



Mastech Digital, Inc.
Fourth Quarter 2024 Earnings Call
February 19, 2025

Operator

Greetings, and welcome to the Mastech Digital Q4 2024 Earnings 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, please press “*”, “0” on your telephone keypad.

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jenna Lacey, Manager of Legal Affairs for Mastech Digital. Thank you, Ms. Lacey, you may begin.

Jennifer Lacey

Thank you, Operator, and welcome to Mastech Digital's Fourth Quarter 2024 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. With me on the call today are Nirav Patel, 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 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 statements--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 2023 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, 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 comp--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 any guidance in any subsequent one-on-one meetings or calls.

I will now turn the call over to Nirav for his comments.

Nirav Patel

Thanks, Jenna, and good morning, everyone. Today is my 45th day with Mastech Digital, and it's a privilege to address you today as Mastech Digital's Chief Executive Officer.

Let me start by giving you a bit of my background and experience. I have well over 25 years of experience as a technology executive with a track record of scaling large and mid-sized organizations. I have held several prominent leadership roles throughout my career. Prior to joining Mastech Digital, I served for over four years as President and CEO of Bristlecone, an AI-powered pure-play supply chain transformation company. And before that, I spent over 19 years at Cognizant, playing many executive roles, scaling multibillion-dollar businesses across its key industry segments and serving enterprise clients, globally.

It's been an incredible and busy first 45 days, since stepping into my role at Mastech Digital. I'm about halfway through my first 100 days and in addition to focusing on the execution of our plans, I have spent a considerable amount of time listening to our customers, partners, employees and investors. It is important for me to hear their perspectives and understand the expectations they have of us for the future. What is clear to me is that we have a strong foundation and culture that is deeply rooted in customer focus. But what's also clear to me is that we are at an inflection point, both in terms of speed of change brought by the AI revolution across our enterprise customers and the changing landscape of technology service providers in this rapidly evolving AI-first world. I believe that winning in the future will require organization like ours to have a sharper execution focus and the founder's mindset for unlocking growth.

We cannot ignore the evolving landscape shaping our industry. We are seeing the uncertainties created from a changing macro environment, leading to greater caution and slower decision-making. Companies are carefully assessing interest rates, liquidity and market conditions to ensure their technology investments are both strategic and sustainable. That being said, I have no doubt that the AI revolution is real. Across industries, AI, automation and data-driven decision-making are no longer just concepts; they are being actively embraced and internalized. Organizations are moving beyond exploration, building proof of concepts, integrating AI into core processes and, in many cases, rapidly scaling these capabilities to drive competitive advantage.

While the path forward may not be linear, the appetite for AI-driven solutions remains strong. Emerging AI models like OpenAI, Cloud, Lama and DeepSeek are reinforcing the fact that AI is reshaping how enterprises work, optimize and innovate.

While Jack will provide a detailed update, I wanted to share a few thoughts on our performance in the fourth quarter of 2024. We have made meaningful progress delivering revenue and margin growth with data and analytics seeing particularly strong acceleration. This performance reinforces our conviction that AI-driven digital modernization is the next frontier and that we are well-positioned to capture this momentum.

I sum up the fourth quarter in two words: execution and transition. We believe that 2025 will be the year we begin our transformation, one that helps enterprises reimagine themselves and transition into AI-first organizations. This is just the beginning of that journey.

Looking ahead, we believe our long-term success will be driven by three principles that define who we are and where we are going.

First, we believe we must lead with a sense of urgency. The window to establish ourselves as a leading technology provider that helps enterprises reimagine and transform into AI enterprises will not stay open, forever. In this space, speed is not just an advantage, it is the difference between leading and lagging.

Second, we believe we must build a compelling and relevant portfolio of offerings. Differentiation will be key. We are not just creating innovative solutions but solutions that are essential to how businesses operate in the AI era. We believe our data modernization and staffing solutions must work together to drive deeper client engagement. It's not enough to participate. We believe we must integrate our strengths into a seamless high-value offering that sets us apart.

Third, we believe we must execute with discipline. Growth is only meaningful when it is sustainable and profitable. We intend to drive efficiency across the organization, operate with accountability and ensure that every investment we make and every position we take creates lasting value for our customers, employees and shareholders.

