

# Mastech Digital: The Little-Known BIG Story

SIDOTI CONFERENCE | SEPTEMBER 25, 2019

# SPEAKERS



## JACK CRONIN

Chief Financial Officer

As the CFO, Jack oversees all finance functions as well as M&A-related activities.

Played a leadership role in Mastech Digital's acquisition of InfoTrellis and Hudson's IT staffing business, as well as the sale of past Mastech Digital subsidiaries.

21 years at Mastech Digital.

- Chief Financial Officer at Industrial Ceramics
- Assistant Corporate Controller at Dravo Corporation

MBA from Katz Business School, University of Pittsburgh.

Certified CPA and CMA.



## MICHAEL BRYAN

Head – IT Staffing Business

With a total experience of 19 years, Mike leads and manages the company's US-based sales teams. He joined Mastech Digital in 2015.

Prior to this,

- Mike was the Director of Sales at Hudson IT and Director of Recruiting at TMP Worldwide.
- Mike has also worked with SystemOne and Orlando Magic

He is currently associated with the Leadership Orlando – America's largest community leadership program.

MBA from the University of Central Florida.

Bachelor of Science degree in Business Administration from the University of Florida.

# SAFE HARBOR DISCLOSURE

*Certain statements contained in this presentation are forward-looking statements based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of revenues, earnings, and cash flow. These statements are based on information currently available to the Company and it assumes no obligation to update the forward-looking statements as circumstances change. These statements are not guarantee of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation, the level of market demand for its services, the highly competitive market for the types of services offered by the company, the impact of competitive factors on profit margins, market conditions that could cause the Company's customers to reduce their spending for its services, and the company's ability to create, acquire and build new lines of business, to attract and retain qualified personnel, reduce costs and conserve cash, and other risks that are described in more detail in the company's filings with the Securities and Exchange Commission including its Form 10-K for the year ended December 31, 2018.*

# AGENDA

01 #One

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## COMPANY OVERVIEW

Introduction | Key Business Events | Financial Trends and Position

02 #Two

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## DATA AND ANALYTICS SERVICES

Industry Highlights | Key Business Attributes | Financial Model and Trends | Investments

03 #Three

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## IT STAFFING SERVICES

Industry Highlights | Key Business Attributes | Financial Model and Trends | Investments

04 #Four

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## COMPELLING VALUE ATTRIBUTES

Share Price Trends | Investor Value Proposition



# 1. COMPANY OVERVIEW

# WHO WE ARE

- ✦ A Digital Transformation IT services company with deep capabilities in Data and Analytics Services and IT Staffing Services
- ✦ Former operating subsidiary of IGATE Corporation
- ✦ NYSE-listed (MHH); Pittsburgh, PA-headquartered
- ✦ Presence across North America, India, ASEAN, and the Middle East
- ✦ \$194 Million in revenues
- ✦ 1,700+ associates and growing

## Industry Recognition



# OUR BOARD OF DIRECTORS



**ASHOK TRIVEDI**

Co-founder and Co-chairman



**SUNIL WADHWANI**

Co-founder and Co-chairman



**BRENDA GALILEE**

Ex-Chairman and CEO, InTouch Corporation



**JOHN AUSURA**

Founder, Capital Resolution, LLC



**GERHARD WATZINGER**

Chairman, CrowdStrike



**VIVEK GUPTA**

President and CEO, Mastech Digital

# KEY BUSINESS EVENTS

Mastech Spun-off from IGATE Corporation as a Public Company (MHH)

OCTOBER 1, 2008



Appointed **Vivek Gupta** as President and CEO to lead Company's transformation beyond Staffing

MARCH 1, 2016



Acquired **InfoTrellis, Inc.**, a Data and Analytics Services Company

JULY 13, 2017



Formulated **strategic blueprint** for the D&A segment

NOVEMBER 1, 2018



Delivered record revenues in Q2

JUNE 30, 2019



JULY 15, 2015

Acquired **Hudson Global Resources Management**, an IT Staffing Company

SEPTEMBER 1, 2016

Rebranded as **Mastech Digital** to support our digital transformation journey

JULY 24, 2018

Board of Directors declares a **two-for-one stock split**

JANUARY 1, 2019

Empowered new **Leadership team** to execute the strategic plan for the D&A business



