Corrected Transcript

06-Aug-2026

Mastech Digital, Inc. (MHH)

Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

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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: Hello, and thank you for standing by. My name is Dennis, and I will be your conference operator today. At this time, I would like to welcome everyone to the Mastech Digital Second Quarter 2026 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Jenna Lacey, General Counsel and Corporate Secretary at Mastech Digital. Please go ahead.

Jennifer Ford Lacey

General Counsel and Corporate Secretary, Mastech Digital, Inc.

Thank you, operator, and welcome to Mastech Digital's second quarter 2026 conference call. If you have not yet received a copy of our earnings announcement, it can be obtained from our Investors section on 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 and 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 2025 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.

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 Nirav for his comments.

Nirav Patel

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

Thanks, Jenna. Good morning, everyone. We appreciate you joining us as we review our second quarter 2026 results. I'm pleased to share the progress we made during the second quarter. On a consolidated basis, Mastech Digital delivered sequential revenue growth of 0.9%. Within that figure, our Talent segment saw a modest sequential decline of 1.9%, while our Data and AI segment grew 7.2% sequentially, its first quarter of sequential growth since 2024. We believe this growth is a direct reflection of the progress we are making as an AI-first company.

During the second quarter, we entered into a strategic engagement with a leading American convenience store chain and e-commerce retailer that operates more than 10,000 stores globally to build the agentic foundation that will power its e-commerce apps and store operations. We have been entrusted to architect, build and deploy semantic search for their consumer experiences, a retail knowledge fabric as a ontology layer beneath it and an agentic foundation for building, orchestrating and monitoring agents at scale.

We view this engagement as an early indicator of the new capabilities we are building, specifically to help accelerate AI adoption and grow customer revenues. Deal wins like this engagement have contributed to a positive year-over-year quarter in bookings, which is building further on a strong first quarter and we are encouraged by our trajectory.

As part of our initiatives under the Growth Office, which I will talk about in a moment, we are pleased to have launched our partner program during the second quarter. We participated in four major industry events, Google Cloud Next, Informatica World, the Snowflake Summit and the Databricks Data and AI Summit, and we value the connections and relationships that have come out of our participation in these events.

This partner program reflects a serious commitment to our partners and a willingness to go deep in the capabilities we build around them. It is about how we more meaningfully serve our customers by building trust through the value we demonstrate alongside our partners. We look forward to building on this program in the coming quarters. Kannan will provide more color on the segment performances in his remarks.

I want to spend a moment on the market environment because it continues to shape how enterprises are approaching their roadmaps and their investment decisions. We are seeing frontier labs, companies like Anthropic and OpenAI, continue to push the pace of innovation in AI and that pace continues to accelerate. Enterprises, especially the Global 2000 customers we work with, are beginning to shift their spending away from what has traditionally been considered standard expected technology investments and towards innovation and AI. A recent analysis from Zinnov suggests that as much as 30% of traditional IT spending could rotate into new AI-oriented investments.

We believe there are two areas where enterprises' acceleration has been most consistent: AI foundation and business transformation. AI foundation is an important layer where enterprises are doing the groundwork, getting their underlying data clean, structured and governed enough to actually support AI at scale. This is where we continue to see significant dollars being spent, because without the foundation in place, nothing built on top of it holds up. It is also the layer where questions of trust, safety and governance ultimately live.

Business transformation is the other area of acceleration. If your enterprises are developing use cases, they can tie directly to top-line or bottom-line results. We are seeing enterprises narrow in on the specific domains and use cases that help them differentiate from their competitors and become a true AI-first enterprise. We believe this area has the most potential to drive business impact and sets the groundwork for us to deliver outcome-based engagements that position us as a trusted partner in their AI journey. We are beginning to see progress in both of these areas.

Let me also highlight some of the progress we have made on our strategic initiatives. To meet the acceleration we described earlier in AI foundation and business transformation, we made a deliberate effort during the second quarter to build out our modern Data and AI readiness offerings, hiring strong local and international talent to meet the market where the demand is.