I recognize that building confidence in the leadership takes time and that it must be earned through clear execution and transparency. My commitment to you is simple. I plan to be direct about where we are, clear about where we need to go and decisive about how we get there. Mastech Digital is not starting from scratch. We believe we have the right foundation, the right talent and the right market opportunity. What we need is the runway to refine our strategy, sharpen our execution and create a growth story that is truly our own.

Thank you for your time and trust. I will now hand it over to Jack.

Jack Cronin

Thanks, Nirav, and good morning, everyone. Our fourth quarter 2024 financial results reflected the positive momentum that we experienced over the last nine months of 2024.

Consolidated revenues during the fourth quarter totaled \$50.7 million, a year-over-year increase of 10.2%, compared to the corresponding quarter of 2023.

Our Data and Analytics Services segment reported revenues of \$10.3 million in Q4 2024, which were 26.2% higher on a year-over-year basis and 9.4%, sequentially, higher than our revenue performance in the previous quarter.

Order bookings in Q4 2024, totaled \$11 million, which was somewhat below our expectations.

In the fourth quarter of 2024, our IT Staffing Services segment had revenues of \$40.5 million, achieving year-over-year revenue growth of 6.8%. During the quarter, our billable consultant base declined by 63 consultants, which is generally in line with previous years, due to seasonal high assignment ends. As expected, this will have some impact on our Q1 2025, revenue results.

Consolidated gross profit dollars totaled \$14.7 million in Q4, which exceeded the corresponding quarter of 2023 by \$3.4 million, or a 30% increase, driven by higher revenue volumes, as well as increasing gross margin percent. Our Q4 2024 gross margin percent was a company record 29%, as both of our business segments had significant margin expansion from the previous year.

In our Data and Analytics Services segment, gross margins as a percent of revenue increased by 480 basis points to 49.5% in Q4 2024, compared to 44.7% in the fourth quarter of 2023. This increase reflected higher utilization and better project delivery.

In our IT Staffing Services segment, gross margins were up 350 basis points in Q4, or compared to Q4 2023, due to an increase in direct hire revenues, a favorable medical claim ex--perience in our self-insured health care program and higher margins on new assignments.

GAAP net income for the fourth quarter of 2024 totaled \$0.3 million, or \$0.02 per diluted share, compared to a net loss of \$5.4 million, or a negative \$0.46 per share in Q4 of 2023.

Non-GAAP net income for Q4 of '24 was \$2.8 million, or \$0.23 per diluted share, compared to \$1.3 million, or \$0.11 per diluted share in the '23 fourth quarter.

SG&A expense items not included in non-GAAP financial measures, net of tax benefits, are detailed in our fourth quarter earnings release for all periods presented and are available on our website.

Highlights of our full year 2024 results included the following: 2024 revenues were \$198.9 million, which was largely in line with our full year 2023 revenues. Gross margins in '24 totaled 27.9%, compared to 25.4% in 2023.

Our Data and Analytics Services gross margin percent increased by 560 basis points on a year-over-year basis. And in our IT Staffing Services segment, our gross margin percent increased by 160 basis points.

GAAP diluted earnings per share in 2024 was a profit of \$0.28 versus a loss of \$0.61 in 2023. Non-GAAP diluted earnings per share in '24 totaled a profit of \$0.71, compared to a profit of \$0.44 in 2023, an increase, improvement of 61%.

At December 31, 2024, our liquidity and overall financial position remains solid. Today, we have no bank debt outstanding. We have \$27.7 million of cash balances on hand. We have cash availability of \$22.6 million under our revolving credit facility, and our days sales outstanding measurement at December 31, 2024, totaled 52 days, which was well within our targeted range.

Devin, that completes our prepared comments. We'd like to open it up for questions now.

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. A confirmation tone will indicate your line is in the question 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 poll for questions.

Our first question comes from the line of Lisa Thompson with Zacks Investment Research. Please proceed with your question.

Lisa Thompson

Good morning,

Nirav Patel

Good morning.

