

16-May-2025

Mastech Digital, Inc. (MHH)

Q1 2025 Earnings Call

CORPORATE PARTICIPANTS

Jennifer Ford Lacey

Head-Legal and Admin & General Counsel, Mastech Digital, Inc.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

Nirav Patel

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

OTHER PARTICIPANTS

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Marc Riddick

Analyst, Sidoti & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Mastech Digital Incorporation First Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] 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 Ford Lacey

Head-Legal and Admin & General Counsel, Mastech Digital, Inc.

Thank you, operator. And welcome to Mastech Digital's first quarter 2025 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 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 those forward-looking statements, including those listed in the company's 2024 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 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 Nirav for his comments.

Nirav Patel

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

Thanks, Jenna, and good morning, everyone. I'm very pleased with the progress made over my first 100 days and I'm energized by the meaningful conversations I continue to have throughout the business with our customers, employees and stakeholders. The insights I have gathered have only reinforced what I have said last quarter. I believe we are standing at an inflection point and how we choose to act in the near term will shape our tragically for years to come.

Let me start with a summary of our Q1 performance before handing it over to Kannan to share more details. We've kicked off 2025 on a strong note, delivering solid results in the first quarter. I'm pleased to report that we achieved year-over-year revenue growth across both of our key operating segments. Notably, our Data and Analytics segment delivered double digit growth compared to the same period last year. I believe this performance underscores the broad demand for AI-driven digital modernizations and highlights our continued relevance to enterprise customers, validating our strategic focus on data-driven solutions. A key example of this focus is the recent announcement of our expanded partnership with Informatica, a leader in enterprise data management services, which we believe will enable us to accelerate AI-lead transformation initiatives for clients globally. This collaboration not only enhances our data modernization capability, but also reinforces our commitment to delivering differentiated, high impact solutions in an AI first world. It deepens our industry focus and establishes a joint AI and data innovation platform that we expect will accelerate outcomes for our clients.

Our IT staffing segment has also delivered resilience and growth, supported by strategic client engagements and disciplined execution, despite a decline in overall business activity levels. These results reflect our continued commitment to our themes of leading with a sense of urgency to meet client needs, building a truly differentiated portfolio and executing with financial discipline while laying a strong foundation for our ongoing transformation journey. Central to this journey are the transformational initiatives we have set in motion. I'm pleased to share that these efforts are beginning to show early signs of progress in our quarterly performance. We remain on track with our commitment of unveiling a go-forward strategy later this year, one that we believe will position Mastech Digital as a leading partner to some of the largest global 2,000 enterprise customers that are transitioning into AI's first organization.

Our focus remains on synergizing our data modernization and IT staffing solutions to offer a cohesive, high value services that meet the evolving needs of our clients. We are investing in talent, technology and processes to enhance our capabilities and drive sustainable growth. While transformation is a complex endeavor, we believe our disciplined approach and clear vision will continue moving up in the right direction and build on our strong foundation to unlock new opportunities. At the same time, we are mindful of the prevailing macroeconomic market conditions, which continues to shape how and when our clients choose to accelerate their technology spending. We have observed a cautious approach across the board, with decision making becoming more deliberate. As noted by my industry peers, this period is characterized by considerable turbulence. Companies are reassessing strategies and in some cases pausing major decisions in light of ongoing volatility, a trend we are seeing reflected in our customer conversations as well. Despite these headwinds, we believe the long-term outlook for AI-driven

solutions remain promising. Organizations continue to recognize the transformative potential of AI and are investing in technologies that drive efficiency and innovation at scale.

At Mastech Digital, we remain committed to supporting our clients through this shift to an AI-first world. That said, we recognize that the near-term volatility may continue to bring uncertainty. While we are optimistic about the future, we are approaching the months ahead with measured caution. We plan to stay focused on delivering for our clients and executing steadily against our plans.

I will now hand it over to our Chief Financial and Operations Officer, Kannan Sugantharaman.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

Thanks, Nirav and good morning, everyone. Today marks a little over a month since I joined Mastech Digital, and it's a privilege to introduce myself as the company's Chief Financial and Operations Officer.

Let me start with my background. I bring in over 25 years of experience in finance and operations across global technology and services organizations. Prior to joining Mastech Digital, I served as the Chief Financial Officer of Omega Healthcare, where I helped drive enterprise-wide transformation, strengthened execution discipline and delivered strong financial outcomes. Earlier in my career, I held senior leadership roles in finance, operations and transformation at Cognizant and Sutherland. It has been a fast pace and energizing few first weeks since I joined Mastech Digital. A key part of my initial focus has been to ensure a smooth transition from my predecessor, Jack Cronin. I'm thankful to Jack for the solid foundation he's helped built, one that we can now leverage as we gear up for the next phase of growth.