# SECOND QUARTER 2019 FINANCIAL HIGHLIGHTS

- ✦ YOY revenue growth of 8%
- ✦ Sequential quarterly revenue growth of 7%
- ✦ YOY gross margin expansion of 60-basis points to 24.9%
- ✦ Sequential quarterly gross margin expansion of 90-basis points
- ✦ GAAP Diluted EPS of \$0.53 – favorable charge from acquisition earn-out liability
- ✦ Non-GAAP EPS totaled \$0.20 – flat from last year
- ✦ Substantial investments have muted earnings in the short-term



# RECENT INVESTMENTS TO OUR BUSINESSES

## + Data and Analytics Services Segment:

- Appointed Paul Burton as new head of this business segment
  - Former IBM and Genpact leader with proven abilities in growing and transforming data and analytic businesses
- Key executive leadership hires in Sales, Data Architecture and Analytics
- Expanded sales organization – in terms of numbers, talent and geography
- Expanded delivery capabilities; doubled office capacity in Chennai, India

## + IT Staffing Services Segment :

- Expanded and upgraded our NOIDA, India recruitment center – 60% more capacity in 2019
- Implemented new Cloud-based ERP enterprise platform
- Invested in our digital technology practices (Salesforce; Digital Learning; Cyber Security)
- Scaled our sales and recruitment organization ahead of growth curve



