



**Mastech Digital, Inc.**  
**Second Quarter 2024 Earnings Call**  
**August 7, 2024**

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**Operator**

Greetings, and welcome to the Mastech Digital's Q2 2024 Earnings 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 star, zero 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. Thank you, Ms. Lacey. You may begin.

**Jennifer Lacey**

Thank you, operator, and welcome to Mastech Digital's second 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 second quarter 2024 results.

**Jack Cronin**

Thanks, Jenna, and good morning, everyone. Our second quarter 2024 financial results benefited from the continuation of positive market indicators that we were seeing in Q1, higher activity levels, favorable client spending patterns, and improvements in economic data around inflation and job growth.

During the second quarter, we were able to add some positive company-specific factors to the mix, namely a strong delivery performance and high resource utilization at our Data and Analytics operations, increased gross margins in our IT Staffing Services business, as well as a slight reduction in SG&A expenses during a quarter in which sequential revenues grew by 6%.

Addressing our second quarter 2024 financial results, consolidated revenues totaled \$49.5 million compared to \$52.2 million in the 2023 second quarter. While we continue to report negative revenue growth on a year-over-year basis, the percent of decline has consistently and progressively been reduced over the last several quarters. I'm happy to say that in Q3 2024, our year-over-year revenue growth will be positive.

Our Data and Analytics Services segment reported revenue of \$8.9 million in the second quarter of 2024, compared to \$8.8 million in the 2023 second quarter. On a sequential quarterly basis, D&A revenues grew by 10%. Second quarter 2024 revenues in our IT Staffing Services segment totaled \$40.7 million compared to \$43.4 million in the second quarter of 2023. On a sequential quarterly basis, IT Staffing revenues grew by 5%.

Consolidated gross profit dollars totaled \$14 million in Q2 of 2024, which exceeded the corresponding quarter of 2023, despite 2024 revenues being lower. It's the result of higher overall gross margins. Consolidated gross margins in Q2 2024 improved to 28.2% compared to 26.1% in the second quarter of 2023, as both of our business segments contributed to the improvement. This gross margin performance of 28.2% set a new quarterly record for Mastech Digital.

In our Data and Analytics Services segment, gross margins improved to 49.2% compared to 45.6% in the corresponding quarter of last year, largely due to higher project gross margins and higher resource utilization in the 2024 second quarter. In our IT Staffing Services segment, Q2 2024 gross margins improved to a company record 23.6% compared to 22.2% in the second quarter of 2023. This improvement reflected higher gross margins on new assignments in the 2024 period and lower employee benefit costs due to favorable medical claims related to our self-insured healthcare program.

GAAP net income in Q2 2024 was \$1.4 million or \$0.12 per diluted share compared to a net loss of \$2.2 million or a \$0.19 loss per diluted share in Q2 2023. Non-GAAP net income for 2023 second quarter--or, excuse me, 2024 second quarter was \$2.2 million dollars or \$0.19 per diluted share compared to \$1.3 million dollars or \$0.11 per diluted share in the 2023 quarter.

SG&A expense items not included in non-GAAP financial measures, net of tax benefits for all periods presented, are detailed in our second quarter 2024 earnings release, which is available on our website. Addressing our financial position, on June 30, 2024, we had \$20.6 million of cash balances on hand, no bank debt outstanding, and borrowing availability of \$23.8 million under our revolving credit facility. Our day sales outstanding measurement was 53 days at quarter end, which is soundly favorable to our target of 60 days.

I will 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 Q2 2024. In last quarter's earnings call, I had said that we are feeling more positive about the macroeconomic environment, coupled with our clients showing more comfort with starting new assignments and addressing some of their pent-up IT needs after more than four quarters of reduced IT spending. As I speak to you today, a quarter later, my views have only strengthened, even with the recent market jitters around job growth.

During Q2 of 2024, we saw the continued positive economic environment encouraging our customers in both business segments to increase their IT spending. In addition, we also achieved numerous organizational improvements, such as improved project delivery, better resource utilization, tighter bench management, and control of SG&A spend, all of which positively impacted our financial results for the quarter. Overall, I'm happy with the sequential revenue growth achieved by both the business segments, resulting in a 6% quarter-on-quarter growth over consolidated revenues in Q1 2024.

