

Mastech Digital Inc. Q4 Earnings Call

February 12, 2019

Confirmation #13687365

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**Mastech Digital Inc.
Q4-2018 Earnings Conference Call
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Operator: Greetings, and welcome to Mastech Digital Call to discuss fourth quarter in full year 2018 financial results taking place on February 12, 2019. At this time, all participants will be in listen only mode. A brief question and answer session will follow the formal presentation. If anyone today should require operator assistance during the conference, please press star zero from your telephone key pad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Jennifer Ford Lacey, Manager of Legal Affairs for Mastech Digital. Thank you, Ms. Ford Lacey, you may now begin.

Jennifer Ford Lacey: Thank you, Rob. And welcome to Mastech Digital's Fourth Quarter 2018 Conference Call. If you have not 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 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 our business, cash flows, costs and the markets in which we operate. Without limiting the foregoing, the words, beliefs, 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 2017 annual report on form 10K filed with the Security and Exchange Commission and available on its website at www.sec.gov.

Additionally, management has elected to provide certain non-GAAP financial measures 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 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 fourth quarter and full year 2018 results.

Jack Cronin: Thanks, Jen and good morning everyone. Revenues for the fourth quarter of 2018 totaled \$44.6 million and represented a 10% increase compared to \$40.5 million in the fourth quarter of 2017.

Our Data and Analytics Services segment contributed \$5.4 million of revenue during Q4 2018, compared to \$5.1 million in the fourth quarter of 2017. Activity levels increased in the fourth quarter of 2018, when compared to the previous quarter in terms of both pipeline opportunities and project wins. Organic year-over-year revenue growth from our IT Staffing Services segment, was 11% in the fourth quarter, as our billable-consultant base increased by 12% during the full year. Demand for our IT Staffing Services remained strong in the fourth

quarter and more than offset the higher level of seasonal assignment ends that the industry experiences at year end.

Our billable headcount in Q-4 increased by 13 consultants, which was our best Q-4 performance since 2005, in terms of net headcount growth.

Gross profit for Q-4 2018 totaled \$10.7 million compared to \$9.5 million in the same period last year. Our gross margins for Q-4 2018 were 23.9% of revenues compared to 23.5% in the fourth quarter of 2017. Our Data and Analytics Services segment had gross margins of 45.2% in Q-4 2018, which were in line with Q-4 2017's performance.

Our IT Staffing Services segment had Q-4 gross margins of 21% compared to 20.4% in the 2017 fourth quarter. Strong direct high revenues and higher margins on new assignments in this segment favorably impacted gross margins during the quarter.

SG&A expenses were \$8.4 million in Q4 of 2018 and represented 18.9% of total revenues compared to \$7 million or 17.4% in the fourth quarter of 2017. This \$1.4 million increase in SG&A expenses, represented investments of \$400,000 in our Data and Analytics Services segment, principally in the areas of sales and off-shore delivery, \$300,000 in system upgrade

expenses and \$700,000 in higher commissions and other volume driven variable cost in our IT Staffing Services segment.

GAAP net income for Q-4 of 2018 was \$874,000 or \$0.08 per diluted share compared to \$865,000 or \$0.08 per diluted share in Q-4 2017.

Non-GAAP net income for the fourth quarter of 2018, was \$1.8 million or \$0.16 per diluted share compared to \$1.7 million or \$0.16 per diluted share in the corresponding quarter of 2017.

Fourth quarter SG&A expense items, not included in non-GAAP financial measures, net of tax benefits were 1; the amortization of acquired intangible assets, 2; stock-based--stock based compensation, 3; goodwill impairment charges, 4; a gain on the revaluation of contingent consideration liabilities associated with the InfoTrellis acquisition, and 5; charges related to the impact of the U.S. tax reform. These items are detailed in our Fourth Quarter Earnings Release, which is available on our website.

Summarizing our full-year results, 2018 revenues totaled \$177.2 million and represented a 20% increase over 2017 revenues of \$147.9 million. This increase is reflective of our July 13, 2017

acquisition of the services division of Canadian based InfoTrellis and an 11% organic growth achieved in our IT Staffing Services segment.

Gross profits for 2018 were \$42.5 million compared to \$31.6 million in 2017. Gross margins as a percent of revenues were 24% in 2018 compared to 21.4% in '17. This--this improvement was due to the Info Trellis acquisition and gross margin expansion at our IT staffing services segment of 110 basis points for the entire year.

