Mastech Digital, Inc.
Q2 2021 Results - Earnings Call
July 28, 2021

Operator
Greetings and welcome to Mastech Digital, Inc.'s Q2, 2021, conference call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

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

Jennifer Ford Lacey
Thank you, Operator, and welcome to Mastech Digital's Second Quarter, 2021, Conference Call. If you have not yet received a copy of your earnings announcement, it can be obtained from our website at www.mastechdigital.com.

With me on the call, today, are Vivek Gupta, Mastech Digital Chief Executive Officer; Paul Burton, Mastech InfoTrellis Chief Executive; 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 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 2020 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 the 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 or calls.

I will now turn the call over to Jack for a review of our second quarter, 2021, results.

Jack Cronin
Thanks, Jen, and good morning, everyone. The second quarter, 2021, revenues totaled $53.7 million, compared to $47.6 million in the second quarter of 2020.

This revenue increase represented 13% growth over the second quarter of 2020, or 9% organic growth, when adjusting for the AmberLeaf acquisition. Additionally, our revenue performance showed sequential growth of 8% over the first quarter of 2021.

Our Data and Analytics Services segment contributed revenues of $9 million, compared to $6.8 million in the second quarter of 2020. After adjusting for AmberLeaf, our organic revenue growth on a year-over-year basis was approximately 4%.

During the quarter, we continue to see further evidence that the D&A market is starting to recover. Bookings were strong for the second consecutive quarter at $15 million. Pipeline opportunities continue to show promise and customer conversations have been focused more on a need to start D&A projects rather than reasons for project delays. Clearly, some uncertainty still remains in the marketplace, with the Delta variant being a wildcard. However, we feel good about the macro-economic conditions in the D&A space, as we enter the second half of 2021.

In our IT Staffing Services segment, activity levels continued to remain very strong in Q2, 2021, as we grew our billable consultant base by 89-consultants, an increase of 8% from March 31, 2021 levels. Furthermore, organic revenue growth was approximately 10% on a year-over-year basis, and 9% on a sequential quarterly basis.

Gross profit in the second quarter of 2021 totaled $14.3 million, compared to $12.7 million in the second quarter, 2020. Gross margins as a percent of revenue increased modestly over Q2 2020, and improved by 100 basis points over the previous quarter.

GAAP net income for Q2, 2021, was $3.7 million, or $0.31 per diluted share, compared to $3 million, or $0.25 per diluted share in Q2, 2020. The 2021 quarter did benefit by a $2 million pre-tax gain related to a reduction in a contingent consideration liability associated with the AmberLeaf acquisition.

Non-GAAP net income for Q2 of 2021 was $3.4 million, or $0.29 per diluted share, compared to $3.9 million, or $0.33 per diluted share in the second quarter of 2020.

SG&A expense items not included in financial measures, non-GAAP financial measures, net of tax benefits were Amortization of Acquired Intangible Assets, 2; Stock-based Compensation, and 3; the Revaluation of Contingent Consideration Liabilities that are detailed in our second quarter earnings release, which is available on our website.

Addressing our financial position at June 30, 2021, we had cash balances on hand of $5.3 million, outstanding bank debt of approximately $15 million, no borrowings under our revolving credit facility, and cash availability of approximately $26 million, at quarter-end. Additionally, our day sales outstanding measurement improved by 2-days during the quarter from 65-days at March 31, 2021.

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

Vivek Gupta
Good morning, everyone. Thank you, Jack, for the detailed review of our operating results for the second quarter of 2021.

Let me begin by saying that I'm very pleased with our Q2, 2021, financial performance. Our Data and Analytics Services segment made some nice progress during the quarter, in terms of both revenue growth and sequential bottom-line improvement. But more importantly, by securing strong order bookings, and increasing the pipeline of opportunities to achieve a meaningful recovery during the second half of the year. Paul will have more to say about where he believes we are headed in the D&A segment.