We are also investing in becoming an autonomous enterprise ourselves, acting as customer zero for our own AI and transformation initiatives. During the second quarter, we assessed all of our enabling functions and their maturity levels with the intention of becoming a fully autonomous AI-led company.

This is also the quarter where we launched our Growth Office function, investing across four areas that we believe will compound over time. New logo sales is focused on opening and developing new client relationships, giving us a dedicated motion for winning first-time business. Performance and revenue marketing covers our events, demand generation, campaigns, inbound leads and broader engagement efforts, feeding a stronger pipeline into that motion.

Partnership ecosystem build is focused on partner-sourced deals and ecosystem development, an area that ties directly into the partner program momentum I mentioned earlier. And finally, large deal enablement brings cross-functional teams together to synergize best practices in pursuing and winning our largest, most strategic deals.

Together, these four investments within the Growth Office are designed to build a more complete commercial engine, one that wins new business, deepens through partners and competes for the deals that matter most.

As I described earlier, we are seeing two forces continue to move together in the market. The pace of AI innovation coming out of the frontier labs and the pace of AI adoption inside enterprises as they rotate their own spending towards AI foundation and business transformation to keep up. We believe that is exactly where our opportunity lies.

In our view, there is a clear place for partners like us who understand both the depth of enterprise systems and the pace of AI innovation. We view this position as an important place for us to be, as we support enterprises in increasing their AI adoption. And we are focused on meeting this moment and driving value for our shareholders.

We believe we are entering the second half of the year in a position of strength. The redeployment of EDGE savings into our strategic initiatives, the investments we have made in our capabilities and our Growth Office, and the early wins we are seeing in Data and AI, all give us confidence that our plan is working.

Our balance sheet strength, our leadership team and the alignment across our organization position us well to compete for the opportunities ahead. We are grateful for the trust our clients, our employees and our shareholders continue to place in us, and we intend to continue earning it going forward.

With that, I will hand it over to Kannan, who will walk you through the financials in more detail.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

Thanks, Nirav. Good morning, everyone. Nirav touched on the sequential growth we saw in our Data and AI segment during the second quarter and the discipline behind it. I want to start there because that discipline is best reflected in how we have executed on EDGE. The EDGE initiative, Efficiencies Driving Growth and Expansion, which we launched in Q3 2025, continued to advance through the second quarter of 2026.

We have always said EDGE has two parts, an efficiency phase and an investment phase. Last quarter, we highlighted that the efficiency phase had delivered. We signaled that redeployment of these efficiencies had begun into our leadership and talent base, our competencies and our market growth initiatives.

During the second quarter, that redeployment started to accelerate. We are now investing significantly in talent, in competency building, and in overall expansion across our Data and AI space. As we have said before, these investments are a leading indicator. We have made the commitment. We believe the revenue will now follow.

We expect to continue this pace of investment through the second half of 2026. We remain encouraged by what we are seeing take shape and we continue to believe that the most meaningful growth EDGE enables is still ahead of us.

I will now discuss our second quarter financial results. During the second quarter, we delivered consolidated revenue of $41.4 million, a 15.6% decrease year-over-year compared to the previous year period. Our Talent segment delivered revenue of $28 million, 16.2% lower than the prior year period, though our focus on revenue quality continues.

Our bill rates once again reached an all-time high for Mastech at $92.17, up from $88.36 a year ago. Our billable consultant base declined by 170 consultants since the second quarter of 2025, a 22.3% reduction, consistent with the same two factors we have been highlighting for the past few quarters.

The first of these factors is insourcing activity from one of our top 10 clients, which continued during the second quarter. This single client accounted for almost 90% of our head count reduction on the Talent side in the second quarter. Excluding this client, our year-on-year decline in Talent revenue would have been limited to approximately 3%.

The second factor is our continued discipline. We have deliberately exited lower-margin, non-strategic staffing positions in favor of higher quality, higher margin engagements. The effect of that discipline is visible in our historically strong bill rates. We anticipate that these dynamics will continue for a few quarters.

On Data and AI segment, reported revenue of $13.5 million, a decrease of 14.4% compared to the prior year period, a growth of 7.2% sequentially, marking our first such quarter of revenue growth since 2024. On the booking side, second quarter bookings totaled $13.6 million on a total contract value, or TCV basis, compared to bookings of $9 million TCV in the prior year period. We added three new logos across multiple markets as we continue to build momentum in bookings.

