

MHH Earnings Call Transcript

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Quarter: 3

Operator: Greetings, and welcome to the Mastech Digital, Inc. Third Quarter 2025 Earnings Conference Call. [Operator Instructions] 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.

Jennifer Lacey: Thank you, operator, and welcome to Mastech Digital's Third Quarter 2025 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 Nirav Patel, Mastech Digital's Chief Executive Officer; and Kannan Sugantharaman, our Chief Financial and Operations 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 those forward-looking statements, including those listed in the company's 2024 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 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. 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 Nirav for his comments.

Nirav Patel: Thanks, Jenna. Good morning, everyone. We appreciate you joining us for our third quarter earnings call. Let me begin by reaffirming the priorities I have set as I began my tenure as CEO of Mastech Digital earlier this year. Our focus remains clear, delivering long-term sustainable growth, unlocking substantial value from our operating model and investing in building truly differentiated capabilities to win in the future. A few quarters ago, we initiated a comprehensive review of our long-term strategy. That process is now well underway, and we believe it will help us sharpen our priorities while aligning our structure and investments to accelerate our transformation agenda. Our aim is unchanged from my first remarks as CEO, to be the trusted partner that helps enterprises reimagine themselves and transition into AI-first organizations. The business environment continues to evolve as ongoing macroeconomic and geopolitical uncertainties drive a cautious demand environment. Even as interest in modernization and AI adoption continues to grow, we find customers continue to look for a more supportive market environment before accelerating their spend decisions. Amid ongoing market challenges, we remain focused on controlling what we can and positioning the company for long-term growth. To that end, I'm very pleased to announce the launch of our EDGE program, which stands for

Efficiencies Driving Growth and Expansion, a structured transformation initiative aimed at optimizing our organization and operating model. EDGE focuses on driving higher revenue quality, process simplification and automation and disciplined spend management to unlock capacity for reinvestment in strategic growth areas. We have seen these actions already yield improved operational efficiency and sharper resource alignment. By channeling these gains into capability building and market expansion, we believe EDGE will strengthen our competitive position and fuel sustainable value creation as we become an AI-first organization ourselves. Kannan will discuss the EDGE program in greater detail in his remarks, but I'm excited by our early progress, and I'm confident that we have the right strategy in place to build upon our already strong foundation while unlocking new opportunities and maintaining Mastech Digital's position as a leading partner to Global 2000 enterprise customers that are transitioning into AI-first organizations. We look forward to providing further updates in the days ahead. We are also particularly proud of the progress we are making in attracting top leadership talent with established track records. These leaders bring distinguished expertise in their fields, and we are seeing that they are the right catalyst for our growth agenda. Just as important, we believe we are building the leadership foundation that company needs to scale to lead with sharper operating rigor, deeper domain and AI capabilities and a culture of accountability and customer impact. While the quarter's performance reflects a measured demand environment, a view of where the market has been, our focus remains firmly on the future. We believe the steps we are taking now will strengthen our base, make us more competitive and set us up for sustainable growth in the years ahead. Turning now to our segment results. In our IT Staffing Services segment, revenues during the quarter declined 4.4% year-over-year. Our continued focus on disciplined pricing and emphasis on higher-value engagements delivered Mastech's record gross margins of 24.8% and all-time high average bill rates for Mastech at \$86.60, despite billable consultant headcount reducing by 11.6% year-over-year. While overall client activity continues to trend below prior year levels, this is consistent with broader market conditions. We believe our margin performance and improved bill rates underscore the effectiveness of our execution strategy and operational rigor in a measured demand environment. Our Data and Analytics Services segment revenues for the third quarter declined 15.8% year-over-year, reflecting a challenging comparison against strong results in the second half of 2024. New bookings activity during the quarter remained subdued at \$6.1 million, which was a factor of P&L; pressures at some of our key accounts and delayed decision-making. We continue to focus on leveraging our basket of offerings across our portfolio of customers. While near-term visibility remains limited, we continue to believe that long-term demand drivers underpinning this segment remain firmly intact. We are focused on aligning our delivery capabilities and go-to-market approach to capture growth opportunities as client spending patterns normalize. As I noted when I assumed this role, growth is only meaningful when it is sustainable and profitable. We aim to continue to drive efficiency, operate with accountability and ensure every investment and position we take creates lasting value for our customers, employees and shareholders. With that, I will hand it over to Kannan for a deeper dive into our financial performance during the third quarter.