With respect to our IT Staffing Services segment, we are performing at a very high level and are very pleased with our progress. Activity levels remain elevated in Q2, and we achieved an 8%

increase in our billable consultant base, during the quarter. This 8% addition is a second-best increase in any given quarter after a record 9% billable headcount expansion in Q1 of 2021. In addition, revenue growth was strong on both a year-over-year basis at 10% and on a sequential quarterly basis at 8%.

Gross margin increased by 30-basis points from last year's Q2 performance, despite adding some low bill rate engagements. Additionally, we're effectively managing the cost side of our gross margin equation with a disciplined approach to profit content on new end assignments.

IT Staffing Segment Operating Income in Q2, 2021, improved by 8% over the corresponding period last year, despite unwinding some of the austerity measures implemented during the first half of 2020. On a sequential basis, the second quarter IT Staffing operating income increased by 48%, when compared to the first quarter of 2021.

I will now turn the call over to Paul for his comments on our Data and Analytics Services segment.

Paul Burton
Thank you, Vivek, and good morning everyone. Q2 represented an inflection point, as Data and Analytics returned to growth after three quarters of mostly flat performance. To be sure, the effects of the pandemic continue to linger and cast a shadow on the macro-economic environment. But it appears that our clients are adapting, successfully, as evidenced by the release of some suppressed demand.

Data and Analytics posted strong bookings of $15 million for the second quarter, while also increasing revenue, sequentially. This comes on the heels of a $15 million bookings performance in the first quarter of 2021. Two consecutive quarters of bookings at this level signal a strong second half revenue performance. Absent adverse macroeconomic conditions tied to COVID-19 or otherwise, we anticipate sequential revenue growth in Q3, relative to Q2, as well as relative to the same quarter, last year, with improved margins and operating profits.

It's important to recognize, however, that as businesses release demand, the demand will go to the service providers most capable and prepared to receive it. It is for this reason that we continue to invest ahead of the market in sales and delivery capability. We expect to trade some measure of Operating Profit for growth in the short-term, as we continue to expand and enhance our capabilities to address our client's needs, especially as their needs relate to analytics, application, modernization, and cloud.

Over the last year, we have very consciously built capabilities that allow us to help our clients derive intelligence from their data and infuse that intelligence in the business processes that produce extraordinary outcomes. We will continue to build these capabilities organically, as well as inorganically, where it makes sense.

That concludes our remarks. And operator, back to you for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press “*”, “1” on your telephone keypad, and a confirmation tone will indicate your line is in the queue. You may press “*”, “2” 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 pull for questions. Our first question is from Josh Vogel with Sidoti & Company. Please proceed.

Josh Vogel
Thank you. Good morning, everyone. Thanks for taking my questions. I guess to start, Paul, I was taking notes. Can you reiterate what you were saying about sequential expectations in D&A in for Q3?

Paul Burton
Yes, sure. So we had very strong bookings in Q1, better than $15 million. And we repeated the performance in Q2 with better than $15 million. So we’re seeing, particularly, strong demand that is playing out in Q3, right now. So, I am expecting a strong Q3. I don't have a specific number for you, but I do expect it to be better, perhaps significantly better than Q2.

Josh Vogel
Okay, can you remind me of the seasonality in the business and just given the circumstances where projects were delayed, but there's also that pent up demand. Do you think that kind of reduces the likelihood of seasonal weakness or potential seasonal weakness over the back half of the year?

Paul Burton
Yes, so typically, what we’d expect in this business is we would expect a tepid Q1, because everyone's coming back from the holidays, budgets are being finalized, organizational changes are taking place in our clients, and then things begin to heat up in March. Typically, Q2 and Q3 are strong revenue quarters. And, Q4 usually tails off a little bit in terms of revenue, but is typically strong in terms of bookings, because it's the end of the year with end of year money. I think this year, potentially, will be a little bit different because there is suppressed demand that's been bottled up because of the pandemic and because of clients just taking a wait and see attitude as to what's going on. So, we are seeing an unusually strong Q3, so far. I suspect Q4 will be strong, I can't predict whether it will be stronger or not stronger than Q3, at this point, but I do anticipate a strong second half.