Gross profit of $12 million was a decrease of 13.2% compared to the prior year period, though our profits grew by $1 million sequentially and gross margins increased by 90 basis points over the second quarter of 2025. GAAP net loss for the three-month ended June 30 was $0.1 million or negative $0.01 per diluted share compared to GAAP net income of $0.1 million or $0.01 per diluted share in the prior year period. Non-GAAP net income for the three-month ended June 30 was $1 million or $0.08 per diluted share, compared to $1.8 million or $0.15 per diluted share in the prior year period.

GAAP net income for the six-month ended June 30 was $0.2 million or $0.01 per diluted share compared to a GAAP net loss of $1.3 million or minus $0.11 per diluted share in the prior year period. Non-GAAP net income for the six months ended June 30 was $2.2 million or $0.19 per diluted share compared to $2.6 million or $0.21 per diluted share in the prior year period.

During the second quarter of 2026, our liquidity and overall financial position remained solid. On June 30, 2026, we had $35.6 million in cash on hand, no bank debt outstanding, and cash availability of $20.4 million under our revolving credit facility. Our days sales outstanding on June 30, 2026, totaled 61 days, which is above our DSO measurement a year ago.

During the second quarter of 2026, we did not repurchase any shares of Mastech common stock. And as a result, as of June 30, 2026, the entire $5 million remains available under the share repurchase program.

Operator, this concludes our prepared remarks. We will now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question is from line of Lisa Thompson with Zacks Investment Research. Please go ahead.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.

Q

Good morning. Glad to see all the progress. I was wondering if you could talk a little bit about this new partnership program. How do you define it? Like, what is it actually?

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

A

Good morning, Lisa. This is Nirav. I can take that. I would – so this is, first of all, a very strategic program. As you know that a year ago, we already announced a partnership with Informatica. But this particular program, I would characterize it as early stage, and I think it is important to be upfront about that. These four events that we really participated in terms of Google Next, Informatica World, Snowflake, Databricks, are really about building and deepening relationships with the partners whose platforms our clients are standardizing on. And that is not something that turns into a signed deal overnight. So it takes time to really build that levels of trust.

That said, we think that we would not have launched this formally or invested in a dedicated partnership ecosystem, building function within our Growth Office, if we did not see early signals worth building on. So we are seeing an amount of conversations start to happen and some early relationship momentums, but I would like not to point too hard measurable pipeline numbers on this as yet.

So we think that this partnership program that we have engaged on are very strategic for us to deepening our core capabilities that allows our customers to really think of us as a full service provider as they engage more aggressively in their data modernization initiatives.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.

Q

Okay. So is it a kind of a sales sharing arrangement or staffing or how – what does one look like?

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

A

Yeah, yeah. So Lisa, it's a little bit more sales motion. Think about it as something that is very critical for us because more and more clients choose their modernization efforts to go into some of these strategic partnership programs. And remember, these partners have hundreds if not sometimes thousands of partners that they actually service and work together with.

So this is a clear sales motion. And that's exactly why we have brought this under our Growth Office function, which is a commercial engine for us to continue to accelerate this.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.

Q

Okay. And on another topic, your billable rates went up quite a bit, which was very impressive. Do you see that continuing for the next few quarters, as much as $1 dollar an hour?

Kannan Suganthararaman
Chief Financial & Operations Officer, Mastech Digital, Inc.
A

Yeah. Hey, Lisa, Kannan here. Let me take that. So what the number reflects is, as you would see, revenue quality discipline, and we have speaking about this over the last few quarters. We have been deliberately exiting lower-margin, non-strategic positions in favor of higher quality, and the bill rates are a byproduct, right? So as for whether it continues to move in this direction, I would, honestly, not get ahead of ourselves. Our focus remains on revenue quality, but we will continue to assess every opportunity on its own merit. And that's the intention as we move forward. So, clearly, our focus is on higher-quality, higher-margin engagements, Lisa.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.
Q

Okay. So that'll continue for a few more quarters. It will increase.