GAAP net income for 2018 totaled \$6.7 million or \$0.60 per diluted share compared to \$1.6 million or \$0.16 per diluted share in 2017. Non-GAAP net income for '18 totaled \$8.2 million or \$0.74 per diluted share compared to \$4.6 million or \$0.46 per diluted share in 2017. A detailed reconciliation of our non-GAAP financial measures compared to their comparable GAAP measures is included in our Earnings Release and available on our website.

Quickly addressing our financial position. In December 31, 2018, we had \$37.8 million of outstanding bank debt, net of cash balances on hand and our borrowing availability approximated \$9 million under our existing revolving credit line. During the quarter, debt levels were reduced by \$3.6 million as we made progress on cash conversion matters related to the

implementation of our new Cloud-based ERP platform. I'll now turn the call over the Vivek, for his comments.

Vivek Gupta: Good morning everyone. Thank you, Jack for the detailed financial review of our operating results for 2018.

Let me start by reiterating my stated mission of transitioning Mastech Digital from a pure-play IT Staffing Company into a leading player in digital transformation IT services. I believe we made good progress in 2018 in that journey.

In the fourth quarter of 2018, we experienced increased activity levels and project wins, particularly in new targeted areas of growth in our Data and analytics Services segment. This was a result of continued investments in our sales and delivery capabilities throughout 2018.

Our IT Staffing Services segment continued to perform at a very high level in 2018. Organic revenue growth approximated 11% on a year-over-year basis; gross margins expanded by 110-basis points; and operating profits increased by 36% over 2017 levels; as we continue to focus on digital technologies.

While we have invested in both of our business segments during the year to support our growth expectations, we have also enhanced our corporate support structure, particularly in the area of systems and infrastructure, which we believe will support our growth objectives for the future.

In summary, I'm pleased to say we are well on course in our transformation journey.

Let me now share with you my expectations for 2019 for our two operating segments. First our, Data and Analytics Services segment, as I've said many times before, I believe that this segment is full of opportunities. We are already seeing traction for our services going beyond North America. In 2019, we will endeavor to broaden our capabilities in several of high growth areas including Big Data, and Analytics.

We also plan to continue making additional investments in 2019 to expand the size and the quality of our sales organization. We expect this initiative will allow us to fully capitalize on our proven delivery capabilities and it should also help mitigate the historical lumpiness in this segment's quarterly revenues.

Next, our IT Staffing Services segment. I fully expect our IT staffing services segment to grow better than the industry average in 2019. Continued efficiency gains as our off-shore recruitment center and successes with Digital Technology Staffing, will again, be key drivers in 2019.

We also plan on continuing to invest ahead of our growth curve in 2019. One example of this investment is our move to a new delivery center in NOIDA, India in Q-1 of 2019, which will expand our recruitment capacity by more than 60%. This state-of-the-art facility will provide our associates the vibrant and amenity filled workplace in which to conduct and enjoy their business.

Lastly, as we enter 2019, I'm happy to tell you that both moral and confidence levels are extremely high across the entire organization. Collectively, we are looking forward to and anticipating a prosperous and successful 2019. I will now open the session for your questions.

Operator: Thank you. At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press star one on your telephone key pad. And a confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to

remove your question from the queue. For participants that are using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please, while we pull for questions. Thank you. Our first question is coming from the line of Louis Moser with Maverick Investors. Please go ahead with your question.

Louis Moser: Hi, It's really for your information. There's a service called Benzinga and the head-line today is Mastech Reports Earnings of \$0.16 a share. This is a 50% decrease over earnings of \$0.32 per share from the same period last year. Do you have any idea how they got that kind of information?

Jack Cronin: Yes, we do. Last year was \$0.32, but we got a two for one stock split in 2018. So, when you adjust last year's numbers for the stock split, it's \$0.16.

Louis Moser: That makes sense, but still it's not correct type of article or head-line. People wouldn't know that.

Jack Cronin: Yes, it's materially wrong. So, whoever picked up the head-line, again, reported something that's not accurate.

Louis Moser: Yes, and then you're going to have people sell the stock because they think it went down in terms of the article. That's it, thank you.

Operator: Thank you. As a reminder, to ask a question, you may press star one. Thank you. At this time, I will turn the floor back to Mr. Vivek Gupta for closing remarks.

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 first quarter 2019 results with you in late April. Thank you.

Operator: Thank you, Sir. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.