Lisa Thompson

So we're all looking forward to an exciting 2025. I know there's a lot of possibilities out there. Could you talk a little bit about what your thinking is of how you're going to approach increasing staffing in D&A? Is there going to be any strategy changes besides the obvious of trying to incorporate AI into your whole service offerings? How is that going to work?

Nirav Patel

Sure, Lisa. Thank you for the question. Nirav here. I'll take that one. Look, I'm taking a very, very structured approach Lisa to defining our long-term strategy. And I've just stepped into my role and my immediate priority is to deeply learn about our business and engage with our teams, customers and partners, and to really have a chance to assess our starting point in terms of our challenges and opportunities.

You know, what I can say with confidence that Mastech has a very, very strong foundation. Our focus will be on accelerating growth, driving excellence and enhancing our offerings. But I am going to take a little bit of a structured approach in defining this strategy, and I look forward to be sharing more specific details sometime later half of this year as we refine our plans and execution road map.

Lisa Thompson

Okay. I'm also curious that there's a lot of talk about government efficiency now. Do you see any opportunities in there? If there ever is an entity that needs data modernization, I think that would be the one.

Jack Cronin

Yes, clearly, government opportunities are something that especially in D&A that we look at for sure. So, I guess the answer to your question is, yes.

Lisa Thompson

Okay. All right, do you happen to have offhand how many employees you ended the year with?

Jack Cronin

Yes, I do. We ended the year with total employees of both segments 1,816.

Lisa Thompson

Okay.

Jack Cronin

And just as a point of reference last year, we ended the year 2023 with 1,648.

Lisa Thompson

Okay. So that's a pretty big increase.

Jack Cronin

Yes, not bad.

Lisa Thompson

All right. And do you have any thoughts about spending this year? Is it going to be pretty much steady, or is there any investment you need to do?

Jack Cronin

Spending like on SG&A cost or spending on CapEx?

Lisa Thompson

Yeah, well, either, but mostly SG&A.

Jack Cronin

Okay. SG&A, our objective in SG&A is to continue to maintain our SG&A expense at the same percentage that we had in 2024 for 2025. So, that's the objective. And you know, it's going to be a little bit by quarter-to-quarter. I would say that probably in the first half of 2025, we're going to probably not reach that goal, because I think we are going to be hiring some of the missing pieces related to a new growth strategy. But by the end of the year, with what we believe would be increases in revenue, as well as maybe some cost savings initiatives, we should come in at that objective.

Lisa Thompson

Thank you.

Jack Cronin

--And from a CapEx standpoint, we don't have a whole lot of capital expenditures. I mean we're--

Lisa Thompson

--Right.

Jack Cronin

Maybe it's certainly under \$1 million. So, that will still hold, clearly under \$1 million.

Lisa Thompson

Okay, and you're still thinking 28% tax rate?

Jack Cronin

Well, the 28% tax rate, it encompasses a 123R expense true-up based on the gains that our employees enjoy from exercising their shares versus the company expense related to those shares.

So, in the last year well, let's say, the last year and a half, our true-up was negative, which negatively impacts the tax rate. That's why we were 28%. In fourth quarter, our stock price was a little bit higher and a lot of the exercises came in at gains that were greater than the 123R expense, the compensation expense. And actually, our tax rate was actually lower than 25%. So, a lot of that depends on some of these unusual true-ups that we have to make from a tax perspective.

Lisa Thompson

Okay, great. Thank you. That's all my questions, right now.

Jack Cronin

Thanks, Lisa.

Operator

Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press "*", "1" on your telephone keypad. Our next question comes from the line of Marc Riddick with Sidoti & Company. Please proceed with your question.

Marc Riddick

Hey, good morning.

Jack Cronin

Good morning.

Nirav Patel

Good morning.

Marc Riddick

I wanted to touch a little bit on some of the commentary around the bookings during the quarter. And maybe if you could spend a little bit of time sort of giving us a picture on sort of how that progressed, either whether it was by monthly or were there changes in the demand pre post-election? Were the--did the bookings look different based on client verticals? Anything that you could sort of share there as to maybe what you were seeing during the fourth quarter. And then maybe any thoughts as to maybe how the year has begun as far as client activity would be really helpful.

