



**Mastech Digital Inc.
Q3-2019 Earnings Call
October 29, 2019**

Operator

Greetings, and 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. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Jennifer Ford Lacey, Manager of Legal Affairs. Thank you. You may begin.

Jennifer Ford Lacey

Thank you, operator, and welcome to Mastech Digital's third quarter 2019 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 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 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 2018 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 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 2019 results.

Jack Cronin

Thanks, Jen, and good morning, everyone.

Revenues for the third quarter of 2019 totaled \$49.5 million, a 12% increase compared to \$44.3 million in the third quarter of 2018. These results represented our highest revenue performance since going public in 2008 as both of our business segments reported record revenues.

Our Data and Analytics Services segment contributed \$7.1 million of revenue during Q3 of 2019, which was an increase of 6% over the previous quarter's performance and represented a 22% growth rate over the same quarter last year. This strong performance reflected improved activity levels, a larger pipeline of opportunities, and a better project win-ratio. I should also add that Q3 of 2019 represented our fourth consecutive quarter of improving activity levels and our third consecutive quarter of increased revenues.

Our IT Staffing Services segment generated year-over-year revenue growth of 10% in Q3 2019 when compared to Q3 of 2018. Additionally, demand continued to be strong during the third quarter of 2019, and we increased our consultants on billing by 84 consultants, also, a quarterly record for the Company's IT Staffing segment.

Gross profit for Q3 of 2019 totaled \$12.3 million compared to \$10.7 million in the same period last year.

Our gross margins for Q3 2019 were 24.9% of revenues, up 70 basis points compared to 24.2% in the third quarter of 2018. Our Data and Analytics services segment had gross margins of 45.7% in Q3 2019, which was a 120 basis points higher than the corresponding quarter of 2018. Better utilization of our technical resources on higher-valued services and improved pricing on new assignments contributed to this improvement.

Our IT Staffing Services segment had third quarter 2019 gross margins of 21.4%, which exceeded Q3 2018 gross margins of 21.1%, a 30 basis points improvement.

SG&A expenses were \$9.3 million in the third quarter of 2019 and represented 18.7% of total revenues compared to \$8.2 million, or 18.5% of revenues, in the third quarter of 2018. During the current quarter, we continued to invest in our Data and Analytics Services segment to enhance our portfolio and service offerings, which have been very well received in the marketplace. Additionally, we are continuing to make incremental investments in our IT Staffing Services segment to ensure sustainable growth for the future.

GAAP net income for the third quarter of 2019 totaled \$1.9 million, or \$0.17 per diluted share, compared to \$1.6 million, or \$0.14 per diluted share, in Q3 of 2018.

Non-GAAP net income for the third quarter of 2019 was \$2.6 million, or \$0.23 per diluted share, compared to \$2.2 million, or \$0.20 per diluted share, in the corresponding quarter of 2018.

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. These items are detailed in our Q3 earnings release, which is available on our website.

Addressing our financial position at September 30, 2019, we had \$25.4 million of outstanding bank debt, net of cash balances on hand, and our borrowing availability approximated \$17.2 million under our existing revolving credit line. During the nine months ended September 30, 2019, we reduced bank debt by \$11.7 million, with cash flows generated from operations, and, at the same time, improved our cash balances by approximately \$700,000. For the second consecutive quarter, we materially improved our days sales outstanding measurement as cash conversion issues related to the implementation of our new Cloud-based ERP system are well behind us.

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 2019.

Let me start by saying that I'm truly delighted with our third quarter performance, which in many ways was our strongest quarterly performance since I took over the CEO role in March 2016.

Our Data and Analytics Services segment broke the \$7 million quarterly revenue barrier for the first time, and I'm confident that there will be many more barriers that will be broken as we continue our growth journey. Revenues were up 22% year-over-year, gross margins expanded by 120 basis points, and our operating margins improved by 15%, despite continued investments in this business. Our pipeline of opportunities continues to grow nicely, and our project win ratio has improved with our new service offerings. Our new management team, led by Paul Burton, has done a commendable job of positioning Mastech InfoTrellis for sustainable future growth. I'm very excited as to where this business is today, and, more importantly, where it can be in the next several years.

Addressing our other business segment, I'm pleased to say that our IT Staffing Services business continued to perform at a very high level in Q3 2019, generating records quarterly revenues of \$42.5 million and growing revenues at 10% on a year-over-year basis. Considering that the IT Staffing industry is growing at a rate of 3% in North America, this is an exceptional performance, and I'm really proud of the management team leading this segment. Additionally, on a year-over-year basis, we expanded both our average bill rate and gross margins and improved operating income by 13% by continuing to focus on digital technologies.

Lastly, I would like to acknowledge the significant improvement in our financial position over the last several quarters. As Jack mentioned, we are using cash flows from operations to materially lower our debt levels. This performance has reduced our debt and leverage ratios and increased our cash availability. Accordingly, we will enter 2020 with a debt-to-equity ratio much lower than in 2018, which should favorably impact shareholder value and lower our interest expense from 2019 levels.

I will now open the session for your questions.

Operator

Thank you. At this time, we will conduct a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two 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. Once again, that's star one to ask a question at this time. One moment while we pull for questions. Once again, ladies and gentlemen, that's star one to ask a question at this time. One moment, please. There are no questions in queue at this time. I would like to turn the call back to management for closing comments.

Vivek Gupta

Thank you, operator. If there are no questions, I would like to thank you for joining our call today, and we look forward to sharing our fourth quarter 2019 results with you in early February. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time and have a great day.