# FINANCIAL POSITION, AS OF JUNE 30, 2019

## MANAGEABLE DEBT LOAD / ADEQUATE LIQUIDITY

**Balance Sheet Bank Debt, net  
of cash balances:**

Total: \$29.4 million

Short Term: \$4.6 million

**Effective Annual Interest Rate  
on Debt: 5.5%**

**Existing Borrowing Capacity  
under Revolver: \$12.5 million**

**Capitalization Ratio: 48%**

**Debt to EBITDA: 2.3x**



## 2. DATA AND ANALYTICS SERVICES

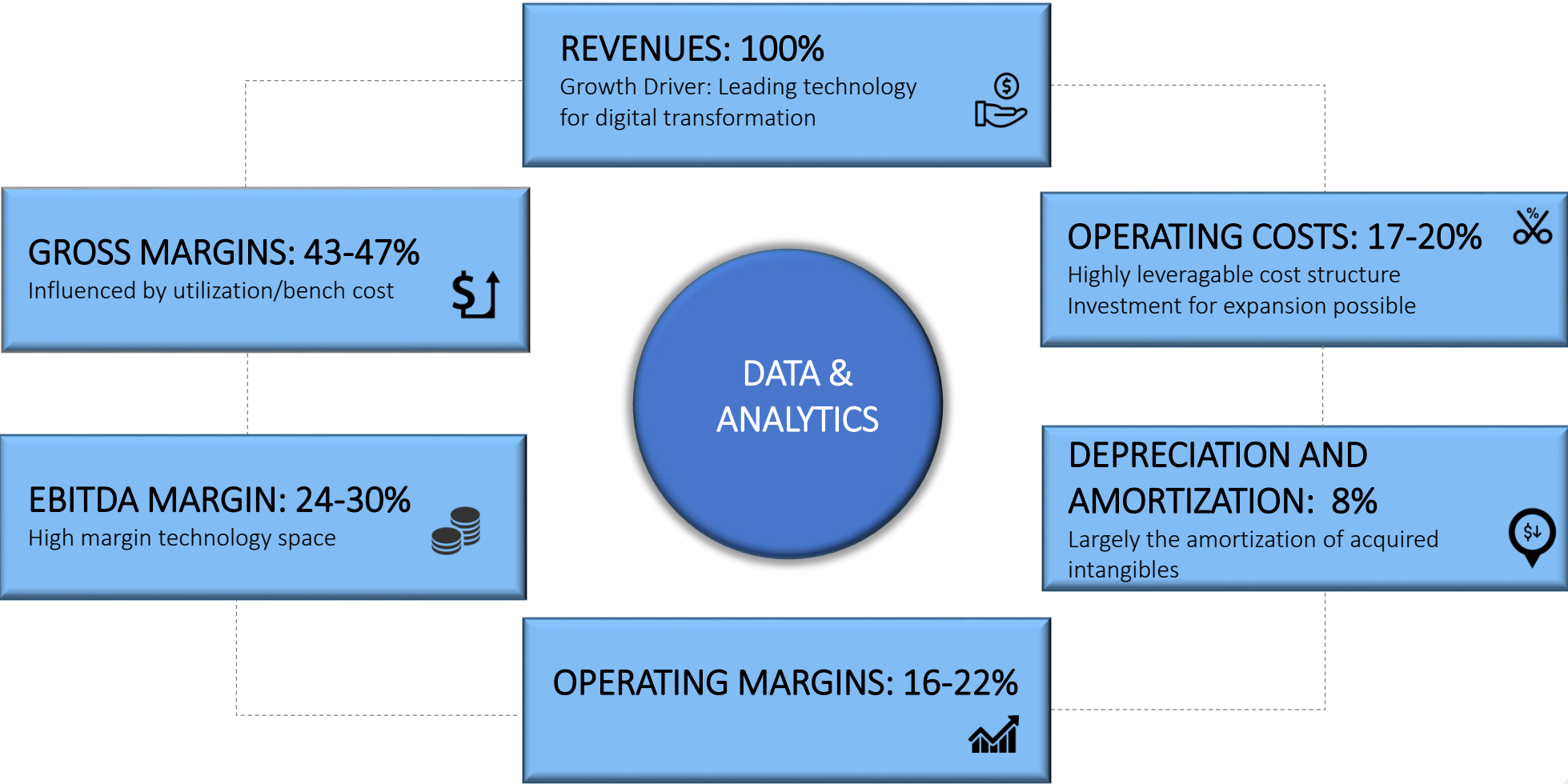
# INDUSTRY HIGHLIGHTS

- ✦ By 2023, Data and Analytics revenue forecasted to be **\$275 billion**, with a CAGR of **12%**
- ✦ By 2027, Big Data revenue forecasted to be **\$103 billion**, with a CAGR of **11%**
- ✦ **83%** of global companies have pursued **Big Data projects** to seize a competitive edge
- ✦ **59%** of companies consider AI to improve analytics in their data
- ✦ India holds **world's largest STEM talent pool**; Can handle **demand of 750,000+ analytics jobs by 2021**

# KEY BUSINESS ATTRIBUTES

- ✦ Enhanced services portfolio covering the full stack of Data and Analytics including **Data Management, Data Engineering and Data Science**
- ✦ Continue to be a recognized leader in Master Data Management
- ✦ Renewed sales focus including relationships with the C-suite, consultative selling, strategic engagements, and focus on annuity-based revenues
- ✦ Locations expanded to include North America, India, ASEAN, and the Middle East

# DATA & ANALYTICS FINANCIAL MODEL



# SECOND QUARTER 2019 FINANCIAL HIGHLIGHTS

- ✦ YOY revenue growth of 9%
- ✦ Sequential quarterly revenue growth of 15%
- ✦ YOY gross margin expansion of 390-basis points to 46.1%
- ✦ Sequential quarterly gross margin expansion of 60-basis points
- ✦ Third consecutive quarter of strengthening activity levels and pipeline expansion
- ✦ Substantial investments have muted earnings in the short-term