Josh Vogel
That's helpful. Thank you. And I know you had some of it in your commentary, but thinking about the projects that were put on the back burner over the past 12,18 months, how has the nature and the scope of the projects in the pipeline today, you know, changed from those prior to the pandemic. I basically want to get a sense of the D&A engagements that were on the table prior to the pandemic. Are some of those services or needs obsolete today are just not part of clients near-term digital agendas.

Paul Burton
No, I think clients are thinking more holistically. I think they've had a chance to regroup and reevaluate things as businesses sort of got put on hold during the pandemic. And so, I think clients are thinking more holistically about things in terms of analytics, and data and cloud, and bringing all of those things together into more of a solution posture, as they go forward. And as I say, there is some sense out there that a year was lost with delays and project delays because of the uncertainty. And now, there's a certain amount of vigor in the marketplace that we're experiencing. So it's refreshing, but at the same time we're not the only competitor out there chasing this spend. It's very important that we approach the market with the right capabilities and are, appropriately, aggressive to meet new demand, because clients perhaps have less patience than they had before for things that aren't meeting their needs. So again, I see, we're bullish on the second half. We see increased demand. We have no reason to be anything other than positive. But there's always a bit of trepidation because you've got to go out and prove it, you've got to go out and close the deals and deliver. And then you've got to resource everything and move things along. So, there's a lot of work to be done. But these are high quality problems.

Josh Vogel
Yes, for sure. Thank you for the insights on that. I want to shift gears a little bit. IT staffing, strong results there year-over-year, sequentially. You know, thinking about billable consultants, knowing that this is a historically very tight market for those professionals. Can you just talk about the supply constraints that you're seeing? Are there any notable trends that's just making it a little bit harder than usual to find the talent and maybe an easier way of discussing it is. What percentage of orders are going unfilled, today, because of supply constraints versus historic?

Vivek Gupta
Sure, Josh. The market, today, is extremely hot. We haven't seen this for a couple of decades. The demand is way more than supply. And to achieve any kind of net growth, we have to have that the total number of starts have to be far greater than the total number of ends, to be able to achieve decent net growth. And right now, we are seeing an unprecedented level of ends, because every consultant has so many choices better pay, better locations, better technology, better quality of projects, etc., etc., always their temptation. So, we are seeing an unprecedented level of ends. But then we are also seeing an unprecedented level of demand.

So right now, we are trying to address as many of those opportunities, as possible. Sure, there are always unfulfilled requirements. And that happens, even in normal course. But we are, I guess, becoming more picky about which ones we want to go after, which ones we can fulfill, which ones can give us better gross margins. It is a hot environment and the kind of the number of starts that we've been able to do in the last two quarters have been sort of record. And we are hoping this thing will continue. But then, we have to keep a very careful, focus on controlling the, well, you can't really control, but minimizing the ends, so that the balance stays in favor of net growth. I don't know if that answers your question.

Josh Vogel
No, that is helpful. Thank you, and I was just thinking about your comments around engaging in some lower bill rate business. Was that just because of the talent available. Are you aggressively targeting lower bill rate business. What does that look like, going forward?

Vivek Gupta
No, we've been kind of going after that opportunistically without compromising the gross margins. So, if we see an opportunity, which may be slightly lesser bill rate, but we can still get good gross margins. And in some ways, they are sort of nicely packaged, and we can address that quickly, and we are sure that we will be able to win those deals. So, we are going after them opportunistic. I don't think that's really impacted our overall results. So, we will continue to do that. I mean, we are not really limiting ourselves on any area. If we see the opportunity gives us that decent gross margin, we will go for it.

