



mastech

MASTECH

Q1-2016 Earnings Call

April 27, 2016

Confirmation #13635933

Operator: Greetings and welcome to Mastech First Quarter 2016 Earnings Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please push star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Jennifer Lacey, Manager of Legal Affairs for Mastech Holdings Inc. Thank you. You may begin.

Ms. Jennifer Lacey: Thank you operator, and welcome to Mastech's first quarter 2016 conference call. If you have not yet received a copy of our earnings announcement, it can be obtained from our website at www.mastech.com.

With me on the call today are Vivek Gupta, Mastech's Chief Executive Officer, and Jack Cronin, our Chief Financial 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 our 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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission and available on their website at www.sec.gov.

Additionally, management has elected to provide 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 our 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.mastech.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 or calls. I will now turn the call over to Jack for a review of our first quarter 2016 results.

Mr. Jack Cronin: Thanks, Jen, and good morning. First off, I'd like to remind everyone that our June 2015 acquisition of Hudson IT is reflected in our financial results effective as of the acquisition date; and accordingly, has benefited our year-over-year comparables. With that backdrop, revenues for the first quarter of 2016 totaled \$31.7 million compared to \$27.1 million in the first quarter of 2015. This 17% year-over-year increase in revenues was the result of our Hudson IT acquisition.

Activity levels during the quarter were solid, as new assignment starts exceeded the previous quarter by 21%. Thus, we were able to grow our global consultant base for the first time since Q2-2015.

Gross profit for the first quarter of 2016 totaled \$6.1 million or 19.3% of revenues; compared to \$4.7 million or 17.3% of total revenues during the same period last year. Our gross profit dollar increase largely reflected non-organic revenue increases in 2016 compared to the corresponding period of 2015.

Our year-over-year gross margin comparables benefited from Hudson IT's retail client base, which generally carry higher gross margins than in our wholesale channel. Additionally, our gross margins on new starts continued to trend-up in Q1-2016. It should be noted that Q-1 margins are generally lower than subsequent quarters due to a higher payroll tax burden. Historically, these additional payroll tax expenses impacted Q-1 margins by approximately 100 basis points.

SG&A expenses were \$6 million in the first quarter of 2016 compared to \$4.4 million in the first quarter of 2015. This year-over-year increase in SG&A expense was due to the following – 1. higher severance expense of \$475,000 in the 2016 quarter compared to the first quarter of 2015, and 2: SG&A expenses associated with the Hudson IT operations of \$1.1 million, which were included in Q1-2016 numbers but not included in Q1-2015.

Excluding the severance in the Hudson IT related operating expenses, our SG&A expenses were largely flat compared to a year ago. GAAP net income for the first quarter of 2016 was \$11,000 or zero cents per diluted share compared to \$195,000 or 4 cents per diluted share in the first quarter of 2015.

Non-GAAP net income for the first quarter of 2016 was \$692,000 or 16 cents per diluted share, compared to \$477,000 or 11 cents per diluted share in the corresponding quarter of 2015. First quarter SG&A expense items not included in non-GAAP financial measures, net of tax benefits, were, 1: amortization of acquired intangibles assets, 2: stock-based compensation, and 3: severance expense and are detailed in our first quarter earnings release, which is available on our website at www.mastech.com.

Addressing our financial position, at March 31, 2016, we had \$14.6 million of outstanding bank debt, net of cash balances on hand. Our borrowing availability at March 31, 2016 was approximately \$9.1 million under our revolving credit line.

Our accounts receivable balance at quarter-end 2016 remains of top quality. During the quarter, we did have several client contract amendments, which among other things, extended our payment terms with these clients. These changes impacted our day sales outstanding measurement by approximately 5-days but will not have an impact on the quality of our

accounts receivable balance, as the clients in question are strong financial Fortune 500 companies.

I'll now turn the call over to Vivek for his comments.

Mr. Vivek Gupta: Thank you, Jack, and good morning, all. Today, I've completed 8 weeks as the new President and CEO of Mastech, and I'm very excited to be hosting my first earnings call. I've always admired Mastech's brand from the outside and have watched with interest the successful evolution of its former parent from a pure staffing company to a diversified provider of Information Technology services. Today, the Information Technology industry, or the IT industry for short, is an even more exciting space than ever before as organizations around the world are embarking on major digital transformation of their systems and businesses. It is a great time to be in the IT industry, and I'm honored to lead Mastech through this next phase of progression.

Jack has already covered the review of our first quarter 2016 results in sufficient detail. Let me now share with you my vision and plan for the company going forward. I intend taking a two-prong approach at Mastech to, A: reenergize our existing business, and to, B: look at ways to expand our service offerings into adjacencies by leveraging the Company's existing strengths and core competencies. In our attempt to achieve the expansion, I also want to explore areas

that can allow Mastech to participate in digital transformation of our customers' systems and businesses.

The immediate focus is clearly to re-energize our existing business. My initial assessment of Mastech is that the Company has a compelling business model, a highly committed pool of human talent, an impressive stable of diverse customers, and a healthy financial position; and as I look at the Company's challenges, my conclusion is that its current issues are internal and rectifiable. Over the last two months, I've travelled extensively and met with our employees and clients across the U.S. as well as our offshore employees at our recruitment centers in India. These travels have confirmed my initial belief that the Company has a set of correctible issues, which when addressed will return us to a consistent state of growth that will generate value for our shareholders.

Specifically, we need to, 1: re-engineer how we are internally structured in order to be more focused on our customers' needs and to better position ourselves for success, 2: strengthen our leadership team in several key areas of the business, global human resources and marketing to cite a couple, 3: hire and train better, not only in the U.S. but also at our offshore recruitment centers, 4: quickly adjust those areas where we're not achieving the desired paybacks on our investments or redeploy those investment dollars elsewhere, 5: and lastly, blend our collective

core competencies and talents that we now have following our acquisition of Hudson IT in June 2015. While we are capitalized in pulling the two organizations together in many areas, we will now kick the doors down completely and begin functioning as one seamless organization using our brightest talent and best practices across our combined platform.

Over the next six months, you will see concrete actions that are aimed at driving improvements in these areas.

As regards to expansion, we need to understand our customers' IT needs holistically and be open to exploring how we can use our experiences, talent and core competencies to help satisfy those needs beyond staffing. Going forward, we will actively seek and entertain opportunities to service our customers in adjacencies such as execution of turnkey projects and managed services. The how's, when's and where's are still a work in progress. Let me add that while we will be looking beyond staffing for additional opportunities, IT staffing will continue to be the core service offering of Mastech.

I will now open the session up for your questions.

Operator: Thank you, ladies and gentlemen. We will now be conducting our question and answer session. If you would like to ask a question, please push star, one on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may

push star, two if you would like to remove your question from the queue. For any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. One moment while we poll for questions.

Ladies and gentlemen, once again, if you'd like to ask a question, please push star, one on your telephone keypad now.

Once again, ladies and gentlemen, to ask a question, please push star, one on your telephone keypad.

Mr. Vivek Gupta: If there are no questions, I would like to thank you for joining our call today, and we look forward to sharing our second quarter 2016 results in late July. Thank you.

Operator: Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your lines at this time. Thank you for your participation, and have a wonderful day.