### 3. IT STAFFING SERVICES

# INDUSTRY HIGHLIGHTS

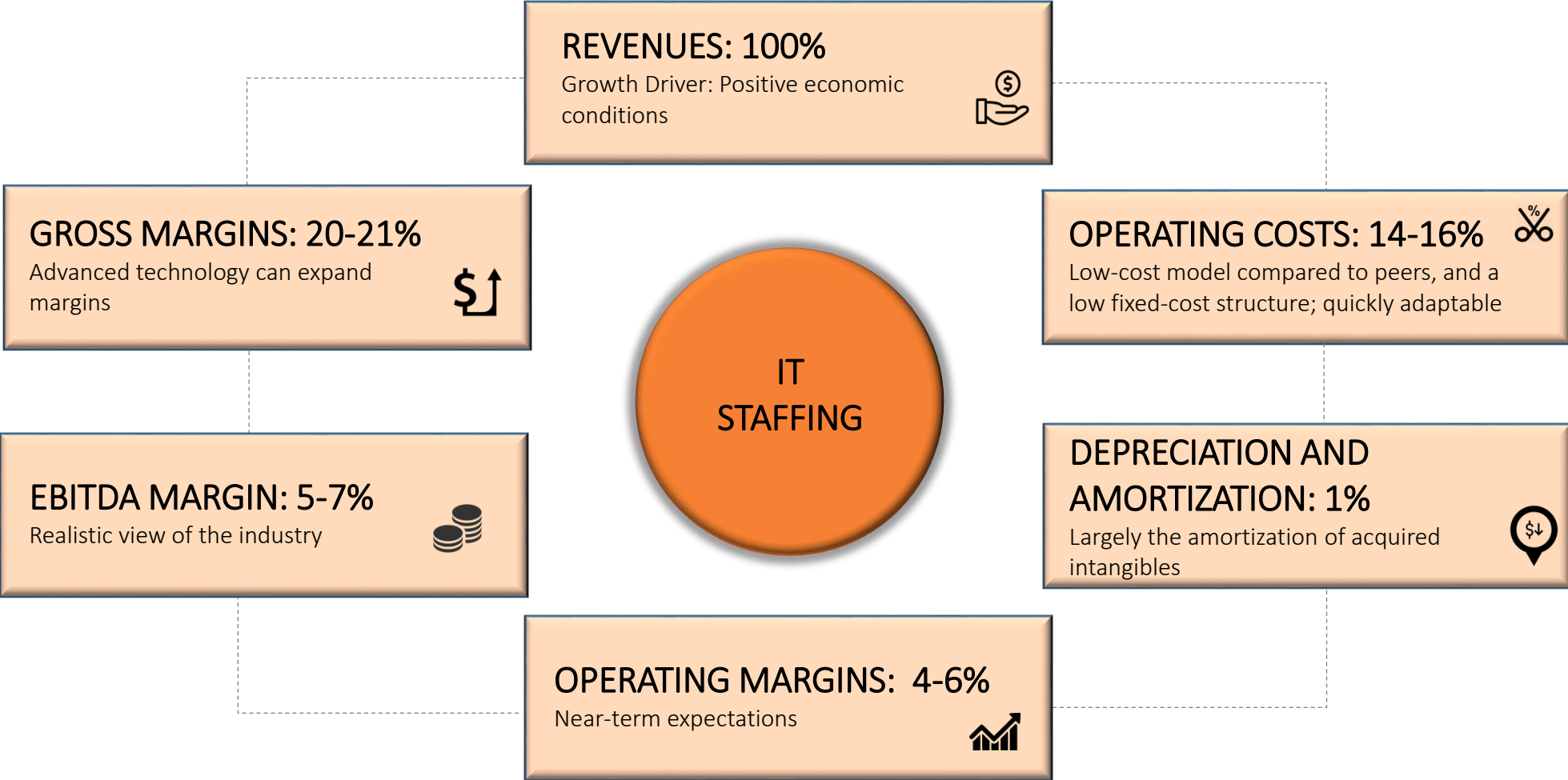
- ✦ 2019 US Industry projections: **\$153.2 billion market size**; revenue growth **at 4%**
- ✦ At **21%**, IT makes up the greatest share of professional staffing revenue in the US
- ✦ Contingent worker usage to increase by **179%** over the next ten years
- ✦ Integration of **AI-based automation** into the enterprise will unlock a world of opportunities, **enabling better hiring decisions**

# KEY BUSINESS ATTRIBUTES



- ✦ Recognized as a quality provider of IT staffing services with over 30 years in the industry
- ✦ Service offerings span across both Digital and Mainstream technologies
- ✦ Special focus on **Digital Staffing** over the last three years has helped drive superior revenue growth
- ✦ Advantaged recruitment model with over 200 recruiters in India; Recruiter to Sales ratio of 5:1
- ✦ Low-cost operating structure compared to many of the industry peers
- ✦ Recognized as a certified minority-owned business

# IT STAFFING FINANCIAL MODEL



# SECOND QUARTER 2019 FINANCIAL HIGHLIGHTS

- ✦ YOY revenue growth of 8% (the industry growth rate is 4%)
- ✦ Sequential quarterly revenue growth of 6%
- ✦ YOY gross margin expansion of 10-basis points to 21.5%
- ✦ Sequential quarterly gross margin expansion of 70-basis points
- ✦ Activity levels continued strong, as we grew Digital Staffing
- ✦ Substantial investments have muted earnings in the short-term





## 4. COMPELLING OVERALL VALUE ATTRIBUTES

# INVESTOR VALUE PROPOSITION

- ✦ Low valuation of MHH at present (Upside?)
- ✦ Our Data & Analytics business delivered record revenues in Q2-2019. Poised for growth and scale. This high-margin segment is improving overall gross margin (%) for MHH
- ✦ Our IT Staffing business consistently outperforming industry growth rate (of 3-4%)
  - H1 2019 = 8%; 2018 = 11%; 2017 = 5%; 2016 = 7%; 2015 = 9%;
- ✦ Data & Analytics is a high-growth industry in which customer spend is non-discretionary
- ✦ IT staffing industry is growing steadily with increasing demand for Digital technologies
- ✦ MHH today is wired for scale. We have already made significant investments to support expected growth

# THANK YOU

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