Josh Vogel
That's helpful. Thank you and maybe one for Jack. Lowering the contingent liability by about 70%, it gives a little bit of a reason to, you know, how AmberLeaf has performed relative to expectations. I just wondering if you could just talk about what drove that knowing that we were still in the midst of the pandemic when you completed the deal. Just curious, what has potentially changed between October and today.

Jack Cronin
Sure, just straight up, AmberLeaf really came out of the box slow. And going in closing the deal, we knew that there was the potential for that and, that's why you see the deal structure having $4.5 million of earn out included in. Clearly, they came out of the box, their business cycle was such where they were ending certain projects, and there was a lag between the ending of projects versus the restart of other projects. And, and again, I just want to stress that, we knew that that was a possibility at closing, we believe we accounted for it but there's only two years of earn out. So, when, first six months of earn out are on the negative side, where it looks like you're not going to make it when you do that fair value revaluation, the numbers come down, substantially. And that's what you see.

Josh Vogel
Thank you. And just one last one, if I may, and I'll hop back in the queue. SG&A came in a little lower than what I was looking for. I know, Paul, you had comments on continuing to invest in sales and delivery and D&A, but I'm just wondering if there was any sort of trending or strategic D&A initiatives that were planned for Q2 that were maybe dropped into the second half of the year?

Paul Burton
Yes, I can address that in part and let Jack take the rest of it. We continue to make, as I said in my remarks, we continue to make very targeted, very specific investments in sales, and not sales generally, the sales with specific capabilities around cloud or analytics or customer experience. And so, we continue to make those, and they continue to happen. The timing of those when you bring people on they don't always start at the first day of the quarter. Sometimes, they come in a little bit later. And so, the expense may not hit fully one quarter or another, but we are bullish, based on the demand that we're seeing. We're pretty particular about the types of business development resources we're bringing on, because they need to have, you know, be consultative and have skills in particular areas to drive the business consistent with our strategy.

So, that's what's going on, there's been, no change in direction, we're not taking our foot off the gas in any way. It's just a question of fielding the right resources, getting them on and then their expense will hit the full quarter, as things move on.

Josh Vogel
All right. Well, thank you for taking all my questions, looking forward to seeing how the business performance, over the back half of the year, looks like you got a good start there. Thank you.

Paul Burton
Thanks, Josh.

Operator
Thank you. Our next question is from Yaron Naymark from 1 Main Capital. Please proceed.

Yaron Naymark
Hey guys, nice job, particularly on the staffing segment given all the demand challenges that you guys outlined on the call, so great job. The first question I have is, can you remind us from the D&A segment, how much of that is still MDM verse what other capabilities are made up, you know, help kind of make that revenue?

Paul Burton
Yes, so we have four business lines. Primarily data management, data engineering, and data science, and MDM is still the majority of the business, but it's decreasing as a percentage of the

overall. We're doing a tremendous amount of data engineering these days as well as some offshore application development related to cloud and related to line of business applications. So, MDM is still strong, increasing quarter-over-quarter, but it's a smaller percentage of the whole.

Yaron Naymark
Got it. Okay. And then on the engagements you're taking on MDM from the legacy InfoTrellis business. How much of the margin degradation in D&A is due to investment in sales staff and cape and adding capabilities and how much of it is just from pricing pressure for winning some of those engagements.

Paul Burton
We're not having any pricing pressure on the MDM side. Clients, MDM is actually becoming or probably has been for some time, but it remains mission critical for clients to have Master Data Management capability to have clean data, deduplicated data to feed data upstream or downstream depending on your perspective for other uses. So, we're not experiencing pricing deterioration across any element, elements of our business. Just to make that point pretty clearly. In terms of margin degradation, or even a debt degradation that's primarily related to, again, investments in SG&A that we make, as well as, investments in a certain amount of hardware and training and other capabilities that we need to bring online to service, what we perceive to be the demand going forward, particularly related to cloud, particularly related to application modernization. And, by the way, when I say these things cloud or application modernization, I'm not saying those intending them to be discrete and independent offerings. What we're seeing in the market is all of our offerings are synergizing. And what I mean by that is Data and Analytics infused into application modernization delivered in the cloud. So, we're seeing a tremendous amount of--and this is by design. We're seeing a tremendous amount of synergy between our offerings, and which, you know, begs the need for more business development more highly skilled sales and client facing capabilities, because the engagements are much more sophisticated, much more rich, if you will, much more interesting actually, as well. So, we're seeing the synergy of all of our offerings by design. I think we call that one right in the marketplace, and we're making investments to capture that, and we're not seeing any pricing degradation.

