Mastech Digital, Inc.
Third Quarter 2020 Earnings Call
October 28, 2020

Operator
Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Mastech Digital Incorporated Third Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. Should you require operator assistance during the conference, please press star zero to signal an operator. Please note, this conference is being recorded. It is now my pleasure to introduce your host, Jennifer Ford Lacey, Manager of Legal Affairs for Mastech Digital Incorporated. Thank you, Ms. Ford Lacey, you may begin.

Jennifer Ford Lacey
Thank you, Operator, and welcome to Mastech Digital's Third Quarter 2020 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's Chief Executive Officer, Jack Cronin, our Chief Financial Officer, and Paul Burton, our Chief Executive of our Data and Analytics business segment.

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 our business, cash flows, costs, and the markets in which we operate. Without limiting the foregoing, the words believe, 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 2019 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 our 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 third quarter 2020 results.

Jack Cronin
Thanks, Jen, and good morning, everyone.

The COVID-19 pandemic and the resulting economic downturn continued to impact our revenue performance in third quarter 2020, albeit to a lesser extent when compared to the previous two quarters. Since economic uncertainty will continue in Q4 and probably into 2021, our financial performance will likely be impacted in some fashion during these challenging times. During this period, we'll continue to manage our businesses for the long-term, but will be mindful of the short-term decisions that are necessary to protect our bottom line results.

With that backdrop, revenues for the third quarter of 2020 totaled $47.4 million, and represented a 4% decline compared to $49.5 million in the third quarter of 2019. Sequentially, revenues were essentially flat compared to the previous quarter, which we view as a positive in today's environment.

Our Data and Analytics Services segment attributed $7.2 million of revenue during Q3 2020, which exceeded last year's Q3 revenue results by more than 1%, and more importantly, increased our previous quarter's revenue performance by 6%. Activity levels in this segment held up relatively well despite numerous projects being pushed to Q4, and some likely into the first half of 2021. Notwithstanding these near-term revenue challenges, our pipeline of opportunity continues to remain strong as we wait for clients to release new assignments.

Year-over-year revenue from our IT Staffing Services segment was down only 5% in Q3 2020, as we saw traction for our new remote staffing offering, MAS-REMOTE, and less early assignment ends during the quarter. Despite low activity levels, we were successful in achieving a positive net growth in our global consultant base during Q3, after significant global consultant headcount declined in the previous two quarters.

Gross profits for the third quarter of 2020 increased to $13.1 million compared to $12.3 million in the same period last year, despite 4% lower revenues in the 2020 quarter.

Our overall gross margins for the third quarter of 2020 were 27.6% of revenue compared to 24.9% in the third quarter of 2019. This performance tops our previous record achieved last quarter, and it's been one of the notable accomplishments that both of our business segments have realized despite the COVID-19 pandemic.

Our Data and Analytics Services segment had gross margins of 55.9% in Q3 2020, significant increase compared to 45.7% from a year earlier. High-value assignment wins, better consultant utilization, and a much lower level of pass-through travel revenues favorably impacted our margin.

Our IT Staffing Services segment had third quarter 2020 gross margins of 22.6%, an increase of 120 basis points from the 2019 third quarter, and was our best-ever gross margin performance. Higher margins from new assignments and improved utilization continued to propel our gross margin results in this segment.

SG&A expenses were $8.9 million in the third quarter of 2020 compared to $9.3 million in the third quarter of 2019, and were in-line with Q2 2020 SG&A spend. The $400,000 reduction in SG&A expenses in Q3 2020 compared to the previous quarter reflected net investments of $800,000 in our Data and Analytics Services segment, principally in the areas of global sales and delivery, and a $1.2 million reduction in our IT Staffing Services segment, largely reflecting proactive austerity measures instituted in the first half of the year. Our dissimilar approach with respect to SG&A at each of our business segments reflects the different risk-reward profiles related to austerity actions and long-term growth opportunities.

