



**Mastech Digital, Inc.**  
**Third Quarter 2024 Earnings Conference Call**  
**November 6, 2024**

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**Operator**

Greetings and welcome to the Mastech Digital Third Quarter 2024 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, 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. You may begin.

**Jenna Lacey**

Thank you, Operator, and welcome to Mastech Digital's third 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](http://www.mastechdigital.com).

With me on the call today are Vivek Gupta, 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 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](http://www.sec.gov).

Additionally, management has elected to provide certain non-GAAP financial measures to supplement our financial results presented on a GAAP basis. Specifically, we will provide non-GAAP net income and non-GAAP diluted earnings per share data, which we believe will provide greater transparency with respect to the key metrics used by management in operating the business. Reconciliations of these non-GAAP financial measures to their comparable GAAP measures are included in our earnings announcement, which can be obtained from our website at [www.mastechdigital.com](http://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 2024 results.

**Jack Cronin**

Thanks, Jenna, and good morning, everyone. Our third quarter 2024 financial results reflected the positive momentum that we experienced during the first half of 2024. Factors that contributed to our strong Q3 2024 results included higher demand for our services in both of our business segments, record consolidated gross margins, effective SG&A cost containment efforts, a strong debt-free balance sheet and an improved economic outlook around inflation and job growth.

With that backdrop, let me address the specifics of our third quarter 2024 financial results. Revenues for Q3 2024 totaled \$51.8 million, compared to \$47.8 million in the 2023 third quarter. This revenue performance represented year-

over-year growth of 8% and on a sequential quarterly basis, an increase of 5% over the second quarter of 2024.

Our Data and Analytics Services segment reported revenues of \$9.4 million in Q3 2024, compared to \$8 million in the 2023 third quarter, or a 17% year-over-year increase. On a sequential quarterly basis, revenues were 6% higher than the \$8.9 million that we reported in the second quarter of 2024.

Third quarter of 2024 revenues in our IT Staffing Services segment totaled \$42.4 million, achieving year-over-year growth of 7% and growth of 4%, when compared to the previous quarter.

Consolidated gross profit dollars totaled \$14.8 million in Q3 2024, which exceeded the corresponding quarter of 2023 by \$2.2 million, an 18% improvement.

Gross profit as a percent of revenue in Q3 2024 was a company record 28.5%, exceeding our previous record that was established last quarter.

In our Data and Analytics Services segment, gross margins increased to 50.7%, which was significantly higher than the corresponding quarter of 2023.

In our IT Staffing Services segment, Q3 2024 margins equaled a company record of 23.6%, and that record was achieved in last quarter, as well.

GAAP net income for the third quarter of 2024 was \$1.9 million, or \$0.16 per diluted share, compared to \$125,000, or \$0.01 per diluted share in Q3 2023.

Non-GAAP net income for the third quarter of 2024 was \$2.8 million, or \$0.23 per diluted share, compared to \$1.3 million, or \$0.11 per diluted share in the third quarter of '23.

SG&A expense items not included in non-GAAP financial measures, net of tax benefits for both periods presented 2023, as well as 2024, were the stock--with stock-based compensation expense and the amortization of acquired intangible assets and are detailed in our third quarter 2024 earnings release, which is available on our website.

Addressing our financial position, on September 30, 2024, we had \$23.9 million of cash balances on hand, no outstanding bank debt and borrowing availability of approximately \$25 million, under our revolving credit facility. Our days sales outstanding measurement was 55 days at quarter end, which is soundly favorable to our targeted range of 60 to 65 days.

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 Q3, 2024.

Let me start by telling you how happy I am with the performance of Mastech Digital and both of its business segments in the third quarter of 2024. It is a testament to the tireless efforts put in by every member of the Mastech family to achieve this level of performance.

Sure, the macroeconomic headwinds we experienced in 2023 have subsided somewhat, with market participants showing more confidence about the future. What we believe, it is the operational improvements the company made in 2024 that have played a key role in our overall performance.

Drilling down in our Data and Analytics Services segment, both revenues and gross margin increased on a sequential basis over the last several quarters, and activity levels have risen over the last 12 months. In Q3 2024, year-over-year revenue growth of 17% and gross margin increase of 490 basis points from the corresponding quarter of 2023 are, indeed, impressive.