Partnering closely with Nirav, I'm committed to driving agility, discipline and scale across our financial and operation functions, ensuring we execute with precision today while laying the groundwork for long term value creation. We are aligning our teams, our systems, our processes to not only keep pace with change, but to position ourselves as a more responsive and resilient organization in an AI-first world. I firmly believe that operational excellence, financial discipline and cross-functional collaboration will be the key enablers in unlocking our future. It's a privilege to share the journey alongside a deeply committed leadership team with a shared ambition to scale and create impact.

Now onto the first quarter financial results. Our first quarter 2025 financial results reflected a cautionary macroeconomic environment. We saw client spending patterns impacted by the level of economic uncertainty that we are seeing today. Despite these headwinds, our sharp focus on key client relationships resulted in an year-on-year revenue growth in both our business segments and an order bookings performance in our Data and Analytics segment, which was in line with our expectations during the first quarter of 2025. Consolidated revenues during the first quarter of 2025 totaled to \$48.3 million a year-over-year increase of 3.2% compared to corresponding quarter of 2024. Our Data Analytics Services segment reported revenues of \$9 million in Q1 of 2025, which were 11.1 percentage higher than Q1 2024 revenues. Additionally, first quarter 2025 order bookings totaled \$11.7 million, which exceeded last year's Q1 performance of \$9.6 million. First quarter 2025 revenues in our IT Staffing Services segment totaled \$39.4 million, 1.6 percentage higher revenues than what was achieved during the first quarter of 2024. Despite some growth in Q1 2025, demand in our IT Staffing segment was somewhat muted during the quarter as our billable consultant base declined by 15 consultants.

Consolidated gross profit dollars increased by 6.3% in Q1 2025, compared to the corresponding quarter of 2024. Consolidated gross margins improved 80 basis points over the first quarter of 2024, largely driven by increases in our IT Staffing business. GAAP net income for the first quarter of 2025 totaled a net loss of \$1.4 million, \$0.12 per

diluted share, compared to a net loss of \$0.2 million or \$0.01 per diluted share in the first quarter of 2024. Non-GAAP net income for Q1 2025 was \$0.8 million or \$0.06 per diluted share, compared to \$0.8 million or \$0.06 diluted share in the 2024 first quarter as well. SG&A expense items, not included in non-GAAP financial measures, net of tax benefits are detailed in our first quarter 2025 earnings release for all periods presented, which are available in our website.

During the first quarter of 2025, our liquidity and overall financial position remained solid. On March 31, 2025, we had \$24.7 million cash balance on hand, no bank debt outstanding and cash availability of \$23.7 million under our revolving credit facility. Our days sales outstanding DSO measurement on March 31, 2025, totaled 56 days, which is well within our targeted range and is in line with our DSO measurement a year ago.

Operator, we will now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Lisa Thompson with Zacks Investment Research. Please proceed.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Good morning. It's great talking to you too. First, I have a few questions about first data and analytics. It looks like it dropped off sequentially quite a bit and the margin was quite a bit lower compared to last year throughout the quarters. Can you tell us a little bit about what's going on there?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Sure. In terms of gross margins in the D&A, it has been impacted by lower utilization and a one-time reserve adjustment on a [indiscernible] (00:23:38) project during Q1 2025. That is a one timer. And the reduction has been roughly about two percentage points. And we do see it as a one timer.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Okay. That's good to hear. And can you go a little bit into your relationship with Informatica? You said that you had one before. What was it before compared to what it is now and in practice, how does this work? Do you have salesmen that are working together now?

Nirav Patel

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

A

Yeah. Hi, Lisa. Nirav here. I'll take that question. So, we've always had a longstanding relationship with Informatica where we have continued to work with them as a strategic partner for us as we [ph] talked (00:24:23) about it in the past. I think what the expanded partnership with Informatica now really takes our relationship at an even more strategic level for both in terms of growth. And I think what we can do jointly together with our customers. We are not just embedding the tools going forward. I think what we are going to think about it is co-develop industry specific accelerators, and possibly also launch an outcomes lab where many of our clients could actually come together with us in building up a joint solution as they think about, modernizing their states to an AI-

first world. So I think we see this really translating into both higher quality deal flows and stronger differentiation in our competitive pursuits going forward. So I think we feel very, very great about the fact that we were able to further strengthen on our partnership that we already had prior to this announcement.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

So are you – are the projects going to have people from each company?

Nirav Patel

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

A

Yeah, the way I think, Lisa, just to comment on it, I think we are still working through the details of the specifics of the partnerships. But the way we have visualized this all partnership is the fact that we will commit, resources from both sides. But more importantly, we will actually jointly pursue the solution building with our clients. So think about that as we are going forward in the market and expanding and making and realizing their whole AI-first dreams come real, we now have together with us Informatica as a partnership that we think we can build jointly solutions on go forward. Look, both our organizations already have a tremendous amount of differentiation and depth in the market for what we do for our clients. I think bringing us together just makes it even more stronger as we approach the clients for more an Integrated Unified Solutions that they look forward for in the future.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Great. Thank you for that. So my last question is, did you get a chance to do any stock buybacks this quarter?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Yeah. So as you know, in February 19, 2025, the board did authorize an extension of the share repurchase program by an additional year to February 8, 2026. We still have 423,000 shares that are available for repurchase. Nothing had been done in the last quarter, but you would notice that in the initial period when it was launched, we experienced a number of extended blackout periods which where – we weren't able to repurchase our shares and these were mostly corporate-related transactions and events. And now that should be behind us. So I don't think that you're going to see such blackout periods in the future, and so we will get active on the buyback.