GAAP net income for the third quarter of 2020 was $3.0 million, or $.25 cents per diluted share, compared to $1.9 million dollars are $.17 cents per diluted share in the third quarter of 2019.

Non-GAAP net income for Q3 2020 was $3.8 million, or $.32 cents per diluted share, compared to $2.6 million or $.23 cents per diluted share in the corresponding quarter of 2019.

Third quarter SG&A expense items not included in Non-GAAP financial measures net of tax benefits were the amortization of acquired intangible assets and stock-based compensation in both periods, and acquisition transaction costs in the 2019 quarter, and are detailed in our Third Quarter Earnings Release, which is available on our website.

Addressing our financial position at September 30th, 2020, we had $4.6 million of outstanding bank debt, net of cash balances on hand, and our borrowing availability was approximately $22.5 million under our existing revolving credit line. During the quarter, we've reduced debt by $6.1 million, further improving our leverage and capitalization ratios. Also noteworthy, our accounts receivable balances were of high credit quality, and our day's sales outstanding measurement was a solid 60-days at September 30th.

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

Vivek Gupta
Good morning, everyone. Thank you, Jack, for the detailed financial review of our operating results for the third quarter of 2020.

After I make my comments on the quarter, I will turn the call over to Paul, for his comments and views on our recent acquisition of AmberLeaf Partners. But first, let me share my comments on the quarter.

At the outset, I'd like to say that I'm very pleased with the performance of both of our business segments of Q3, against the backdrop of uncertain economic conditions globally. During the quarter, we continued to operate with the mindset of navigating today's challenges from a position of "relative strength", a term I've used before in our previous two earnings calls. Our third quarter 2020 financial results clearly show the benefit of this approach.

To summarize, revenue in both segments improved in terms of sequential performance. Our Data and Analytics Segment achieved 6% revenue growth compared to our Q2 results, and our IT Staffing Segment reported nearly flat sequential revenues after two quarters of decline. As Jack stated, and I want to reiterate, our billing consultant base expanded in the third quarter after declines in Q1 and Q2, which I view as one of the most positive discoveries from our third quarter performance.

Gross margins continue to perform incredibly well, setting a new record of 27.6% during the quarter, as both business segments expanded gross margins yet again. Despite year-over-year revenue declines of 4% in Q3 2020, our gross profit dollars were 6% higher than in the corresponding quarter of 2019.

SG&A reductions also contributed to our bottom line results in Q3, and are reflective of our focused and decisive austerity measures, that not only considered the short-term impact on our financial results, but also considered the long-term consequences of such actions.

While we reduced expenses in many areas, we also invested in other areas during this crisis to achieve competitive advantages. Case and point, we expanded our Data and Analytics segments globally in 2020, an initiative we pursued for growth despite the pandemic. And in our IT Staffing segment, we launched our new remote staffing service offering, branded as MAS-REMOTE, in the second quarter of 2020. The traction in the marketplace for this new service offering has helped us reverse our sequential decline in revenues, and also contributed to our consultant headcount growth in Q3.

Net income was 54% higher on a GAAP basis, and 51% higher on a Non-GAAP basis compared to third quarter of 2019. Gross margin expansion and effective management of SG&A expenses were major contributors to this net income improvement.

Finally, cash flows have been strong during this crisis, and our cash conversion process has been stellar. Reducing debt and maintaining our strong liquidity position has been a top priority for us since the outset of the pandemic. Given our progress in this area, we were able to capitalize on a very exciting acquisition opportunity, with the purchase of AmberLeaf Partners in early

October. Paul is eager to share his views and comments with you on AmberLeaf, so without stealing any of his thunder, I will now turn the call over to Paul.

Paul Burton
Good morning. It's a pleasure to speak with you toady about the Q3 performance of Mastech InfoTrellis, our Data and Analytics business, and AmberLeaf, the latest addition to our family.