Kannan Sugantharaman: Thanks, Nirav. Good morning, everyone. I will now discuss our third quarter financial results. We delivered third quarter consolidated revenue of \$48.5 million, a year-over-year decrease of 6.4% as compared to the prior year period. Our IT Staffing Services segment delivered revenue of \$40.6 million during the third quarter or a 4.4% lower than the prior year period. As Nirav noted, our focus on revenue quality resulted in an all-time high bill rate for Mastech and Mastech record gross margins in this segment, though our billable consultant base declined by 124 consultants since the third quarter of 2024, 11.6% decline. Our Data and Analytics Services segment reported a revenue of \$7.9 million during the third quarter, a decrease of 15.8% as compared to the prior year period. In addition, third quarter bookings totaled \$6.1 million as compared to bookings of \$11.1 million in the prior year period. Third quarter gross profit of \$13.5 million was a decrease of 8.9% as compared to the prior year period. Gross margins declined by 70 basis points over the third quarter of 2024, largely driven by decreases in revenue in our Data and Analytics Services segment. As Nirav mentioned, during the third quarter, we launched the EDGE program, which stands for Efficiencies Driving Growth and Expansion, a structured transformation initiative aimed at optimizing our organization and operating model. Key components of this program include cost diagnostics, process simplification, operational excellence

initiatives, vendor and contract rationalization, zero-based budgeting and performance-linked spend governance. Our Q1 initiative to transition the company's Finance & Accounting functions to India is part of this program as well. Together, these measures are intended to drive higher revenue quality, process simplification and automation and disciplined spend management to unlock capacity for investment in strategic growth areas. Early progress under EDGE has resulted and already resulted in greater operational efficiency and improved resource alignment across the organization. This is reflected in SG&A; as a percentage of revenue of 26.1% during the third quarter of 2025, a 280 basis point decrease as compared to 28.9% during the fourth quarter of 2024 and non-GAAP operating margin of 8.7% during the third quarter of 2025, a 190 basis point increase as compared to 6.8% during the fourth quarter of 2024. Importantly, the efficiencies generated through EDGE are being redeployed to strengthen our leadership and talent base, expanded competencies and accelerate market growth initiatives. While we expect to realize short-term benefits from these efforts, our near-term objective is to reinvest these gains to strengthen our competitive position, getting ahead of emerging opportunities and driving sustainable value creation for our shareholders. Third quarter GAAP net income was \$0.9 million or \$0.08 per diluted share compared to a net income of \$1.9 million, \$0.16 per diluted share in the prior year period. As we had previously discussed, we expected to incur transition costs that would impact near-term reported financials. We incurred \$2 million in severance and Finance & Accounting transition costs during the third quarter of 2025 with no comparable costs during the third quarter of 2024, which are reflected in the year-over-year decline in GAAP net income. Non-GAAP net income was \$3.5 million or \$0.29 per diluted share compared to \$2.8 million or \$0.23 per diluted share in the prior year period. SG&A; expense items not included in non-GAAP financial measures net of tax benefits are detailed in our third quarter 2025 earnings release for all periods presented, which are available on our website. During the third quarter of 2025, our liquidity and overall financial position remained solid. On September 30, 2025, we had \$32.7 million cash balances on hand, no bank debt outstanding and cash available of \$20.8 million under our revolving credit facility. Our Days Sales Outstanding measurement on September 30, 2025, totaled 55 days, which is well within our target range and in line with our DSO measurement a year ago. Finally, during the third quarter, we repurchased approximately 192,000 shares of Mastech Digital common stock at an average price of \$7.68 for a total investment of approximately \$1.5 million. Of the shares repurchased in the third quarter, 138,500 shares were purchased in a block buy from a long-term investor and approximately 52,000 shares were repurchased under company's Rule 10b5-1 plan. At the end of third quarter, we had approximately 214,000 shares available from our Board authorized program for repurchases. We plan to remain opportunistic with our share repurchase program to return capital and drive value for our shareholders. Operator, this concludes our prepared remarks. We will now open the line for questions. Operator: [Operator Instructions] Our first question comes from the line of Lisa Thompson with Zacks Investment Research.

Lisa Thompson: I have a few questions on things you said. First off, on the buyback since we were just talking about it, are you going to increase that because you're almost done with it?

