



FOR IMMEDIATE RELEASE:

## **Mastech Digital Reports 13% Organic Revenue Growth in Fourth Quarter 2019**

### **Data & Analytics Segment Generates Record Revenues with 34% YOY Growth**

**PITTSBURGH, PA – February 5, 2020** - Mastech Digital, Inc. (NYSE American: MHH), a leading provider of Digital Transformation IT Services, announced today its financial results for the fourth quarter and full year ended December 31, 2019.

#### ***Fourth Quarter 2019 Highlights:***

- Total revenues increased 13% to \$50.4 million, compared to revenues of \$44.6 million in the 2018 fourth quarter;
- The Company's Data and Analytics Services segment reported record revenues for the third consecutive quarter;
- The IT Staffing Services segment achieved revenue of \$43.2 million, which represented growth of 10% compared to the fourth quarter of 2018;
- GAAP diluted earnings per share were \$0.20 in the fourth quarter of 2019 versus \$0.08 in the 2018 fourth quarter; and
- Non-GAAP diluted earnings per share were \$0.26 in the fourth quarter of 2019 versus \$0.16 in the 2018 fourth quarter.

#### **Fourth Quarter Results:**

Revenues for the fourth quarter of 2019 totaled \$50.4 million compared to \$44.6 million during the corresponding quarter last year. Gross profits in the fourth quarter of 2019 were \$12.8 million, compared to \$10.7 million in the same quarter of 2018. GAAP net income for the fourth quarter of 2019 totaled \$2.3 million or \$0.20 per diluted share, compared to \$0.9 million or \$0.08 per diluted share during the same period last year. Non-GAAP net income for the fourth quarter of 2019 was \$2.9 million or \$0.26 per diluted share, compared to \$1.8 million or \$0.16 per diluted share in the fourth quarter of 2018.

Activity levels at the Company's Data and Analytics Services segment were especially strong during the quarter culminating in the signing of a number of significant orders with blue-chip customers in the financial services, pharmaceutical and healthcare verticals. Demand for the Company's IT Staffing Services segment also remained positive during the quarter, despite the high seasonal assignment completions at year-end.

#### **Full Year Results:**

Revenues for the full year of 2019 totaled \$193.6 million compared to \$177.2 million in 2018, an increase of 9% for the year. Gross profits for 2019 totaled \$48.0 million or 24.8% of total revenues, compared to \$42.5 million or 24.0% of total revenues in 2018. GAAP net income for 2019 was \$11.1 million or \$0.99 per diluted share, compared to \$6.7 million or \$0.60 per diluted share in 2018. Non-GAAP net income for 2019 totaled \$9.3 million or \$0.82 per diluted share, compared to \$8.2 million or \$0.74 per diluted share in 2018.

"I am very pleased with Mastech Digital's performance in the fourth quarter as well as the full year 2019," said Vivek Gupta, the Company's President and Chief Executive Officer. "Both of our business segments performed very well during the fourth quarter, growing revenues, expanding gross margins and increasing operating profits. What I am particularly happy to announce is that our Data and Analytics Services segment had an outstanding quarter with

respect to scaling the pipeline of opportunities and winning several multi-year multi-million dollar orders. With the continued positive momentum in both business segments, I am looking forward to a strong 2020 for Mastech Digital.”

Commenting on the Company’s financial position, Jack Cronin, Mastech Digital’s Chief Financial Officer, stated, “During the fourth quarter we continue to reduce bank debt and improve our leverage ratios. For the full year 2019, we lowered bank debt by over \$13 million, including the early payment of a portion of our outstanding term loan balance. At year-end 2019, we had approximately \$13 million of borrowing capacity available to us under our revolving credit line.”

#### **About Mastech Digital, Inc.:**

Mastech Digital (NYSE American: MHH) is a leading provider of Digital Transformation IT Services. The Company offers Data Management and Analytics Solutions, Digital Learning, and IT Staffing Services with a *Digital First* approach. A minority-owned enterprise, Mastech Digital is headquartered in Pittsburgh, PA with offices across the U.S., Canada, and India

#### **Use of Non-GAAP Measures:**

This press release contains non-GAAP financial measures to supplement our financial results presented on a GAAP basis. The presentation of these financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. Reconciliations of these non-GAAP measures to their comparable GAAP measures are included in the attached financial tables.

We believe that providing non-GAAP net income and non-GAAP diluted earnings per share offers investors useful supplemental information about the financial performance of our business, enables comparison of financial results between periods where certain items may vary independent of business performance, and allows for greater transparency with respect to key metrics used by management in operating our business. Additionally, management uses these non-GAAP financial measures in evaluating the Company’s performance.

Specifically, the non-GAAP financial measures contained herein exclude the following expense items:

**Amortization of acquired intangible assets:** We amortize intangible assets acquired in connection with our June 2015 acquisition of Hudson IT and our July 2017 acquisition of the services division of InfoTrellis, Inc. We exclude these amortization expenses in our non-GAAP financial measures because we believe it allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates a helpful comparison of our results with other periods.