The 10% sequential increase in revenue delivered by our Data and Analytics Services segment was a result of an expanded footprint in our existing client accounts as well as from signing new logos. In our IT Staffing Services segment, the 5% sequential quarter-on-quarter revenue growth, which Jack referred to, came mostly from existing large clients increasing their contract

spending. The pace of increase in our billable consultant headcount by two of our largest financial services clients has been a much-needed shot in the arm for the company.

After a billing consultant headcount increase of 58 in Q1, we were able to add another 31 billing consultants in IT Staffing Services segment during Q2, making it approximately a 10% total increase from our headcount at the end of 2023. I am excited about these improved existing account expansions, and I believe that new client acquisitions should have a positive impact on future quarters' revenue potential for the company.

Additionally, as Jack mentioned, we achieved record gross profit margins of 28.2% in Q2 of 2024. Both of our business segments contributed to these efforts. Our Data and Analytics Services segment had exceptional delivery metrics in Q2, including higher resource utilization, and delivered one of the highest gross margin performances, of 49.2%.

And our IT Staffing Services segment reported a record 23.6% gross margin, riding on, one, gross margin expansion from new assignments during 2024, two, a higher average bill rate when compared to last year, and three, lower benefit costs due to favorable medical claim experience related to our self-insured healthcare program. During Q2 2024, we continued to closely manage our SG&A expenses, which, as a percentage of revenue, decreased to 24.8% compared to 25.6% in Q2 2023 and were also favorable to the 26.7% reported in Q1 of 2024.

In closing, I believe that our financial results in the second quarter of 2024 highlight the intrinsic value potential of Mastech Digital's business models. During our last earnings call, I had said one positive quarter does not make a trend. Today, with continued positive performance in two consecutive quarters, I can say with confidence that we are off to a great start.

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 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.

One moment, please, while we poll for questions. Our first question comes from the line of Lisa Thompson with Zacks Investment Research. Please proceed with your question.

**Lisa Thompson**

Good morning, and great quarter. Nice to see profits coming back.

**Vivek Gupta**

Thank you, Lisa.

**Lisa Thompson**

I didn't quite scribble fast enough. What is the number of consultants you end the quarter with?

**Vivek Gupta**

So, we added consultants in the quarter. And, as we speak, Jack is looking at what that total number is now after adding 31, so just give us a second.

**Lisa Thompson**

1,035.

**Jack Cronin**

Yes, for our staffing business, it's 1,035. You're right.

**Vivek Gupta**

Yes, you're right, Lisa.

**Lisa Thompson**

Okay, good. And how is the trend going this quarter?

**Vivek Gupta**

We have barely, I guess, one week into the second month, but July was good. We had an increase in headcount.

**Lisa Thompson**

Okay. And you have seemed to really tightened up spending. I don't know if it was a fluke in the quarter, or it's something permanent that you've done. How much have your consultants done to change any operations, or are they working on other things?

**Vivek Gupta**

I didn't quite get the last part of what you asked Lisa. Can you elaborate on that?

**Lisa Thompson**

Yes, so now I was wondering if your consultants have anything to do with streamlining the business, or are they working on other things?

**Vivek Gupta**

No, the SG&A expense is really not related to the consultants. This is more our sales, marketing, G&A. And, we've looked at all the elements of that. And, as I mentioned, there was a higher percentage SG&A as a percentage of revenue in Q1, and we felt that we needed to tighten that. So, we've looked at all aspects of SG&A and eliminated the ones which are not needed.

We will add back SG&A as we grow. But, our intention is not to grow at the same pace as revenue, which means that over a period of time, we like to have the SG&A expense as a percentage of revenue coming down rather than going up.

**Lisa Thompson**

Okay, that sounds good, and what's your feeling about gross margins going forward? Do they stay up here? Do they go back to historical highs?

**Vivek Gupta**

So, our intention is to keep the gross margins at the level--at least the 28% level. And, there are two elements in that, one which we can't control, as in, you know, the point that both Jack and I touched upon, which is the medical claim experience. Now, that varies from quarter to quarter, and you don't have control over that. And we've had a couple of bad quarters, and this quarter has been a good quarter. So, that part you can't control. But, what we can control, on that part, we are leaving no stone unturned. So, our intention is to stay at that level at the 28% level. And, hopefully a little bit of luck will also be on our side.