Kannan Sugantharaman: Lisa, this is Kannan here. Mastech Digital will continue its buyback efforts in Q4, including giving consideration to entering into another Rule 10b5-1 plan. We continue to look into opportunities, and we do plan to take appropriate action as need be. We still have 214,000 that is approved by the Board. So while the plan is active, we will do that, which is appropriate depending on what we feel at that point in time. But we largely believe that it is a program that will -- is worth continuing though Lisa.

Lisa Thompson: Okay. Talking about consultants, you're getting more money per consultant. Is that a plan of yours to just kind of get high-paid people? Are the consultant numbers going to go up or down going forward? Do you have an idea?

Kannan Sugantharaman: Let me address that in 2 ways. Of course, it is pretty indicative of the 2 things that drove record margins, right? One was, of course, the bill rate, the mix and the discipline. Our average bill rates did go up. It was 83.6% and today, it stands at 86.6%, about 4% more. The focus is towards driving higher-value accounts and work while our account mix continues to shift towards complex higher-skilled roles and our operational rigor remains in place. So the intention is to be at this point, doing higher-skilled roles and shift towards more complex work, especially in the data and the AI

space.

Lisa Thompson: So do you think the consultant number will be up at the end of this quarter?

Kannan Sugantharaman: Yes. It was -- we closed at 947 billable consultants in the IT Staffing Services, which was down from 980 as of June 2025.

Lisa Thompson: Right. And in Q4, is that going to go up?

Kannan Sugantharaman: As of October, we are at 933 and that's the count that we are tracking to at this point in time, Lisa.

Lisa Thompson: Okay. Great. And I was -- could you explain EDGE a little bit more? I mean I think we can all understand moving Accounting & Finance to India as a tangible activity. Can you talk about what other things you are doing? And then how much more savings can you squeeze out of the SG&A; line?

Kannan Sugantharaman: Let me explain the context of EDGE, Lisa, right? And our EDGE program, which is Efficiencies Driving Growth and Expansion is focused on, one, driving higher quality of revenue. We just spoke about that, process simplification and automation, and disciplined spend management where we unlock capacity to reinvest in our strategic growth areas. It has 2 tracks, right? One is the efficiency track to free up capacity and the other one is the growth track to reinvest. Our efficiency, we are focused on bottoms-up cost diagnostics, process simplification, operational excellence initiatives, vendor and contract rationalization, zero-based budgeting, spend governance that is linking itself to performance. And on growth, it is towards enhancing talent, competency build and market expansion. So we are seeing multiple layers playing a part in the transformation journey. And we are really hoping that all of these changes fill in seamlessly as we look to reinvest and reorient ourselves for growth, Lisa.

Lisa Thompson: Okay. And how much more cost savings do you think you can get? Like what's your goal?

Kannan Sugantharaman: Yes. So if you really look at our SG&A; at this point in time, we do believe while we are at a space where it is much lower than what we had historically incurred, you will also see a fair bit of uptick in the investments that we are bringing to bear to reorient ourselves from a growth standpoint. So the idea of EDGE is largely acting ahead and making sure we have the dollars for that reinvestment and reorientation to happen. We believe that, that investment clip will start coming in from the first quarter of 2026, Lisa.

Lisa Thompson: Great. Looks like you've made a lot of progress.

Kannan Sugantharaman: Thank you, Lisa.

Operator: Our next question comes from the line of Marc Riddick with Sidoti.

Marc Riddick: So I wanted to sort of touch on with EDGE. Can you talk a little bit about maybe the timing as to the beginning of the plan maybe from the strategic process of putting it together and then the beginning of the implementation. Is that something that has -- that was taking place throughout the entire quarter? Or how should we think about the timing of how that layered in?

Kannan Sugantharaman: You are referring to the EDGE program then?

Marc Riddick: Yes.

Kannan Sugantharaman: Yes. So yes, it was programmatic, right? And if you remember back in second quarter when Nirav did speak about the fact that we want to focus and develop our strategic intent and initiatives, we pretty much started thinking. And of course, the thinking on EDGE started in Q1 when we wanted to move Finance & Accounting into India, but that was one part of the overall program. But in Q2, we got a lot more focused on making sure that we do 2 things. While on one end, we are looking to reorient ourselves to growth and making sure we make higher investments that is required from meeting our strategy. The other end was to obviously optimize and use that as our source to reinvest back into our business. So yes. So that was the thinking. So it all started in Q2. The idea was to make sure that we keep this long-term. EDGE is not a short-term program. It is an ongoing program where we continue to be very mindful in the way we spend, bringing in the appropriate spend governance and operational rigor and making sure that we do our appropriate benchmarks as we start rationalizing on an ongoing basis. That was the thinking, Marc.