**Stock-based compensation expenses:** We incur material recurring expense related to non-cash, stock-based compensation. We exclude these expenses in our non-GAAP financial measures because we believe that it provides investors with meaningful supplemental information regarding operational performance. In particular, because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under ASC 718, we believe that providing non-GAAP financial measures that exclude these expenses allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates comparison of our results with other periods.

**Acquisition-related transaction expenses:** We incurred significant expenses in connection with our acquisition of InfoTrellis, Inc. which we would not have otherwise incurred in the periods presented as part of our continuing operations. These transaction expenses consisted of investment banking fees, legal expenses, audit charges related to our acquired companies and various advisor costs. In the 2018 and 2019 periods, we recorded reductions in acquisition-related transaction expense due to revised estimates of investment banking fees associated with

contingent consideration payments. We believe that providing non-GAAP financial measures that exclude these expenses / credits allows investors to make more meaningful comparisons between our operating results and those of other companies within our industry and facilitates a helpful comparison of our results with other periods.

Contingent consideration liability revaluation: In connection with the InfoTrellis acquisition, the Company may have been required to pay future consideration that was contingent upon the achievement of specific earnings before interest and tax objectives ("EBIT"). As of the acquisition date, the Company recorded a contingent consideration liability representing the estimated fair value of such contingent consideration that was expected to be paid. In 2019 and 2018 this contingent consideration liability was reduced by \$6.1 million and \$11.1 million, respectively, after determining that relevant conditions for payment of such liability were unlikely to be fully satisfied. We believe that providing non-GAAP financial measures that exclude these adjustments to expense are useful for investors to understand the effects of these items on our total operating expenses and facilitate comparison of our results with other periods.

Goodwill impairment: The Company accounts for acquisitions in accordance with guidance found in ASC 805, *Business Combinations*. Accordingly, excess purchase price over the fair value of net tangible assets and identifiable intangible assets are recorded as goodwill. Goodwill is not amortized but is tested for impairment at least on an annual basis. If impairment is indicated, a write-down to fair value is recorded based on the excess of the carrying value of the asset over its fair market value. As a result of the reductions to contingent consideration related to the InfoTrellis acquisition, we performed a quantitative impairment tests on June 30, 2019 and on June 30, 2018 and again on December 31, 2018. The results of this testing indicated no impairment of goodwill in 2019 and \$9.7 million of impairments associated with the carrying value of goodwill in 2018. While it is possible that goodwill impairment could occur in the future, we believe that providing non-GAAP financial measures that exclude impairment expense are useful for investors to understand the effects of these items on our total operating expenses and facilitate comparison of our results with other periods.

#### **Forward-Looking Statements:**

Certain statements contained in this release are forward-looking statements based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "plans," "believes," "scheduled," "estimates" and variations of these words and similar expressions are intended to identify forward-looking statements, which include but are not limited to (i) projections of revenues, earnings, and cash flow, and (ii) the expected benefits to Mastech Digital from completing the acquisition of the services division of InfoTrellis, Inc. and the PNC credit facility and the expected performance of Mastech Digital following completion of these transactions. These statements are based on information currently available to the Company and it assumes no obligation to update the forward-looking statements as circumstances change. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results and trends may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation, the level of market demand for its services, the highly competitive market for the types of services offered by the Company, the impact of competitive factors on profit margins, market conditions that could cause the Company's customers to reduce their spending for its services, and the Company's ability to create, acquire and build new lines of business, to attract and retain qualified personnel, reduce costs and conserve cash, and other risks that are described in more detail in the Company's filings with the Securities and Exchange Commission, including its Form 10-K for the year ended December 31, 2018.

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**MASTECH DIGITAL, INC.**  
**SUPPLEMENTAL FINANCIAL INFORMATION**

(Amounts in thousands)

(Unaudited)

	Three Months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
<b>Revenues:</b>				
Data and analytics services	\$ 7,161	\$ 5,361	\$ 26,663	\$ 23,803
IT staffing services	43,199	39,284	1,66,911	1,53,361
<b>Total revenues</b>	<b>\$ 50,360</b>	<b>\$ 44,645</b>	<b>\$ 1,93,574</b>	<b>\$ 1,77,164</b>
<b>Gross Margin %:</b>				
Data and analytics services	49.1%	45.2%	46.7%	44.0%
IT staffing services	21.4%	21.0%	21.3%	20.9%
<b>Total gross margin %</b>	<b>25.3%</b>	<b>23.9%</b>	<b>24.8%</b>	<b>24.0%</b>
<b>Segment Operating Income:</b>				
Data and analytics services	\$ 1,639	\$ 1,199	\$ 5,495	\$ 5,710
IT staffing services	2,500	1,747	8,001	7,184
Subtotal	4,139	2,946	13,496	12,894
Acquisition transaction expenses	-	-	110	140
Amortization of acquired intangible assets	(671)	(672)	(2,688)	(2,727)
Goodwill impairment	-	(2,000)	-	(9,738)
Revaluation of contingent consideration liability	-	1,950	6,069	11,056
Interest expense and other, net	(327)	(665)	(1,768)	(2,211)
<b>Income before income taxes</b>	<b>\$ 3,141</b>	<b>\$ 1,559</b>	<b>\$ 15,219</b>	<b>\$ 9,414</b>

