is up from last quarter of \$84 to \$85, but way above the same time last year at about \$81 to \$82. This is because – and it does reflect a combination of factors, including more deliberate effort that we have put towards improvement in the quality of revenue across our portfolio. It is also supported by the clients who are prioritizing on specialized talent for long-term transformation project. And we do believe that this trend is a positive indicator of our positioning and is being valued in the current environment by our customers. Marc?

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay, great. And then the – I believe the consultant count sort of where we are, Kannan, can you share any thoughts or views as to where that may go between now and the end of the year? Or do you suspect that it will be relatively flat from end of quarter levels?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Yeah. So our end of June, we were at 980; in July, we're at 982. So we do expect it to be about the same level. By the end of the year, we are hoping that would continue showing a trend which is going to be relatively [indiscernible] (00:24:31).

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. And then, maybe could switch gears and talk a little bit about cash build approaching about \$28 million, I guess, at the end of the quarter with [indiscernible] (00:24:46) balance sheet. I was wondering if you can talk a little bit about cash usage prioritization and maybe some of the things that you might be [indiscernible] (00:24:59) as far as priorities. But not only that, if there are any thoughts as to potential for acquisitions and maybe what that pipeline might look like.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Sure, Marc. And the fact that we had a very good cash position was also because of the efficiencies we are driving overall with respect to cash management and DSO. But we are evaluating potential uses of the \$28 million in cash right now. One part is, of course, the buyback program. But beyond that, we are very open to making targeted investments that align with the long-term growth priorities, whether that is in capabilities, in talent, or [ph] adjacent (00:25:48) service areas.

We do believe [indiscernible] (00:25:52) strong balance sheet gives us that flexibility and we do intend to deploy the capital in ways that accelerate our strategic intent. We continue to be thoughtful and deliberate in how we allocate these reserves, and we'll continue doing so. We are being very programmatic about the way we approach these opportunities, Marc. And as we build these initiatives, we do believe that will be a good usage for the cash in the days to come.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. And then I guess sort of similar or in general, I guess, CapEx through the first half of the year is down from the prior year. Maybe you could talk a little bit about where you might see that shaking out by the end of the year and if there are any projects or CapEx needs that we should be thinking about between now and the end of the year?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

We do not expect a significant increase with respect to CapEx at this point in time. We do have plans to have these investments eventually coming in when it comes to supporting the growth and supporting the initiatives that we are putting together. But by the end of the year, we do not expect it to be significantly higher and pretty much would be in line with what we have said in the past. That's the view that we are taking right now, Marc.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay, great. Thank you very much.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Thank you, Marc.

Operator: Thank you. We have reached the end of the question-and-answer session. Mr. Patel, I'd like to turn the call back over to you for closing comments.

Nirav Patel

President, Chief Executive Officer & Director, Mastech Digital, Inc.

Thank you, operator. If there are no further questions, I would like to thank you for joining our call today. And we look forward to sharing our third quarter 2025 results with you in early November.

Operator: Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2025 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.