Marc Riddick: Okay. Okay. Excellent. And then maybe you could talk a little bit about the -- with the Finance & Accounting transition expense and severance that was in 3Q. I know you don't guide, but I was sort of curious as to how we should think about what level we're looking at or additional levels of

expense that would flow into the fourth quarter? Or is there sort of a timing mechanism we should be thinking about additional expenses there?

Kannan Sugantharaman: Marc, we are sticking to the original timing that we had planned for and the cost will be in about the similar range as well. So we do not expect it to go beyond what has already been communicated and it's part of our 10-Q as well. And from a timing standpoint, we should largely be done by Q4.

Marc Riddick: Okay. Okay. Great. And then maybe shifting gears over to the bill rate growth drivers. I was wondering, could you talk a little bit about the pricing dynamic that you're seeing? Certainly it is understandable as far as client demand levels from a macroeconomic standpoint. But maybe you could talk a little bit about sort of what you're seeing as far as year-over-year pricing trends and to what extent revenue mix shift is playing into the benefit of the bill rate?

Kannan Sugantharaman: Right. And as I had stated, the average bill rate same time last year was 83.6%, Marc. And today, it stands at 86.6%, which is about 4% of an uplift. The focus over the last 2 quarters has been towards focusing on Data & Analytics, specifically high-value accounts and high-value work for that matter. And given that focus of ours, our account mix continues to shift towards more complex work, higher-skilled roles and pretty much putting that rigor in place. So that is going to be our focus going forward. Our focus is going to be largely on the quality of revenue that we want to drive and improve our margins. As you would see on the gross margin level, there is a fab uptick on the -- from an IT Staffing standpoint, and that will continue to be our rigor going forward, Marc.

Marc Riddick: Okay. And then I guess last one for me. Can you talk a little bit about the -- you touched on some of the AI-driven efforts. And maybe you could talk a little bit about some of the drivers that are maybe gaining greater traction here in the near term vis-a-vis some of the other opportunities that you see in '26 and beyond? Just maybe sort of -- are there any particular puts and takes or maybe even differentiation in client vertical behavior that we should be aware of?

Nirav Patel: Yes, sure. Marc, this is Nirav here, right? Let me answer that question. So first of all, look, I think directionally, it's very clear. The modernization efforts across many of our organizations are continuing to accelerate and push as much as they can given the softer market environment. I think -- but the client continues to be -- our client -- our existing customers continue to really have an exciting outlook in terms of where they want to really think about their modernization. From our standpoint, we think about our Data & Analytics Services business, right? It focuses on 3 priority areas where we think are very fundamental, which will demand a significant amount of our, what I call our capability building. One is data modernization. The clients continue to like think about getting their data ready for AI and how they can really lay what I call a strong data foundation for them to scale in the world of AI. So that's number one that priorities are very good. The second is their acceleration on data consolidation. I think that's another area that's happening because as enterprises work on bringing various ecosystems and platforms across various corporate environments together, I think that data consolidation efforts are continuing to also be a second priority where I think that area is building up very nicely. And the final thing I'm going to say is in AI transformation and innovations, where we have really started seeing early success with a few engagements in some of our health sciences clients. We want to continue to expand that from our historical base of MDM by making sure that we are shifting left to more and more of data engineering work and at the same time, trying to shift right to the data science work with our existing customers. So think about it that way that, that whole area of AI and where that continues to create a new dynamic and a new business model at our client locations is an effect that we will have to play into. And I think we feel pretty strong about how we have positioned ourselves between both of our talent business and our Data & Analytics Services business. And that partly is reflected in the fact that the talent environment also will see continued ongoing demand pickups from a high-value talent standpoint, which is the kind of work that is required for our clients as they think about transforming their organizations to AI-first organizations.

Operator: Mr. Patel, it appears we have no further questions at this time. I'd like to turn the floor back over to you for closing comments.

Nirav Patel: Thank you, operator. If there are no further questions, I would like to thank you all for joining our call today, and we look forward to sharing our fourth quarter 2025 results with you in February. Thank you.

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..