

Mastech Digital Inc., Q2 Earnings Call

July 31, 2019

Confirmation #13692956

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**Operator:** Greetings and welcome to the Mastech Digital Inc. Q2 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 press star then zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jennifer Ford Lacey, Manager of Legal Affairs for Mastech Digital Inc. Thank you, please go ahead.

**Jennifer Ford Lacey:** Thank you, operator, and welcome to Mastech Digital's Second Quarter 2019 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](http://www.mastechdigital.com). With me on the call today are Vivek Gupta, Mastech Digital'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 fact 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 believe, 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 to 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 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission, and available on its website at [www.sec.gov](http://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 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.mastechdigital.com](http://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 or calls.

I will now turn the call over to Jack for a review of our second quarter 2019 results.

**Jack:** Thanks, Jen, and good morning, everyone.

Revenues for the second quarter of 2019 totaled \$48.5 million, an 8% increase compared to \$44.9 million in the second quarter of 2018.

Our Data and Analytic Services segment contributed \$6.7 million of revenue during Q2 of 2019, which was an increase of 15% from the previous quarter's performance of \$5.8 million, and represented a 9% growth rate over the same quarter a year ago. This growing performance reflected improving activity levels, a larger pipeline of opportunities and a better project win ratio. I should also add that the second quarter of 2019 represented our third consecutive quarter of improving activity levels in this segment.

Our IT Staffing Services segment generated organic year-over-year revenue growth of 8% in Q2 2019, when compared to Q2 of 2018. Additionally, revenues were 6% higher sequentially from our Q1 2019 quarter. Demand continued to be strong going into the second quarter of 2019, despite a high level of project ends.

Gross profit for the second quarter of 2019 totaled \$12.1 million compared to \$10.9 million in the same period last year.

Our gross margins for Q2 2019 were 24.9% of revenues compared to 24.3% in Q2 of 2018. Our Data and Analytics Services segment had gross margins of 46.1% in Q2 of 2019, which were 390-basis points higher than the corresponding quarter of 2018. Better utilization of our technical resources on higher-value services contributed to this improvement in gross margins.

Our IT Staffing Services segment had Q2 2019 gross margins of 21.5% which exceeded margins in both Q1 of 2019 as well as Q2 of 2018.

SG&A expenses were \$3.5 million in Q2 of 2019, and represented 7.2% of total revenues, compared to \$6.4 million, or 14.3% of revenue in the second quarter of 2018. Our 2019 second quarter benefited from a \$6.1 million write-off of contingent consideration associated with the

InfoTrellis earn-out. For the second and final earn-out period ending July 31, 2019, no payment will be required under the sale purchase agreement, as EBIT will be under the threshold target stipulated in the agreement.

It should also be noted that we continued to invest in our Data and Analytics Services segment during the second quarter of 2019 to expand our portfolio of service offerings, which has been well received in the marketplace. Additionally, we're making incremental investments in our IT Staffing Services segment to ensure sustainable growth for the future.

GAAP net income for Q2 of 2019 totaled \$6 million, or \$0.53 cents per diluted share, compared to \$2.8 million, or \$0.25 cents per diluted share in Q2 of 2018.

Non-GAAP net income for the second quarter of 2019 was \$2.2 million, or \$0.20 cents per diluted share compared to \$2.3 million, or \$0.21 cents per diluted share in the corresponding quarter of 2018.

Second quarter SG&A expense items not included in non-GAAP financial measures, net of tax benefits were amortization of acquired, intangible assets, 2: stock-based compensation, 3: acquisition transaction credits, and 4: the revaluation of contingent consideration, net of any

goodwill impairment charges. These items are detailed in our Q2 Earnings Release, which is available on our website.

Addressing our financial position, at June 30, 2019, we had \$29.4 million of outstanding bank debt, net of cash balances on hand, and our borrowing availability approximated \$12.5 million under our existing revolving credit line. During the quarter, debt levels net of cash balances, came down by \$7.6 million, as we made significant progress on cash conversion matters related to the implementation of our new cloud-based ERP platform.

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

**Vivek Gupta:** Good morning everyone. Thank you, Jack, for the detailed financial review of our operating results for Q2 of 2019.

Let me start by saying that our Data and Analytics Services segment “hit the ball out of the park” in the second quarter of 2019. Revenues were up 15% sequentially, and by 9% over Q2 of 2018. Gross margins expanded by 60-basis points over the previous quarter, and by 390-basis points compared to Q2 of 2018. Our sales pipeline of opportunities continues to grow nicely,

and our project-win-ratio is approaching the “aspirational objectives” that we had set for the business when entering 2019.

Activity levels have improved for the third consecutive quarter, as our newly expanded stack of Data and Analytic Service offerings have been well-received by clients and prospects alike.

In Q2, we accelerated our investments in SG&A, including the hiring of several key executives in the areas of sales, operations, and analytics. And I'm happy to say that we have already seen payback from these investments.

Entering the second half of 2019, I can tell you that I'm more confident and optimistic about the future of our Data and Analytics Services segment than ever before under the stewardship of Paul Burton, who came on board earlier this year. We will continue to invest in this segment to capitalize on the bullish conditions that we are seeing in the marketplace.

Addressing our other business segment, I'm pleased to say that our IT Staffing Services business continued to perform at a very high level in Q2 of 2019. Organic revenue growth approximated 8% on a year-over-year basis, well above the industry average growth rate of 4%. Additionally,

we expanded both our average bill rate and gross margins during Q2 compared to the corresponding quarter of 2018, as our focus on digital technologies continues.

Lastly, I would also like to acknowledge the significant improvement in our financial position during the second quarter of 2019. Debt levels, net of cash balances, came down by \$7.6 million during Q2 2019, which helped lower our interest costs and improved our cash availability. Additionally, the write-off of contingent consideration will favorably impact our cash flows into 2020.

I will now open the session for your questions.

**Operator:** Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, then one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, then two, if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please, while we poll for questions.



Thank you. That will be star then one to register for a question today, just give everyone another quick moment. Looks like you've done a great job, team, there are no questions registered today.

**Vivek Gupta:** Thank you, Chantel. If there are no questions, I would like to thank you all for joining our call today. And we look forward to sharing our third quarter 2019 results with you in late October.