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MHH - Q4 2014 Mastech Holdings Inc Earnings Call

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CORPORATE PARTICIPANTS

Jennifer Ford Lacey *Mastech Holdings, Inc. - General Counsel*

Jack Cronin *Mastech Holdings, Inc. - CFO*

Kevin Horner *Mastech Holdings, Inc. - President and CEO*

PRESENTATION

Operator

Greetings and welcome to the Mastech Holdings Q4 2014 earnings 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 reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jennifer Ford Lacey, Manager of Legal Affairs for Mastech Holdings, Incorporated. Thank you, Ms. Ford Lacey; you may begin.

Jennifer Ford Lacey - *Mastech Holdings, Inc. - General Counsel*

Thank you, operator, and welcome to Mastech's fourth-quarter 2014 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 Kevin Horner, 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 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 believe, anticipate, plan, expect, 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 uncertain these that could cause actual events to differ materially from these forward-looking statements, including those listed in the Company's 2013 annual report on Form 10-K filed with the Securities and Exchange Commission and available on their website at www.SEC.gov.

As reminder, we will not be providing guidance during this call, nor will we provide guidance in any subsequent one-on-one meeting or calls. I will now turn the call over to Jack for a review of our fourth-quarter and full-year 2014 results.

Jack Cronin - *Mastech Holdings, Inc. - CFO*

Thanks, Jen, and good morning, everyone. Revenues for the fourth quarter of 2014 totaled \$28.5 million, which were in line with fourth quarter 2013 revenues and were approximately \$100,000 lower than the previous quarter due to a utilization factor reflective of the holiday season. Activity levels during the quarter were somewhat below Q3 levels, largely due to weakness in the month of December. Additionally, we were faced with an abnormal number of assignment ends in December, which resulted in a net decline in our billable consultant base of 30 consultants for the quarter.

Gross profits for the fourth quarter of 2014 totaled \$5.2 million or 18.3% of revenues compared to \$5.4 million or 19.1% of revenues during the same period last year. Our gross profit dollar decline was due to lower margins in the 2014 quarter compared to the corresponding period of 2013. While Q4 margins were equal to the previous quarter, they were down 80 basis points from last year's levels due to supply-side pressure principally in our wholesale channel. This margin compression reflected lower profit spreads on new integrator assignments and consultant compensation increases on existing assignments which have outpaced bill rate increases.

SG&A expenses were \$3.9 million in the fourth quarter of 2014 and were equal to our SG&A spend in the fourth quarter a year earlier. SG&A expenses represented 13.8% of total revenues in the fourth quarter of 2014 compared to 13.7% of revenues in the corresponding quarter of 2013. While we



have increased our sales and recruitment staff in the 2014 period, this was somewhat masked by lower bonus expenses in the current period as our financial results were below target levels.

Net income from continuing operations for the fourth quarter of 2014 was \$782,000 or \$0.18 per diluted share compared to \$961,000 or \$0.22 per diluted share in the fourth quarter of 2013. Addressing our full-year results, 2014 revenues totaled \$113.5 million and represented a 6% increase over 2013 revenues of \$106.9 million. Gross profits were \$20.8 million or approximately \$700,000 greater than in 2013. Gross margins were 18.3% for the full year 2014 compared to 18.8% in 2013. Again, margin compression in our wholesale channel was the culprit in 2014.

SG&A expenses totaled 13.4% of revenues for the full year 2014 compared to 13.9% of revenues in 2013. And net income from continuing operations for 2014 totaled \$3.4 million or \$0.77 per diluted share compared to \$3.3 million or \$0.75 per diluted share in 2013. Additionally, in 2013 discontinued operations added additional net income of \$536,000 or \$0.12 per diluted share and largely represented the net gain on the sale of our healthcare staffing business.

Addressing our financial position, at December 31, 2014, we had cash balances on hand of approximately \$2.6 million, no outstanding debt, and over \$16.9 million of borrowing capacity under our existing credit facility. Our largest balance sheet asset, accounts receivable, remains of very high quality. During the year we incurred no bad debt expense and at December 31, 2014, our accounts receivable days sales outstanding measurement totaled a healthy 49 days.

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

Kevin Horner - *Mastech Holdings, Inc. - President and CEO*

Thanks, Jack. Good morning, all. First I'd like to comment on our fourth-quarter performance and then I'll give you my perspective on the full year 2014 and where I see Mastech headed in 2015. With respect to the fourth quarter, my view is simple. We had a solid 10 weeks followed by three disappointing weeks in December.

After seeing the business rebound in Q3, followed by strong consultants on billing growth in October and November, December proved to be the antithesis of a strong month. We experienced performance decreases across all three base staffing business performance areas. Number one, we experienced higher-than-expected assignment ends. Number two, our starts were below expectations for the month of December. And number three, our sales and recruiting activities also fell below expectations in the month of December.

The net effect on the business was a decline in consultants on billing, which impacted financial performance in Q4 and will likely have some impact on financial results in the first quarter of 2015. I firmly believe that our growth-oriented business model and corporate strategy is still intact.

In Q4 we made some changes in our leadership structure in India to help drive higher productivity and to improve our ability to scale more rapidly. Additionally, we reorganized our sales organization in the US to more aggressively pursue new business development opportunities.

As I mentioned more than once, I have been underwhelmed with our performance in the new business development area. Results are happening much too slowly for me. This will change in 2015, and I believe this realignment will contribute to better results.

Full-year 2014 results are also simple for me. Mastech grew. We grew top-line revenue by 6% and we grew the bottom line as well. In addition, we invested in both our sales organization and our recruiting organization to drive further growth in 2015.

Even though we grew, from where I sit 2014 was a below-expectation year for Mastech. While as a company we don't provide projections or financial guidance to the investment community, I do want to share with you some of my views and expectations for 2015. First, despite our 2014 challenges I'm as bullish as ever about the unique business model that we deploy when compared to most of our public peers. I am totally convinced that our cost-effective of centralized model is a better solution for our clients and prospective clients in today's competitive business environment. Thus, my expectation to deliver solid growth in 2015 while continuing to invest in the business.

Specifically, number one, we expect to grow our billable consultant base by 1.5 times our industry's growth rate. Staffing Industry Analysts is projecting 7% growth for 2015. By the way, I would like to mention here that our January 2015 sales and recruiting activities are now back to delivering to expectation.

Two, we will continue to focus on building a new client acquisition engine that can contribute to our growth objectives for 2015 and beyond. We've changed our focus for new business development in 2015 to continue to include both the MSP and VMS space, as we had in 2014, as well as a new added focus on midmarket direct client acquisitions.

Three, we will continue to scale our sales and recruiting organization while at the same time capitalizing on our leverageable cost structure to drive bottom-line results.

Number four, operationally we need to extract incremental productivity gains from both our sales and recruiting organizations. This has been an area of disappointment for me personally in 2014. We will drive this area of the business to perform in 2015. In my view, it is all about leadership. We have modified our leadership structure for both sales and recruiting in Q4. We will continue to assess and evaluate in 2015.

And as Jack mentioned, we are entering the new year with a very healthy balance sheet and access to capital sufficient to grow our business both organically as well as through acquisitions.

In closing, I am humbled by our 2014 performance. We grew the business but we missed our overall expectations for that growth. I'm confident about our business model, our people, and our prospects for 2015.

At this time, I'd like to open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) There are no questions in queue at this time. I would like to turn the call back over to management for any closing comments.

Kevin Horner - Mastech Holdings, Inc. - President and CEO

Thanks, Latanya. I would like to thank you all for joining the call today and we look forward to sharing our first-quarter 2015 results with you in late April.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time, and have a great day.



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