We are pleased with Mastech Infotrellis' performance in Q3, especially given market conditions. We continue to see stability and some growth in our core business in North America. Clients continue to renew and extend our contracts, as well as award us new business. North America, however, is not representative of the world at large. In EMEA, we are seeing significant delays in contract awards for deals I would characterize as well qualified. I would say much the same about APAC. We are not losing deals in these two geographies, but rather deal cycles are simply being extended beyond what I would recognize as a normal deal cycle in a pre-COVID world. Given the strength of our deal pipelines in these two geographies, I expect improvement as businesses adapt their operations to the current macro environment, and additional improvement when the impact of COVID mitigates.

In Q3, we completed due diligence on AmberLeaf Partners, with an acquisition closing on October 1st.

AmberLeaf is a Data and Analytics business that focuses on providing consulting, technology implementation, and managed services for the sales, marketing, and customer service functions. Importantly, these functions are sold and marketed to buying centers that are different than the historical information technology buying centers that Mastech Infotrellis has historically targeted.

AmberLeaf extends our reach more broadly and deeply across our clients' business, opening new buying centers and providing new opportunity for data engineering and analytics services. This expansion is in line with our vision of providing our clients with a comprehensive view of their operating and competitive environments, unrestricted by functional boundaries or data silos.

We believe that we are approaching this area with the methodology and a theoretical foundation that is distinguishable from our peers as we strive to become the leader in continuous enterprise learning.

AmberLeaf also positions us to move up the value chain to provide industry-leading analytics services around prominent issue areas that confound our clients, like entity resolution and 360-degree view of the client.

We've had significant clients approach us for help in these areas, and this reflects the fundamental transition we are making from being an implementer of technology to an architect of capabilities that use novel technologies, and, frankly, our thought leadership to deliver client solutions. I believe the-the future of Mastech Infotrellis is very bright. COVID will pass, and with the capabilities we have acquired and built organically, we are very well-positioned for the future.

Thank you for your attention, and I'll now hand the call back to Vivek.

Vivek Gupta
Thanks, Paul. I will now open the session for your questions.

Operator
Thank you. At this time, we will be conducting a question and answer season. If you would like to ask a question, please press star one on your telephone keypad. To remove your question from the queue, please press star two. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, star one to ask your question. Our first question is from Josh Vogel with Sidoti.

Josh Vogel
Thank you. Good morning guys, thanks for taking my questions. I think my first one would be for Vivek. Maybe if you could talk a little bit about what was behind the strong margin performance in the IT Staffing business? You've talked about MAS-REMOTE, but I was just wondering, achieving that all-time high gross margin, was that due to leveraging MAS-REMOTE, or were there other things at play like better bill pay spreads, and is this sustainable going forward?

Vivek Gupta
Okay, Josh, it's a pleasure to talk to you. MAS-REMOTE has definitely played an important role in the improvement of the gross margins, but that's not the only one. Staying with MAS-REMOTE, I mean, the amount of traction that we have seen in the last four months now have been very heartening and encouraging. And, we have found that the result of that pleasing people, finding the right talent but in other locations, we have been able to get our customers to give us better pricing, and in the process we got better gross margins. But gross margins have also been one account of the austerity measures that we took, and earlier on in the first quarter itself.

When the pandemic hit us, we took some pretty decisive and quick actions, and those actions have continued right through the second and third quarter as well, so they have also helped us. There has been pricing pressure and we have been able to manage that fairly well. It's really a mix of all that plus something that we have been doing for the last few quarters now, and maybe couple of years, which is our emphasis on digital staffing, or staffing of digital technology resources, and that has also been slowly helping us over a period of time.

So it's really a mix of a bunch of things that we had put into place, which have sort of culminated in where we have reached. Can we sustain this going forward? It's very hard to make that prediction, because we're still not out of the pandemic yet and it's only so much you can do in terms of austerity measures. And it's only so much you can push the rates up. So, we'll have to wait and see how that pans out over the next few quarters. Let me ask Jack, if there's anything I've missed in this answer.

Jack Cronin
No, Vivek, I think you said it well.