Today, our sales and delivery teams are structured to function as one seamless cohesive organization, from introducing our services to clients, to crafting effective state-of-the-art solutions for the needs of clients and, finally, to delivering on our commitments to clients.

In our IT Staffing Services segment, we continue to grow our billable consultant headcount for the third consecutive quarter, achieving a 13% year-to-date increase over our billable headcount on December 31, 2023. Additionally, we

increased our gross margin during the first nine months of 2024 by 100 basis points, over the corresponding quarter of 2023.

Furthermore in Q3, our revenues increased year-over-year by 7%, we grew our billable consultant headcount by 4%, our average bill rate was higher than in 2023 by approximately 2%, and gross margin stood at a company record high of 23.6%.

Our revenue growth rate is currently in line to exceed the industry growth rate published by Staffing Industry Analysts of negative 7% for 2024. Operationally, both our sales and recruitment organizations have generated productivity gains in 2024, when compared to 2023.

Overall, during Q3 2024 we continued to closely manage our SG&A expenses, which as a percentage of revenues, decreased to 23.8% compared to 26.4% in Q3 of 2023 and were also well below the 24.8% reported in the last quarter of 2024.

In closing, I would like to mention the strength of our financial position. We believe our balance sheet has improved during the third quarter of 2024, as cash balances increased by \$3.3 million to \$23.9 million. We continue to operate our businesses debt free. Our borrowing availability under our PNC credit facility is roughly \$25 million and our largest asset, accounts receivables, is strong.

We believe our balance sheet and access to financial resources gives us the flexibility to capitalize on M&A opportunities in the future which, in our view, continues to be a key component of our growth strategy. In summary, I'm quite bullish about the future of Mastech Digital.

Operator, this concludes our prepared remarks. We can take 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.

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

**Lisa Thompson**

Good morning and welcome back to revenue growth. Very exciting.

**Vivek Gupta**

Thank you, Lisa.

**Lisa Thompson**

Okay. I have a couple questions. One is, I noticed that you pointed out your free cash flow in the press release. Is that a measurement that you track?

**Jack Cronin**

We track it, but it's not like a key measurement. It's not like a key measurement like some of the capital intense industries use which is a very key measurement for that type of industry. We track it and the reason that we mentioned it in the press release is because in our cash flow statement that's going to be in our third quarter 10-Q, our operating cash flows look like they had a major decline in the nine months of 2024 versus the nine months of 2023.

And what's distorting that, and I just wanted to make note of it, is that it's working capital. In 2024, we're growing our business and we're investing in working capital. And in 2023, we were de-growing our business and we were generating cash by unwinding working capital.

So I just wanted to make that point that the delta between the increase in working capital, which is the use of cash in 2024 versus a generator of cash in a de-growth scenario, the delta on that is like \$9 million. It's a big number, so that's why we put it in this quarter. But we do measure it.

**Lisa Thompson**

Okay. That makes sense. And I can't help but notice that you have about \$2 a share in cash now and no debt. Is ROI something you track? How do you look at that?

**Jack Cronin**

We do track return on equity. The methodology that we use is we do it by making a calculation every quarter and we just take the net income and annualize it and then, obviously, divide it by shareholders equity. And that's how we do it. And it's not a 12 month moving average, but it just sort of gives us a run rate look at what our return on equity is.

And for Q3, it's 13%. And, it's 13%, which isn't like--it's not knocking the ball out of the park but the one thing that you got to remember is, we don't have any financial leverage whatsoever, right? We have no financial leverage. We're debt free.

So I mean, if there would be an acquisition that was accretive and made sense for the company, and we finance that acquisition with debt and cash on the balance sheet, our 13% would go up, materially. So, it could even approach 20%. So we're cognizant of the return on equity, we just don't publish it to the outside world.

**Lisa Thompson**

Okay. Great. And I guess just one question about what to think about going forward. You've obviously gotten some better bookings and things are starting to grow again. I know the fourth quarter is typically kind of flat sequentially because of the holidays. What are you thinking about? Does your bookings push that to growth sequentially, or is that not something to consider right now?

**Vivek Gupta**

Lisa, it's hard to give a precise answer. And in any case, we don't give guidance, as you know.

**Lisa Thompson**

--Right.