Kannan Suganthararaman
Chief Financial & Operations Officer, Mastech Digital, Inc.
A

The intent is to have this – that we will go for high-margin, high-value elements. So – and as you would see at $92, we are at a fairly good position. We intend to keep it high, again, right? It depends on the kind of opportunities that we get to sign up in the next few quarters.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.
Q

Okay. All right. My last question is, could you talk a little bit more about this convenience store deal? Can you just simplify for us, normal people, what exactly you're going to do for them and then how applicable that is to other companies?

Nirav Patel
President, Chief Executive Officer & Director, Mastech Digital, Inc.
A

Absolutely, Lisa. Nirav here. Let me just take a stab at that. So this is like – think about it this way, right? Like, as enterprises prepare themselves to get themselves to be AI-first and using and deploying AI all across their enterprise, what they really have to really start thinking about is a layer of foundation, and which is what we refer to as the AI foundation, is very critical for them to really establish a sort of a layer that ensures things like trust, safety, governance.

And so this engagement for us is very strategic in a way that we are starting off with establishing some level of that foundation, along with the fact that we are now starting to work with this customer on a few areas of their use cases. One example that we have mentioned is the agent e-commerce. And this particular retailer is wanting to grow their revenues through agent e-commerce. As you know that, historically, almost everybody rode their ways of commerce through online platforms like Amazon, but more and more the younger generations continue to really fully be on the GPTs. And so how does this turn into a revenue opportunity for our clients? And client is really engaging with us in helping them establish that agent e-commerce use case to be the primary case that they want to really build with.

So, to simplify it, think about, if people start to shop on ChatGPTs and Anthropics of the world, how will customers like this one will benefit out of it? And so it requires the levels of foundation layer, but also equally important, it needs the necessary domain depth to understand how to integrate the systems and make it real for them.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.

Q

Okay. That's great. I guess – and one last question is, what do bookings look like for this quarter?

Kannan Sugantharaman
Chief Financial & Operations Officer, Mastech Digital, Inc.

A

It was good. I would say strong bookings in the second quarter. I think what's working is a combination of two things that is playing out well, right? So last quarter, we won a strategic engagement with a leading healthcare provider, and it was on the broader data modernization program. This quarter, we have actually backed it up with another strong bookings quarter with a strategic AI engagement with a large convenience store that Nirav just spoke of.

So I would say two different paths to win two strong quarters of bookings back-to-back. And we think that combination is a good sign that our capabilities are resonating across multiple client types and archetypes for that matter. But it's been two good quarters on bookings, though, Lisa, and we are very pleased about that.

Lisa R. Thompson
Analyst, Zacks Investment Research, Inc.

Q

All right. Great. Thank you so much. That's all my questions.

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

A

Thanks, Lisa.

Kannan Sugantharaman
Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Thanks, Lisa.

Operator: Your next question is from the line of Marc Riddick with Sidoti. Please go ahead.

Marc Riddick
Analyst, Sidoti & Co. LLC

Q

Hey, good morning.

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

A

Good morning.

Kannan Sugantharaman
Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Hello, Marc.

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

I was wondering if we could touch a little bit on some of the – in your prepared remarks, you mentioned the spending shifts that you're seeing, particularly toward more on the innovative side and AI from customers. And I was wondering if you could talk a little bit about that shift maybe either from a pacing perspective through the quarter and/or the sources of it, whether it be client vertical-wise, geography-wise or the like.

Kannan Sugantharaman
Chief Financial & Operations Officer, Mastech Digital, Inc.
A

And Marc, I suppose you are referring to the investments we have made as part of the EDGE. Is that what you're referring to?

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

I think in your prepared remarks, you were talking about what you're seeing from a client demand perspective, as far as spending shifts that you were seeing through the quarter. I was just sort of curious if you could spend a little more time on that.