Josh Vogel
I appreciate the insights there. And, not sure if you disclose this, but when we look at the revenue level last quarter, I was just curious how much was done through MAS-REMOTE?

Vivek Gupta
While I don't have the exact revenue number, I can give you an indication of the number of starts that we did. More than half our starts--and by starts I mean on billing for staffing services. More than half have been MAS-REMOTE. Now, does that mean that they are all entirely new and they weren’t there if MAS-REMOTE wasn't there? No, a lot of the on-premise kind of staffing has also moved toward MAS-REMOTE, because it's also the need of the hour.

Right now, everybody's working from home. It is a very well-timed offering. And, it was embraced very well by the organization, our own internal sales marketing delivery. The customers have been pretty warm to the offering. So, it has--I mean, it gives you an indication of how the change is happening in terms of starts. If you want exact revenue, that calculation, I'm sure it can be done by Jack and can be shared later.

Josh Vogel
Sounds good, thank you. And maybe a couple for Paul here. You talked about some project delays in EMEA and APAC. And, I'm just curious why you think you're seeing--you're not seeing that as much in North America, maybe just give a little bit more of an overview of why those regions are facing some pressure versus--or in the dialogue versus what you're seeing here?

Paul Burton
Specifically in Singapore, I can tell you that the entire country is locked down. They're not allowing people into the country, there's no interregional travel. It's locked down for business essential services only. As Americans, I don't believe we can even fly to Singapore, much the rest of Southeast Asia, and north Asia, actually, is the same, Japan, for example. So, they are just locked down much more tightly than we are in APAC. As a result, there's no business travel, it's harder to build relationships and open up new accounts, and to close big deals.

Also, because of the lockdown and the corresponding impact on business spending, there is a reduction in business spending in that region as well. Similarly, in Europe, I believe that London, for example, just went into a tier three lockdown. And different parts of Europe are locked down more tightly as there's apparently a rebound in COVID.

So, different parts of the world are handling the COVID pandemic much differently than the U.S. is, and I think it's reflecting in deal cycles and, you know, business transactions. I don't think it's any more complicated than that. And as I said in my remarks, as COVID mitigates, which it will, at some point we expect all of this to turn around, because we have a very well qualified pipeline in both Asia and Europe.

Josh Vogel
I appreciate the insight there, and maybe shifting to AmberLeaf, seemed like a good deal for you. I was wondering if you could share how their business has held up through the pandemic. I know I think they--looking at the 8-K, they did about $11 million in revenue last year, and I'm just curious how that looked through the first three quarters of this year.

Paul Burton
They're slightly ahead, for the first three quarters; fourth quarter's an open book right now. But we are not anticipating any deterioration in AmberLeaf revenues 2020 versus 2019.

Josh Vogel
Okay, great. And, you mentioned that clients come to you asking for help with--with certain projects or assignments. And as we think about the DNA platform, are there any other capabilities or services that you think you would like to add, whether it's with--internally or inorganic, and can you just talk to that, and maybe kind of parlay that into acquisition pipeline?

Paul Burton
Well, the name of the game in Data and Analytics is to take all of the client's information and be able to aggregate it into one repository and then leverage that data for different purposes. Companies and businesses have been trying to do this for a year, but they are, in many cases, hamstrung by their architectures. In other words, they're hamstrung by the fact that all of their data is siloed. And so, the capabilities that make sense, which we are involved with, and in some cases developing those capabilities organically, is this idea of being able to resolve different data sources and bring them together into a coherent dataset, a cross-functional domain. So integrating marketing data with customer data, with operational data, with logistics data with open source data.

And when you start bringing all these different sources of data together into a coherent dataset to inform you about a particular entity, a person, a product, a vendor, a place it becomes very powerful. And, I can tell you that many of our larger customers are all on this journey of trying to pull this off. So, those are the types of discussions we're involved in. We have specific capabilities that we've put together and pursued in those areas and I think there's a tremendous future there.