**Lisa Thompson**

Do you think D&A can get back over the 50% growth margin this year?

**Vivek Gupta**

Again, that's always the intention to get to that side of 50% but I don't know. It's hard to predict that. We're pretty close right now at 49.2%. It's not too far away from 50%.

**Lisa Thompson**

Great. Thank you. That's all my questions. Keep up the good work.

**Vivek Gupta**

Thank you, Lisa.

**Operator**

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

**Marc Riddick**

Sorry, I was muted there. Hi, good morning.

**Vivek Gupta**

Hey, Marc. How are you doing?

**Marc Riddick**

Very good, very good. I wanted to sort of piggyback on the gross margin questions. I was sort of curious if you could talk a little bit about maybe the utilization rate improvement that was mentioned in the press release as well as maybe if you could talk about the revenue mix benefit and where that might be coming from.

**Vivek Gupta**

So, Marc, the resource utilization is really, you know, all the people that we have available on the Data and Analytics side trying to make sure that we have just the right number of resources needed to service those projects in that quarter. In the past, a year ago or two years ago, we ended up having a scenario where we had a large number of people on the bench, and there wasn't enough work in the immediate future to keep them busy.

This time, I think we've been able to kind of change our processes and sharpen them in a way that we have sort of resources ready when we need them, a better understanding of what's coming down the pike, and then preparing and training resources in time for that. And I think that has played an important role in this and also how we are executing the projects.

I talked about better project delivery and making the gross margins out of the projects which are under execution making sure that they are as high as we can take them. So, it's bench management, resource utilization, better delivery. All of them kind of helped us in having a better gross margin outcome from the Data and Analytics business.

**Marc Riddick**

That's very encouraging. And then, I was wondering if you could talk a little bit about maybe, what you're seeing as far as client activity change. Are we seeing much in the way of differentiation in industry verticals or geographic footprint?

**Vivek Gupta**

Yes, two aspects. One is how the clients are behaving at the moment. I think they are becoming more comfortable with the economic environment, and they're beginning to loosen their purse strings, which is a great thing. In terms of differentiation, yes, definitely. We haven't formally verticalized our organization, but our solutions are fairly what shall I say, industry focused.

So, if you've done a good job for one bank, then we take the learnings from that to the next one. If you're working with one health care organization, we are able to take the learnings forward to the other one. So, there is a bit of that differentiation which our customers are beginning to see. They like the fact that we have progressed from being a very strong MDM-only company, master data management company, into a broader data management, data modernization company.

And I think that story is again, being appreciated by customers. And there's a lot of AI which is coming into our solutions and our offerings. We are also using it internally. That is also

factoring in, and the customers like the kind of--the solutions with AI embedded in those solutions. So, it's a bit of, I guess, um, you know, all of the above, which have led to the customers feeling more comfortable with our offerings.

**Marc Riddick**

Okay, great. And then, the last one for me, you finished with a nice, solid cash balance, as always, a very clean balance sheet. I was wondering if you could talk a little bit about this will obviously be in the queue, but was there much in the way of share repurchase activity during the quarter--and maybe what your thoughts are on uses of cash going forward? Thank you.

**Vivek Gupta**

I'll pass this question to Jack to answer. So, Jack?

**Jack Cronin**

Yes, sure. Our cash balances at the end of the quarter were \$20.6 million. It's slightly up from, where we were at the end of first quarter. Unfortunately, in the second quarter, we bought back zero shares. We had an extended blackout period, actually still in a blackout period on a number of corporate matters that are confidential, so no repurchases in Q2.

**Marc Riddick**

Okay. And maybe just thoughts on going forward as far as potential uses of cash.

**Jack Cronin**

I think we're very keen on this share repurchase program. It's just a matter of when we can start it once we get through some of these confidential issues, but when we're out of a blackout period, we're hoping to take advantage of the current stock price and repurchase some shares.

**Marc Riddick**

Great. Thank you very much.

**Vivek Gupta**

Thank you, Marc.

**Operator**

There are no further questions at this time. I'd like to turn the floor back over to management for closing remarks.

**Vivek Gupta**

Okay. Thank you, operator. If there are no further questions, I'd like to thank you for joining our call today, and we look forward to sharing our third quarter 2024 results with you in early November. Thank you.



**Operator**

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