Yaron Naymark
Okay. That's great to hear. On the MDM side, are you guys overly leveraged Informatica, or IBM or any other providers of MDM solutions or are you guys pretty broad based there, at this point?

Paul Burton
Currently today, we count them doing MDM engagements live today with five different MDM providers. You called out IBM and Informatica, those are certainly two of the five. IBM, historically has been a strong install base for us and a strong relationship for us and we continue to work on IBM engagements-IBM MDM engagement, but we're not limited to IBM, at

all and I would say the same thing I said earlier that IBM is becoming a smaller percentage of even though it continues to grow, it's becoming a smaller percentage of our overall portfolio. We've had a very conscious strategy to diversify away from just one provider or one big client or one of anything. We're trying to spread the field, so to speak and we've been somewhat successful doing that. So we're certainly doing business with IBM, Informatica and others.

Yaron Naymark
Okay. That's great to hear. And then on the $15 million of quarterly bookings you guys have had in that segment for the last two quarters are greater than $15 million. What's the typical duration of those types of bookings? I mean, are they typically 12 months, six months, 24 months?

Paul Burton
The $15 million we put up in Q1 was a little bit different makeup than what we did in Q2. We actually had two large deals in Q1 that were multi-year deals, three-year deals, what we would call a center of excellence deal that composed, probably, half of the $15 million. The $15 million that we put up in Q2 there were no multi-year deals in there-there were just simply large deals. The significance of that is probably a three-year deal, the revenue's going to get spread over three years and in single year deals are less than one-year deals, all the revenue's going to materialize fairly quickly. So, we've injected a little bit of sugar into the bloodstream, which is why we feel reasonably confident that we're going to have a strong second half.

Yaron Naymark
Okay. So, some were three years in Q1 and Q2, most of them were less than a year on average in, you know, in any given quarter, are they mostly multi-year deals or mostly 12-month or less deals?

Paul Burton
Yes, we'll typically do a multi-year deal, every quarter.

Yaron Naymark
Okay.

Paul Burton
So, if you're looking at volume of deals, most of them are nine to 12 months deals because our engagements are complex, sophisticated and they take a while and they're high value. You know, they're million-dollar deals. Hopefully, that answers your question.

Yaron Naymark
Yes, it does. Okay. And then last one for me. What does the operational capacity look like to absorb additional M&A beyond AmberLeaf, at this point? And then, what are the key capabilities you guys are looking to acquire? And I guess, what does the pipeline look like on that front?

Paul Burton
I can talk about pipeline and key capabilities. I'll let Jack field the capacity question. The key capabilities we're looking for this market where you move data to the cloud, and you infuse into cloud native applications, analytics and data for multiple applications, and you deploy applications that are rearchitected and re-platformed, if you will, in containers or microservices architectures and there's all sorts of buzzwords we could throw out there. The idea is, as clients modernize their application portfolio, moving to the cloud, it is a tremendous, it is a huge opportunity that is out there, and we have the capabilities to service that, today but we can't meet the demand, without significant hiring. Based on the demand that we're seeing, there is a significant hiring that's required, and the skills are scarce in the marketplace. It's not something that you can just flip a switch and make happen. It takes a little bit of effort to go find the resources, vet the resources, bring the resources on, assimilate them to your culture, your methodology, your business practices, etc., etc. So good news is, we see a strong market. Good news is we're approaching that market and having success with it, somewhat bad, but not bad news is we've got to ramp up and we've got to add capacity to do it. One way to do that, of course, is inorganically, by finding a company that brings those skills together dovetails with our vision, and can sort of plug into our operational and go-to-market model. And we're very interested in exploring possibilities as we discover them in the marketplace. And so I, as I mentioned in my remarks, we're certainly open to the idea of inorganic growth, and we do spend time looking at that. I'm not ready to make any announcement, and I don't have any predictions, specifically, in that regard. But we're very cognizant of what's going on in the market, we spend a lot of time looking to see what companies are out there, how they would mix and match and fit with us, and there's a focus and intensity there. Let me put it that way. With respect to capacity, I'll let Jack answer that one.