Jack Cronin

Sure, Marc, I'll take a stab at that. When we looked at our pipeline at the beginning of Q4 and looking at our pipeline, we had a range of where we thought we would land in total bookings, and the \$11 million came short of that. And, we had some project delays because there is a little bit in particular, in D&A, there's a little bit of uncertainty in the marketplace. I mean, we saw a few clients where we thought they were going to give us bookings in Q4, and they delayed those.

And so there is--we clearly see some uncertainty in the marketplace. What's the driver of that uncertainty? I mean, we can guess. Is it a tick up in inflation. Is it political concerns, unknowns. Whatever the reason, our clients seem to be less eager to give bookings deals, immediately. They seem to have a longer sales cycle on that before they let a booking transpire.

Marc Riddick

Okay. And is there, I know this is a bit granular, but I was just sort of curious is there anywhere in particular whether it's certain types of clients, or do you think that's sort of more of a across-the-board kind of situation, right now?

Jack Cronin

I would say across the board. I would say, across the board.

Marc Riddick

Okay. That's good.

Jack Cronin

I mean we have some bookings in our financial service clients. We've had Q4 bookings on health care clients. It's just that we didn't get the amount that we expected given the robust pipeline that we had.

Marc Riddick

Okay, and then one of the things I just want to highlight it in your press release was around the extension of the share repurchase program which was initially scheduled to end earlier this month and then has--and has now been extended to February of '26.

Just wondered if you could share any thoughts there. I can understand that Nirav, you've been there for like 45 days. I can understand that you get to have some time to sort of work through some of the prioritizations. But I was just sort of wondering if you could share any thoughts on the share repurchase extension there.

Jack Cronin

Yes, I mean the Board made that decision, right? And, we had this program for two years prior. And during that 2-year period, we experienced a number of extended blackout periods where we weren't able to repurchase our shares. They were like corporate-related transactions and events. We think most of that is behind us, and we have 423,000 shares remaining in the share buyback program. We would like to capitalize on some of those. So, I do think that you're going to see less blackout periods and more buyout volume in 2025, compared to last year.

Marc Riddick

Hey, great. And then the last thing for me as far as potential uses of cash, obviously a very strong balance sheet to work with at the moment. I was wondering if you could talk about any thoughts on potential acquisitions and maybe what maybe what that pipeline may look like now, whether valuations have changed in the last few months or we've seen a few small deals in the space, but maybe sort of comment on maybe what you're seeing out there.

Nirav Patel

Sure, Marc. This is Nirav here. I'll take that first, so Marc, I think, look like I said that we are certainly in the phase where we are sort of starting to think through our go-forward strategy, and we are sort of trying to really get a little bit more clarity on that. And I think like I said earlier, right, I just stepped in on my role. And in terms of my go-forward strategy my immediate priority is really to listen and learn.

And I think, I am taking a fairly structured approach of thinking through our long-term approach strategy, which kind of will include elements of organic and inorganic plays and so forth. But to me, I think getting the direction for the company in terms of where we are headed lays an important emphasis before we would sort of activate or execute on any of those transactions. But, please feel free to chime in, Jack, if you want to share your thoughts

Jack Cronin

No, the only thing that I would say, Marc, is M&A is part of our growth strategy, for sure. It always has been. When you're changing leadership, it's hard to decide exactly what you want to purchase. So, I think, Nirav--

Marc Riddick

--No, that's--that's--

Jack Cronin

--I think once Nirav gets his--go ahead, Marc.

Marc Riddick

Oh, no, I was just going to say we're certainly looking forward to working with Nirav going forward and then looking forward to your vision for the company going forward. And, that's about it for me, today.

Nirav Patel

Thank you, Marc. And I'm equally excited and looking forward to working with you.

Operator

Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please press "*", "1" on your telephone keypad. One moment, please, while we repoll for questions.

There appear to be no further questions at this time. I'd like to turn the floor back over to Mr. Patel for closing remarks.

Nirav Patel

Thank you, Devin. If there are no additional questions, I thank you for your time, and I look forward to talking with you in early May for our Q1 2025 earnings call.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.