Josh Vogel
Alright. Great, thank you. And just one last one for Jack. I noticed the increase in the payroll tax liability in the quarter. I was wondering if you anticipate any more in Q4. And maybe just talk to any other potential government stimulus plans that you plan to participate or expect in Q4?

Jack Cronin
No additional stimulus plans. But with respect to the payroll tax deferment, we'll probably enjoy another million or so of deferment in Q4. So that liability will increase closer to four and a half, five million dollars by the time it closes out at the end of December.

Josh Vogel
Alright, great. Well, always good talking to you guys, and I appreciate you taking my questions.

Jack Cronin
Thank you.

Operator
Our next question is from Lisa Thompson with Zack's Investment Research.

Lisa Thompson
Good morning.

Vivek Gupta
Hi, Lisa.

Paul Burton
Good morning.

Lisa Thompson
So, another incredible quarter. And I'm in awe of how your spending still is down, and even down sequentially. You said that it was down--I think you said down $1.1 million, and then you spent $800,000 on Data and Analytics business. And that was the adding on AmberLeaf, where do you feel that expenses are going to go next quarter? Just to understand what the base is.

Vivek Gupta
Jack, would you like to take that question?

Jack Cronin
Sure, their SG&A spend is likely to be in the $500,000 to $600,000 range in a quarter. So that's sort of the level that we're looking at.

Lisa Thompson
Okay. And, are they the same gross margins as you are in Data and Analytics?

Jack Cronin
The margins right now are lower than our core business margins. They're around 35% right now. Paul has visions to move those margins up rapidly, but it's definitely going to have an impact on our DNA segment at least in the short-term from a margin perspective.

Lisa Thompson
Okay. And just to understand this austerity thing, every time I hear you say that, I'm afraid that you've got all this pent up spending that's going to get released someday, and that expenses will pop back up to make up for what you didn't spend. Is that something you see, or are you now down at a level where a lot of this is going to be permanent?

Jack Cronin
I think eventually, we're going to have to start to spend in both of our segments. I think in DNA, Paul has been reluctant to make some expenses or expenditures that he'd like to make. And eventually, as market conditions improve, he's going to make those expenditures. In staffing, we have cut costs pretty dramatically, helped our bottom line results, but eventually as things pick up, and COVID goes away, we are going to start spending more in SG&A. So, I don't want to say it's just going to pop up to--back to normal levels, but there's going to be a trend going forward that we're going to be spending.

Lisa Thompson
Okay, and you haven't started to release yet in Q4, right?

Jack Cronin
No, we really haven't started to release. Depending on activity levels improving and/or headcount improving some of the expenses that just occur because they're volume-related type expenses hopefully will increase in Q4 because that would be a good thing, because our activity levels would be moving upward. But, I don't see a dramatic increase in Q4 SG&A.

Lisa Thompson
Okay. And do you think business is picking up in North America enough to start growing revenue sequentially even without a release?

Jack Cronin
Paul, you want to take that from a DNA perspective?

Paul Burton
So, I'm very sanguine about the future of Data and Analytics, particularly in North America. As I mentioned in my comments a minute ago, North America is not seeing the same slowdown that Europe and APAC are seeing because just quite frankly the pandemic's being handled differently here by our political leaders. So, North America is strong right now.

As I mentioned in my remarks, we're seeing extended contracts, new business renewals, albeit at a slightly slower pace, but it continues to come to us. So I'm very confident about North America, and I would expect North America to continue to improve, um, going forward.

Lisa Thompson
Okay. And the rest of the business?

Vivek Gupta
On the Staffing side, the activity levels, Lisa are picking up. They aren't quite at the same level as they were before the pandemic, but they are at least encouraging signs in the last few weeks that the activity levels are much better than they were--what we saw in the previous six months. But, again, we are not out of the pandemic. We are still in it; we don't know how things will spike, and what's going to be happening down the line. So, it's hard to predict whether, you know, this kind of an uptick will sustain itself but we are seeing encouraging signs.

Lisa Thompson
Okay, that sounds good. I think that's all my questions. Thank you.