**Vivek Gupta**

Because there are a couple of things that one has to keep in mind. Q4 tends to be a quarter in which we have less working days because of holidays. And also it tends to be a quarter in which there are towards the end in December, there are some forced furloughs, which are required by some of the staffing customers.

So, if you put all of that into play and then of course there should be growth because of headcount increase. So I guess they may balance themselves out, but, it's hard to predict at this point in time what the quarter will look like. They will obviously be staffing assignment ends, which typically happen every December. So those will also kick in. So, yes, I can't give a more precise answer, right now.

**Lisa Thompson**

Okay, I guess. And my last question, just due to the timing of your earnings call, now that we're past the election, do you think that customers will be making decisions that they've been putting off, or is that not a factor in their thinking?

**Vivek Gupta**

No, actually, that's a conversation we've been having the last few weeks. The businesses don't like uncertainty, and they were beginning we could see that in the last few weeks, customers were sort of waiting for the shoe to drop. And now that the election is behind, I think the macroeconomic environment will only improve.

I've also been hearing what some of the other earnings call the CEOs have been saying in this in our industry that we should get tailwinds and the industry overall should start picking up some speed.

**Lisa Thompson**

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

**Vivek Gupta**

Thank you.

**Operator**

Our next question comes from the line of Marc Riddick with Sidoti. Please proceed with your question.

**Marc Riddick**

Hey, good morning.

**Vivek Gupta**

Hey, Marc.



**Marc Riddick**

So I wanted to start with a couple of things. Maybe if we could start with where do we end up as far as consultant, I'm sorry, for the consultant count for the end of the quarter?

**Vivek Gupta**

The overall consultant headcount, we added, 38 in the quarter. So, Jack, do you have the final--the end of quarter number--

**Jack Cronin**

For the staffing side?

**Vivek Gupta**

For the staffing side?

**Jack Cronin**

For the staffing side, the billable consultant headcount was 1,071 for billable consultants.

**Marc Riddick**

Okay, great. And so where do we end up as far as bill rate?

**Jack Cronin**

The bill rate was again, this is staffing, it's \$82.00--\$82.80. The comparable quarter last year was a little less than \$81. So it's improving slightly.

**Marc Riddick**

Okay. And then certainly it's positive to see the signs of client activity picking up. Is there any threads that you could share as to the types of projects that are being prioritized and maybe industry verticals that are maybe sort of leading the way there?

**Vivek Gupta**

Actually, let me touch on your second one, first. Is it any one industry or a couple of industries which are doing better than the others? Actually, no, because we've, acquired a bunch of new customers in Q3 and they're all over. They are in retail space. They are in healthcare, they are in music publishing, they are in manufacturing. So they've been in various places.

The kind of work that we are doing and when you say projects, I mean, on the data analytics side, I think we are doing more and more of intelligent data foundation.

We are doing some work with GenAI and this is all new and exciting stuff. And, our portfolio of services has got sharpened in this year 2024 and seems to be resonating with the customers. And our sales and marketing guys are doing a pretty good job of articulating these the offerings and the projects that are coming are actually definitely in the interesting and exciting side of data analytics and maybe a little beyond that, as well.

**Marc Riddick**

Okay, great. And then I guess, maybe the last one for me. I was sort of thinking about, I'm not sure if there was any particular catalyst, but maybe you could talk a little bit about maybe the cadence through the quarter. Certainly again, the numbers were great very positive. I was sort of curious as to maybe what that monthly cadence looked like.

**Vivek Gupta**

The monthly cadence, sorry Marc, can you help me there? Can you elaborate? What are we talking about?

**Marc Riddick**

Well, as far as the revenue growth that you have through the quarter. I was just was that sort of consistent each month, or was that something that built through the quarter?

**Vivek Gupta**

Oh, okay. No, the growth was actually fairly steady in Q3. It wasn't that it was front ended or tail ended. It was actually fairly even spread over the three months in both the businesses.

**Marc Riddick**

Right--right. That's very encouraging. Thank you very much.

**Vivek Gupta**

Thank you, Marc.

**Operator**

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

Mr. Gupta, it appears we have no further questions at this time. I would like to turn the floor back over to you for closing comments.

**Vivek Gupta**

Thank you, Operator. If there are no further questions, I would like to thank you for joining our call today, and we look forward to sharing our fourth quarter 2024 results with you in early February. Thank you all.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.