Lisa R. Thompson

Analyst, Zacks Investment Research, Inc.

Q

Okay, great. Thank you for clarifying that. That's all my questions. Thank you.

Operator: [Operator Instructions] Our next question is from Marc Riddick with Sidoti & Company. Please proceed.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Hey, good morning.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Good morning.

Nirav Patel

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

A

Hey, Marc.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

So I was wondering – actually, first, could we start with where do we finish on consultant count for the quarter?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

Yeah. So our billable head count in staffing landed up at 991.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. Okay, great. And then I was wondering if I you could talk a little bit about as far as maybe what you saw through the quarter with client demand and feedback trends. And maybe could talk a little bit about the pacing through the quarter by month, maybe we can sort of get a sense of what impact headlines had on client demand throughout the quarter?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

We do not see lumpiness in that sense between the months, Marc. But the kind of projects we are winning, we continue to remain very active in engaging with our clients and we are seeing a growth in demand in the AI-driven digital modernization, which kind of highlights our continued relevance for the enterprise customers. And with the Informatica conversation that we have been having, we only believe that it would be a catalyst and enable us to accelerate our AI-led IT transformation in that sense. But in terms of just the month on month, we haven't seen any lumpiness.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay, great. And can you speak to whether or not you've seen much in the way of any particular customer industry verticals that have been more active than others? Any particular standouts that we should be aware of?

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

A

It's been broad based, Marc, but we do see [indiscernible] (00:29:38) traction in our healthcare life sciences practice. But other than that, it has been largely broad based.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Okay. And then – so I think so it was – it's been a few months now and turbulent months as far as the macro, I suppose. But maybe you could talk a little bit about maybe some of your initial thoughts in leading the company and if there are any areas that either were – have been surprising in a positive or negative light or maybe just initial views that would provide insight as to sort of your views as to the company and where it can go?

Nirav Patel

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

A

Most definitely, Marc. This is Nirav here. So, look, we remain, I would say from a market condition standpoint, we remain very cautiously optimistic, right. We think, I mean, there are no questions that the macro environment continues to present uncertainties, right. But that said, the long-term demand drivers for AI-driven transformations and data modernization remains very strong. Clients might be I would call reprioritizing spend, but they're not necessarily pausing their transformation agendas altogether. So we are continuing to stay very, very close to the evolving needs and focusing on sort of what I call delivering high impact ROI aligned solutions and increasingly so as we look in the near-term, I think, each of these initiatives will need to be back with a very strong set of ROI that the CFOs of these customer organizations are very carefully assessing and approving. So we think we are in a great place in terms of where our offerings have that relevancy to really be kind of first in line to grab both sets of offerings. If you think about it, we operate in our talent business, which usually tends to pick up pretty well as soon as the spends open up. And equally important on what I call long term transformation initiatives, our AI, data and analytics capabilities really fit beautifully well as well. So we think we are going with what I call a cautious optimism as we approach the next few months.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Great. And then last one for me. It seems as though that we've had a pickup in bill rate. I think both – it seems though it would be both sequentially and year-over-year. But maybe you could talk a little bit about that and what you're seeing there?

Nirav Patel

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

A

Sure. Yes. Our average bill rate is right now trending between 84.5% and 85.5% which is up from of 83% to 83.5% last quarter and up actually from 79% last year at the same time. The increase in bill rate has primarily been on account of the higher rates on new assignments and pretty much reflective of the type of skills that we have employed in the recent past marked by that uptick that we are seeing.

Marc Riddick

Analyst, Sidoti & Co. LLC

Q

Excellent. Thank you very much.

Operator: With no further questions in the queue, I would like to hand the conference back over to management for closing remarks.

Kannan Sugantharaman

Chief Financial & Operations Officer, Mastech Digital, Inc.

It is – for us, this has been an exciting time with me coming in about 30 days back and Nirav pitching in for the – I would say, reaching his 100 days. It's been an exciting journey, and we are so looking forward to making an impression when it comes to the markets and looking at our strategies going forward. So, thanks for that. And Nirav, over to you.

Nirav Patel

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

Yeah. Thank you. Thank you, guys and I appreciate your support through the process, and we look forward to seeing you all in the next quarter.

Operator: Thank you. This will conclude today's conference. You may disconnect your lines at this time. And thank you for your participation.

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