Vivek Gupta
Thank you. Thanks, Lisa.

Operator
Our next question is from Brian Kinstlinger with Alliance Global Partners.

Brian Kinstlinger
Hi, good morning. Thanks for taking my questions.

Vivek Gupta
Hello.

Brian Kinstlinger
Hi, Vivek. Over the last trailing six months, your IT Staffing business has held up relatively well compared to the pressure in the industry that others are experiencing. And it's only down modestly, especially when you take into account the highlighted pricing pressure. We've seen other staffing firms report more significant year-over-year revenue drops, so, do you think this is a result of your customer base? Is it something you're doing differently than your peers, or maybe you could provide some factors of how you've been able to hold that revenue line pretty level while that pricing pressure and, you know, reduced industry demand is going on.

Vivek Gupta
Actually, this is again--goes back, Brian, to the earlier question that I think Josh had asked but, the points are probably similar. There have been a bunch of things, it's really not one single

item that has helped us but we've been able to kind of manage the pricing pressure quite well, because of, again, you said that as well, that type of customer base that we have.

And, it's really the quality of skills that we are working with. And, as I said a little earlier, we do focus a lot on digital technologies, and digital technologies command a different kind of pricing, and a different kind of margins, I mean, for that matter. So our teams stayed focused on those, and then this MAS-REMOTE actually helped us tremendously in sort of backfilling what would have been otherwise lost as on-premise kind of requirements. So, it's actually a bunch of different actions that we took, and it's really from that - the beginning in March when the pandemic hit us, we started looking at both sides of it. One is the austerity measures of cutting costs, and pushing out or postponing our discretionary spend. But at the same time, we started looking at how can we now prop up our top line and gross margin as much as possible?

And, the MAS-REMOTE was an outcome of the innovation, the brainstorming that we did. And we saw the market going in a certain direction, and came out with the right product at the right time for the market. So, it's really not one or two things, it's actually a bunch of different things. It's also--the last thing I should add is, it's a cultural change in the organization that happened.

And, we went from on-prem, as we call it, on-premise staffing to the, you know, remote staffing world. Where our sales, marketing, delivery, all of them, embraced this new offering so well, and they've been able to convince customers, influence their thinking, their planning. So, it's a bunch of different things that actually led to that. And once again, I'll pause here and ask Jack if I've missed something in this fairly large answer.

Jack Cronin
The only other thing that I would add Vivek is, one of the advantages of focusing on digital technologies is a higher bill rate. And, in 2020 versus 2019, our bill rate has increased approximately 2%, actually a little over 2%. So, that had some positive impact on our overall revenues.

Brian Kinstlinger
Great, that's helpful. And then, Jack, you talked about higher utilization, and staffing was one factor, and in the improved gross margins. What was staffing utilization compared to where it's been at a historical average. And then if the market turns and we see stronger demand, do you expect utilization to be brought back down to historical averages?

Jack Cronin
That's an interesting question. I can say that from the utilization that we can sort of control, our bench levels, we've been very rigid on reducing bench as much as possible. So, in a normal environment, would we be more willing to keep people in bench - probably, but it's a controllable decision by us. The wildcard is consultants taking PTO and maybe this is COVID related, but they have an opportunity to work. And they work, and they're deferring PTO. And you know how that's going to play out in the future, Brian, I have no idea.

Brian Kinstlinger
Great. The last question I have, you mentioned the gross margin of AmberLeaf. I'm curious why it's much lower than InfoTrellis; is it price? Is it some sort of mix? And what are the levels you can pull over the next, you know, six, 12, 18 months that can improve those margins?

Jack Cronin
I have to defer to Paul on that here. He can take this--

Paul Burton
Yes, I can talk about the AmberLeaf gross margin. So there's really four things that go into gross margin, there's consultant utilization, there's pricing itself. There's a plaster of travel expenses, which is typically at 0% gross margin. And then finally there's contractors, which are typically passed through a lower gross margin than a W2 employee. And so, if you want to improve gross margin, you've got to effect those four triggers.