Nirav Patel
President, Chief Executive Officer & Director, Mastech Digital, Inc.
A

Yeah, I can take that, Marc. Appreciate that. Look, I think, I feel we talked about this idea that customers are really aggressively trying to rotate, and we use the word rotate is essentially a terminology used by Zinnov to say that, hey, there's a portion of your spend that historically was spent in, what I call, managing your legacy estates, is now going to be diverted to do a lot more AI, right? Now, there are different numbers out there which says anywhere between 30% to 40% could actually rotate from the old to the new. And customers are really using that as a core mechanism to fund, what I call, their AI adoption and AI transitions, because the macro conditions doesn't really allow a CIO or a technology leader to have disproportionately high levels of funding available. So it's almost like a self-funding approach.

Now, what happens in this scenario is, it is a little bit of a reflection of the fact that how much of your business is today servicing that legacy estate versus the new. And I think we feel particularly proud and good about the fact that most of our build that we have done is in two fundamental areas. One, we call – refer it as AI foundation. As you know that, historically, we've always done MDM work and we think we are now really modernizing that with this partner program that we have in place.

So in essence, what we did is now morphing into what I call an AI foundation set of offerings, plus you really are now disproportionately investing in building newer capabilities to sort of garner ourselves on more verticalized, domain-led, use case led AI, full AI stories. So if you really think about those two, I think we are playing into the new in many ways. And we feel that this rotation actually helps companies like us more favorably, because we've historically never been on large IT outsourcing deals, which are tending to be multi-year, three-year, five-year deals, which I think is seeing a level of compression by customers who are trying to find new dollars that they can invest back in AI.

So that rotation is possibly going to be a little bit of a journey, Marc. I mean, it's something that we think is going to play out not just over few quarters, but probably few years, but it positions a company like us very strongly as we really play into the new and we capture more and more share of it.

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

Excellent. And then, I was wondering if you could talk a little bit as far as the bookings that you are seeing. Can you talk a little bit about what you're seeing from a standpoint of mix of new customers versus gaining share of wallet from existing customers and maybe how you see that playing out going forward?

Kannan Sugantharaman
Chief Financial & Operations Officer, Mastech Digital, Inc.
A

Yeah. So, Marc, I will take that. Actually, this quarter, we are very happy that we were able to close three new logos, right, in very different vertical domains that we have been playing. So while we do that, if you really look at our ability to renew contracts, that has been pretty successful as well.

So with respect to renewals, with respect to new business that we are winning from existing business and new logos, we have been reasonably successful in this quarter. And as I said, with three new logos being signed up in one quarter, which is also broad-based largely, I think we are scoring in all three fronts for that matter, Marc.

Nirav Patel
President, Chief Executive Officer & Director, Mastech Digital, Inc.
A

Just to...

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

Great. And then I guess...

Nirav Patel
President, Chief Executive Officer & Director, Mastech Digital, Inc.
A

Sorry. I was just going to comment...

Marc Riddick
Analyst, Sidoti & Co. LLC
Q

No, sorry, go ahead.

Nirav Patel
President, Chief Executive Officer & Director, Mastech Digital, Inc.
A

I was just going to add one comment, Marc, to what Kannan just said, right? Look, almost half of our Data and AI pipeline comes from Global 2000 customers. So the way you want to think about it is, we are – honestly, the percentage itself is not as exciting as the quality of the projects. And I think what we are particularly feeling good about the fact is that you're not just winning new logos, but you're actually winning for the work that we have somewhat historically not known for. And so that actually gives you a position of strength. So in my opinion, I think I expect that our new logo contribution over the coming years to actually rise as we deeply further invest in our new capabilities.

So I think the healthy mix is starting to really emerge now where we are protecting everything that we do for our existing customers in growing and strengthening their relationships, but at the same time, investing in, what I call, the Growth Office efforts to win new logos as an institutional engine. So that's why the hunting and farming needs to really work in tandem for us.

Marc Riddick
Analyst, Sidoti & Co. LLC

Q

Excellent. Thank you very much.

Operator: [Operator Instructions] And at this time, there are no further questions. I will now turn the call back over to Nirav Patel for closing remarks.

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

Thank you. Thank you, operator. If there are no further questions, I would like to thank you for joining our call today. We look forward to sharing our third quarter 2026 results with you in October.

Operator: Thank you all for joining the Mastech Digital second quarter 2026 earnings conference call. You may now disconnect.