Jack Cronin
Okay, could you just repeat the question that you want me to answer.

Yaron Naymark
Yes, it was just how much how much operation on financial capacity, do you think you have on the M&A front?

Jack Cronin
Well, I mean if second quarter is what we believe second quarters can be from a revenue perspective, or excuse me, the second half, obviously, we're going to have to leverage up staff. Do we have some capacity that exists, right now with the Q2 levels, absolutely. We are going to have to add staff to the equation to meet the increasing demand. From an infrastructure standpoint, we clearly, we just entered into a new office space in our delivery center in Chennai, India. It materially increases, um the office space, and the quality of the office space. So, from an infrastructure perspective, I think we're planning for those staff increases.

Yaron Naymark
Jack, can you also talk about the borrowing capacity or the capacity for acquisition?

Jack Cronin
Sure, In the prepared remarks, we have a $30 million revolving credit line that we haven't used at all. It's based on availability with respect to your receivables. So, the unused line is $26 million. In addition to that, we have a strong relationship with PNC Bank. Clearly, we believe that if we did a meaningful acquisition, we would be able to materially increase our term loan facility and, we believe that we have considerable purchasing power, if you will, to do another acquisition, if one materializes, that we think is worth it.

Yaron Naymark
Okay, great. Thanks, guys.

Vivek Gupta
Thank you, Yaron.

Operator
Thank you. Our next question is from Lisa Thompson with Zacks Investment Research. Please proceed.

Lisa Thompson
Good morning.

Vivek Gupta
Good morning.

Lisa Thompson
Paul, back to what you were talking about margins. First off, do you feel that you totally gotten everything you're going to get out of AmberLeaf as far as synergies and cost improvements, at this point?

Paul Burton
No, not at all, actually and not to put too fine a point on it. But as Jack characterized correctly when he said, AmberLeaf came out of the block slow after the acquisition. Bu that was then and this is now and we continue to open up new AmberLeaf clients, significant new AmberLeaf clients, every month. We are currently increasing staffing in our CX line of business, otherwise known as AmberLeaf. We're actually doing business development hiring in that line of business, as well. So, we're bullish on that segment of business. We did get off to a slow start not to put, we don't want to ignore that fact but, we're anticipating strong growth in AmberLeaf or in the CX line of business, going forward. And number one, with respect to margins, yes, there were some adjustments that needed to be made in the cost structure of AmberLeaf, which are for the most part, done. And so, I'm anticipating improved operating margins, going forward across

the entire business, but specifically across our CX line of business. So I'm bullish on that segment of business. There's no doubt about that. And it does dovetail quite nicely with the Data and Analytics capabilities that we have historically, as well as the work that we're doing as we move and work with clients to move into the cloud. There's a tremendous amount of CX opportunity in the cloud, especially cloud native applications and re-platforming legacy applications in the cloud. So, AmberLeaf fits very nicely into our portfolio. It was a slow start, we're beyond that now, and we're accelerating.

Lisa Thompson
Okay, and just to clarify what you said in your comments, I didn't quite catch what you said or meant. You said something about sacrificing margin and investing now. So does that mean that you expect your gross or operating margins to decline, going forward, or are you kind of where you're going to be?