And so, with respect to AmberLeaf which is a fairly small company relative to us just bringing them on and integrating them into our practices with respect to consultant utilization, pricing. We expect AmberLeaf pricing to improve and to converge on what we're seeing at InfoTrellis. And with the less use of contractors, its inevitable-- might be a strong word, but it seems likely, that their gross margins will converge into what we're seeing at InfoTrellis.

And that's my expectation. So I'm not worried about AmberLeaf gross margins at this point in time. There will be--as they get blended together with InfoTrellis going forward into future quarters, obviously it will average ours down a little bit. But in the medium to long term, I expect gross margins to converge about where they are right now.

Brian Kinstlinger
Great. That's helpful. Thanks so much for your time.

Vivek Gupta
Thanks, Brian.

Operator
Once again, if you'd like to ask a question, please press star one on your telephone keypad. We have a follow-up question from Lisa Thompson.

Lisa Thompson
Hi, I just have two quick ones. First off, Jack, do you have the number of consultants you had for the quarter?

Jack Cronin
Yes, we ended Q3 with 1,037. And that's in the Staffing business.

Lisa Thompson
Okay. Right, right. And then, just, when you say you focus on digital technologies compared to competitors, can you just expand on what you mean by that? And what they're doing that you're not doing, or what you're doing that they're not doing?

Vivek Gupta
Lisa, this is something which we saw a big shift happening around the time I joined the organization in 2016 that customers were increasingly asking for digital technologies. And the mainstream or legacy technologies were--their requirements were shrinking. So, we defined what is digital for us, and it was data analytics, it was cloud, mobility, social, and artificial intelligence, and then we created centers of excellence within the organization with people who understood technologies, and they were training the recruiters, the salespeople to be able to talk that language, understand what the customers are trying to do in that space.

And, over a period of time, we've been able to slowly increase the amount of revenue that we are getting from the digital technologies. In fact, that towards the end of 2016, changed the name of the company from Mastech to Mastech Digital, which was a message to the outside world that we are going to be increasingly focusing on digital technologies. And even the acquisition or our foray into data analytics was really an outcome of that--our push, our--toward digital technologies. Now, fast-forward to today, almost half--in fact, exactly half of our revenues are coming from digital technology.

And we were--barely 18% of our business coming from digital technologies in 2016. So, that's the improvement we've been able to bring. And as Jack said, that has given us the advantage of being able to improve our bill rate, our gross margins, because clearly the demand for this digital technologies is greater, and it does command better pricing and in the market. I don't know if that--

Lisa Thompson
--Okay--.

Vivek Gupta
--Answers your question, Lisa.

Lisa Thompson
Yeah, that did. Could you--could you explain or define what goes on in the non-digital part? Like what's legacy? What was things people would be doing?

Vivek Gupta
Oh, basically everything which I said which is not a part of that, so the digital--or mainframe technologies, there could be a lot of ERPs, which are out there, the traditional CRMs, which are the non-cloud based, kind of. So it's actually, a lot of the legacy technology which were out

there are still there because customers, especially financial institutions, they've invested heavily in large, or applications which were built around the older technologies. And they still need people to keep running them and maintaining them. But increasingly, they're building newer technologies which are (INAUDIBLE) the digital side much more. So there is a transition which is happening over a period of time.

Lisa Thompson
Okay, so they're kind of maintaining the old stuff, where the other group is building the new stuff?

Vivek Gupta
Sort of, yes. In a very simple yes, that's correct.

Lisa Thompson
I'm trying to be simple. Okay, thank you so much.

Vivek Gupta
You're welcome, Lisa.

Operator
As a reminder, to ask a question, please press star one. Ladies and gentlemen, we have reached the end of the question and answer session. I'd like to turn the call back to management for closing remarks.

Vivek Gupta
Thank you, operator. If there are no further questions, I would like to thank you all for joining our call today. Stay safe, and we look forward to sharing our fourth quarter and full year 2020 results with you in early February. Thank you.

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