



**Mastech Digital, Inc.
Q1 Earnings Call
May 1, 2019
Confirmation #13690325**

Operator: Ladies and gentlemen, greetings and welcome to the Mastech Digital, Inc. First Quarter 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 program, please push *0 on your telephone keypad. As a reminder, this program is being recorded. It is now my pleasure to introduce your host, Jennifer Ford Lacey, Manager of Legal Affairs for Mastech Digital, Inc. Thank you. You may begin.

Jennifer Ford Lacey: Thank you, operator, and welcome to Mastech Digital's first 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 “believe,” “anticipate,” “plans,” “expect,” 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 10K filed with the Securities & 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 First Quarter 2019 results.

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

Revenues for the first quarter of 2019 totaled \$45.2 million and represented a 4% increase, compared to \$43.3 million in the first quarter of 2018.

Our Data and Analytic Services segment contributed \$5.8 million of revenue during Q1 2019, which is an increase from last quarter's performance of \$5.4 million, but below revenues of \$6.6 million achieved in the first quarter of 2018. I'm also happy to add that activity levels were robust in Q1 2019 when compared to the previous quarter, in terms of both pipeline opportunity and project wins.

Organic year-over-year revenue growth from our IT Staffing Services segment was 7% in Q1 2019, as our billable consultant-base increased for the fifth consecutive quarter. Demand for our IT Staffing Services remains strong during Q1 2019, and we ended the quarter with over 1,100 IT consultants on billing.

Gross profit for Q1 2019 totaled \$10.8 million, compared to \$10.2 million in the same period last year.

Our gross margins for Q1 2019 were 24% of revenues, compared to 23.7% in Q1 of 2018. Our Data and Analytic Services segment had gross margins of 45.5% in Q1 2019, which was 120

basis points higher when compared to Q1 of 2018. Better utilization of our technical resources on higher valued services contributed to this improvement in gross margins. Our IT Staffing Services segment had Q1 2019 gross margins of 20.8%, compared to 20.0% in the same period last year. Strong direct hire revenues and higher margins on new assignments favorably impacted this segment's margin performance.

SG&A expenses were \$9 million in the first quarter of 2019, and represented 19.8% of total revenues, compared to \$7.8 million or 18.1% of revenues in the first quarter of 2018. This \$1.2 million increase in SG&A expenses represented investments of \$0.5 million in our Data and Analytic Services segment, principally in the area of sales and offshore delivery, and \$0.7 million in our IT Staffing Services segment due to higher expenses related to system upgrades, facility expansion, and higher volume-driven variable expenses.

GAAP net income for Q1 2019 was \$964,000, or \$0.09 per diluted share, compared to \$1.3 million, or \$0.12 per diluted share in the first quarter of 2018.

Non-GAAP net income for Q1 2019 was \$1.6 million, or \$0.15 per diluted share, compared to \$2 million, or \$0.18 per diluted share, in the corresponding quarter of 2018.

First quarter SG&A expense items not included in non-GAAP financial measures, net of tax benefits, were the Amortization of Acquired and Tangible Assets and Stock-based

Compensation. These items are detailed in our First Quarter Earnings Release, which is available on our website.

Addressing our financial position, at March 31, 2019, we had \$37 million of outstanding bank debt, net of cash balances on-hand, and our borrowing availability approximated \$8 million under our existing revolving credit line. During the quarter, debt levels declined by \$0.8 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 to Vivek for his comments.

Vivek Gupta: Good morning, everyone. Thank you, Jack, for the detailed financial review of our operating results for Q1 2019.

Let me start by saying I'm excited by the first quarter performance of our Data and Analytics Services segment in terms of pipeline growth, project wins, improved utilization and the sequential quarterly revenue growth in Q1 2019. We continued forward with the momentum that we saw in the latter half of 2018, which I see as a very positive sign for this segment's future.

Additionally, we recently appointed industry veteran, Paul Burton, as the Chief Executive of our Data and Analytics business. With Paul's stellar background and international experience, we are well positioned to return to a growth strategy in 2019.

Our IT Staffing Services segment continues to perform at a very high level in Q1 2019. Organic revenue growth approximated 7% on a year-over-year basis, well above the industry average growth rate of 4%. Additionally, we expanded gross margins by 80-basis points and segment operating profits by 11% over Q1 2018 - levels, as our focus on digital technologies continues.

While we invested in both of our business segments during the first quarter of 2019, the lion's share of investment going forward will be on the Data and Analytics segment, which underscores our confidence in the future of this business segment. I will now open the session for your questions.

Operator: Thank you. Ladies and gentlemen, we will now be conducting our Q&A session. If you would like to ask a question, please push *1 on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may push *2 if you would like to remove your question from the queue. And for any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. One moment while we poll for questions.

Once again, if you would like to ask any questions, please push *1 on your telephone keypad now.

Ladies and gentlemen, we have no questions in queue at this time. I would like to turn the floor back over to management for closing.

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 Second Quarter 2019 results with you in late July. Thank you.

Operator: Thank you, ladies and gentlemen. This does conclude our teleconference for today. You may now disconnect your line at this time. Thank you for your participation, and have a wonderful day.