Paul Burton
No, I expect our operating margins to increase, going forward. But they're not going to increase as much as they could, where we do not make--because we're making investments in sales and delivery, right.

Lisa Thompson
Okay.

Paul Burton
Because we're making--in other words, we're changing the tires on cars that rolls down the road, right. We're going to increase margins, no doubt about it, but we're not going to increase them as much as we could, because we're making investments, some in SG&A, and others in infrastructure and delivery.

Lisa Thompson
Okay, I didn't quite catch what that meant. That helps. So, and as far as IT staffing, the last couple quarters, you hired 90 to 100 more consultants. Do you see that number being the same for the next couple quarters?

Vivek Gupta
We say that's always difficult to say how the next two quarters will pan out. But today, as we stand at the end of July, the demand seems to be at the same level. And as I said, the ends are also much higher. I do expect it to slow down a little bit in terms of not the demand but in terms of the net growth, because we do see maybe a little bit more of the ends to happen. Some of the engagements that we started in the beginning of the year may come for either renewal or the end. And that will require a lot of work to kind of replace them or renew them, as well. So, we do expect positive trends to continue, but I can't quantify it.

Lisa Thompson
Okay, good. That helps. Jack, just as far as operating expenses go, I know that you said in the first quarter, you pulled expenses forward, which kind of explains like why Q1 and Q2 were kind of flat. So, does it start ticking back up again in Q3 because of that?

Jack Cronin
When you say starting to pick back up, are you talking about--

Lisa Thompson
--SG&A, SG&A.

Jack Cronin
SG&A spend?

Lisa Thompson
Yes.

Jack Cronin
Well, yes, it's going to be the second half of the year is going to pick back up, somewhat. In staffing, it's going to pick back up just because of the demand and some of the variable expenses associated with that demand. And then in D&A, the first half of the year, even though it was a flat revenue quarter, we did make some material investments in D&A's SG&A. And that's Paul's comment on giving up some operating margin to position yourself for growth. So, I think in the second half, we're going to have some increases in SG&A, but maybe not as great as the first quarter will tell us for the first half of the year we did.

Lisa Thompson
Okay, all right. And my final question, Paul, I forgot to ask you. You said that Q4 might not be as strong as Q3, because you don't know, yet. How is that possible when your contracts are long enough term that, you know they're going to be more than three months, so you know what's tailing off and what's staying. Where's the variability, then?

Paul Burton
Well, there's always some variability. I mean, you know, every quarter we have contracts that start and contracts that end, and it's three or four weeks into the quarter is a little bit difficult to predict what's going to end or what's going to get extended, through Q4. Oftentimes, we have changes that are done to contracts to extend them further into the future. Hard to say what's going to happen with respect to Q4, right now. I don't expect Q4 to be, I can't say with, certainty or specificity, what Q4 is going to be-higher or lower. I don't expect it to be, substantially different than Q3. I just can't predict anything further than that, right now, based on uncertainty whether what contracts are going to be extended and what we're going to be closing here in the next couple of weeks.

Lisa Thompson
Okay, great. That helps. Thank you.

Paul Burton
I think--
Lisa Thompson
That's all my questions. Oh, go ahead.

Paul Burton
Yes, I think when you look at our business, the D&A business historically, there's not a lot of volatility into it--in it. We haven't had significant drops in revenue, even during the pandemic. We were mostly flat, and now we're starting to climb back up again, as the environment improves. I expect that to continue.

Lisa Thompson
All right. Thank you, that helps.

Vivek Gupta
Thank you, Lisa.

Operator
Thank you. As a reminder, if you'd like to ask a question, please press "*", "1" and a confirmation tone will indicate your line is in the queue.

There are no further questions at this time. I would like to turn the call back to Vivek Gupta for closing remarks.

Vivek Gupta
Thank you, operator. So if there are no further questions, I'd like to thank you for joining our call, today. And we look forward to sharing our third quarter, 2021, results with you in late October. Thank you.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you very much for your participation. Have a great day.