**MASTECH DIGITAL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands)

(Unaudited)

	<b>December 31,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,981	\$ 1,294
Accounts receivable, net	32,352	38,080
Prepaid and other current assets	1,597	1,321
Total current assets	36,930	40,695
Equipment, enterprise software and leasehold improvements, net	2,476	2,208
Operating lease right-of-use assets	4,617	-
Deferred income taxes	-	297
Non-current deposits	405	540
Goodwill, net of impairment	26,106	26,106
Intangible assets, net	20,050	22,738
<b>Total assets</b>	<b>\$ 90,584</b>	<b>\$ 92,584</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current liabilities:

Current portion of long-term debt	\$ 4,575	\$ 4,575
Current portion of operating lease liability	1,396	-
Accounts payable	4,027	4,127
Accrued payroll and related costs	7,902	7,728

Other accrued liabilities	1,191	1,476
Total current liabilities	19,091	17,906
Long-term liabilities:		
Long-term debt, less current portion, net	20,682	34,129
Contingent consideration liability	-	6,069
Long-term operating lease liability, less current portion	3,321	-
Long-term accrued income taxes	185	204
Deferred income taxes	1,025	-
Total liabilities	44,304	58,308
Shareholders' equity:		
Common stock, par value \$0.01 per share	127	126
Additional paid-in capital	21,939	20,829
Retained earnings	28,759	17,614
Accumulated other comprehensive income (loss)	(358)	(119)
Treasury stock, at cost	(4,187)	(4,174)
Total shareholders' equity	46,280	34,276
<b>Total liabilities and shareholders' equity</b>	<b>\$ 90,584</b>	<b>\$ 92,584</b>

**MASTECH DIGITAL, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands, except per share data)

(Unaudited)

	<u>Three Months ended December 31,</u>		<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues	\$ 50,360	\$ 44,645	\$ 1,93,574	\$ 1,77,164
Cost of revenues	<u>37,597</u>	<u>33,980</u>	<u>1,45,593</u>	<u>1,34,636</u>
Gross profit	12,763	10,665	47,981	42,528
Selling, general and administrative expenses	<u>9,295</u>	<u>8,441</u>	<u>30,994</u>	<u>30,903</u>
Income from operations	3,468	2,224	16,987	11,625
Other income/(expense), net	<u>(327)</u>	<u>(665)</u>	<u>(1,768)</u>	<u>(2,211)</u>
Income before income taxes	3,141	1,559	15,219	9,414
Income tax expense	<u>867</u>	<u>685</u>	<u>4,074</u>	<u>2,723</u>
Net income	<u>\$ 2,274</u>	<u>\$ 874</u>	<u>\$ 11,145</u>	<u>\$ 6,691</u>
<b>Earnings per share:</b>				
Basic	\$ 0.21	\$ 0.08	\$ 1.01	\$ 0.61
Diluted	\$ 0.20	\$ 0.08	\$ 0.99	\$ 0.60
<b>Weighted average common shares outstanding:</b>				
Basic	<u>11,049</u>	<u>10,989</u>	<u>11,029</u>	<u>10,950</u>
Diluted	<u>11,314</u>	<u>11,187</u>	<u>11,232</u>	<u>11,161</u>

**MASTECH DIGITAL, INC.**  
**RECONCILIATION OF GAAP MEASURES TO NON-GAAP MEASURES**

(Amounts in thousands, except per share data)  
(Unaudited)

	Three Months ended December 31,		Year ended December 31,	
	2019	2018	2019	2018
<b>GAAP Net Income</b>	<b>\$ 2,274</b>	<b>\$ 874</b>	<b>\$ 11,145</b>	<b>\$ 6,691</b>
<b>Adjustments:</b>				
Amortization of acquired intangible assets	671	672	2,688	2,727
Stock-based compensation	170	129	936	470
Acquisition transaction expenses	-	-	(110)	(140)
Goodwill impairment	-	2,000	-	9,738
Revaluation of contingent consideration liability	-	(1,950)	(6,069)	(11,056)
Income taxes adjustments	(224)	(197)	661	(432)
Charge related to U.S. Tax Reform	-	251	-	251
<b>Non-GAAP Net Income</b>	<b>\$ 2,891</b>	<b>\$ 1,779</b>	<b>\$ 9,251</b>	<b>\$ 8,249</b>
<b>GAAP Diluted Earnings Per Share</b>	<b>\$ 0.20</b>	<b>\$ 0.08</b>	<b>\$ 0.99</b>	<b>\$ 0.60</b>
<b>Non-GAAP Diluted Earnings Per Share</b>	<b>\$ 0.26</b>	<b>\$ 0.16</b>	<b>\$ 0.82</b>	<b>\$ 0.74</b>
<b>Weighted average common shares outstanding:</b>				
GAAP Diluted Shares	11,314	11,187	11,232	11,161
Non-GAAP Diluted Shares	11,314	11,187	11,232	# 11,161