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# Zacks Small-Cap Research

*Sponsored – Impartial - Comprehensive*

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## Mastech Digital (MHH-AMEX)

### MHH: An Undervalued IT Services Company With Accelerating Growth

Based on an average EV to Sales of 1.1xs we believe MHH stock is worth $19.00 per share.

| | |
|---|---|
| Current Price (02/19/20) | $17.23 |
| **Valuation** | **$19.00** |

### OUTLOOK

Mastech Digital, based outside Pittsburgh, PA is an IT staffing business with a growing data and analytics consulting and project management service serving blue chip customers in the US. The data and analytics business, Mastech InfoTrellis, was 14% of sales last quarter and its run rate grew from $21.4 million to $28.6 million, up 33.6% year over year. An improving balance sheet and accelerating earnings generated through internal growth and acquisitions, should afford it a higher valuation based on an expanding multiple.

### SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$17.23** |
| **52-Week Low** | **$4.71** |
| **One-Year Return (%)** | **156.4** |
| **Beta** | **1.1** |
| **Average Daily Volume (sh)** | **59,165** |
| **Shares Outstanding (mil)** | **11** |
| **Market Capitalization ($mil)** | **$190** |
| **Short Interest Ratio (days)** | **0.3** |
| **Institutional Ownership (%)** | **10** |
| **Insider Ownership (%)** | **64** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **12.5** |
| **Earnings Per Share (%)** | **18.6** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **21.0** |
| **P/E using 2020 Estimate** | **18.5** |
| **P/E using 2021 Estimate** | **15.4** |

| | |
|---|---|
| **Risk Level** | **Above Average** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **IT Services** |

### ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2018 | 43 A | 45 A | 44 A | 45 A | 177 A |
| 2019 | 45 A | 48 A | 50 A | 50 A | 194 A |
| 2020 | 49 E | 52 E | 54 E | 56 E | 212 E |
| 2021 | | | | | 235 E |

**Non-GAAP Earnings Per Share**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2018 | $0.18 A | $0.21 A | $0.20 A | $0.16 A | $0.74 A |
| 2019 | $0.15 A | $0.20 A | $0.23 A | $0.26 A | $0.82 A |
| 2020 | $0.17 E | $0.22 E | $0.24 E | $0.27 E | $0.93 E |
| 2021 | | | | | $1.12 E |

Zacks Projected EPS Growth Rate - Next 5 Years % **15**

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## KEY POINTS

- Mastech Digital had historically been an IT staffing company, but it entered the data and analytics business in 2017 with its purchase of InfoTrellis. This business is higher margin and faster growing than IT staffing and is becoming an increasingly bigger part of total sales. This math should lead to accelerating earnings growth as well as a higher valuation for the stock.

- Mastech plans to augment its internal growth with acquisitions in the data and analytics space to expand its capabilities. It has been paying off debt through internally generated cash flow, which leaves it with increased debt capacity for asset purchases as well as cash to expand internationally.

- The economy continues robust and IT workers continue to be in short supply leading to continued demand from customers.

- The company is currently valued at an enterprise value to projected 2020 sales of 0.8 times, below that of its peers who trade at an average of 1.1 times. With accelerating growth and expanding margins we believe it could deserve a premium to its peers in the future. Using the average metric, we believe MHH common stock is worth $19.00 per share

## OVERVIEW

Mastech Digital is a minority-owned IT services company headquartered in Moon Township, PA with offices in the US, Canada and India. It has domestic sales offices in: Chicago; Boston; Orlando; Tampa; Dallas; Atlanta; Houston; Freemont, CA; and Toronto, in addition to its headquarters near Pittsburgh. Internationally, the company has a sales presence in Singapore; Ireland and in the UK; and it recruits and provides IT outsourcing through its locations in Noida and Chennai, India. The company currently has approximately 1,100 North American employees and 400 employees offshore, in addition to over 180 subcontracted professionals. Originally, it was the IT staffing business of iGATE Capital Corp., a public company that was sold to Capgemini in 2015 for $4+ billion in cash. Mastech Digital had been previously spun off as a separate public company from iGATE in 2008. Since then it has also become a consultant, project manager and VAR in the data analytics, data management and big data through its acquisition of InfoTrellis on July 13, 2017. It reports earnings of these two segments. IT staffing is still the largest part of the company but the smaller, faster growing, and higher margin, data and analytics business is an increasing percent of total revenues. This dynamic should result in continued accelerating earnings growth going forward, and this growth could result in an expansion of the stock's PE ratio.

### Mastech InfoTrellis

InfoTrellis was bought in 2017 and is the higher margin, faster growing part of Mastech's business. It is also where the company is focusing it efforts in order to grow it both internally and by acquisition. InfoTrellis is an expert in data. It does both project work for companies in the area of data and analytics and is partner for software companies selling in this space. Its customers include companies such as Dell, Highmark, and Lowes. It has reseller partnerships with companies such as IBM and Informatics. Not only can it provide the software as a reseller, but it will install it, service it, and cleanse and restructure the client's data in order to get the system to work. Its provides services to:

1. Develop strategies to identify, acquire, store, manage, and transform data to fuel business insights and drive optimum business performance.
2. Design and implement data management architectures and systems as a foundation for the exploitation of enterprise data.

3. Design, implement, administer, and operate reporting regimes that credibly report business performance against established or contemplated KPIs.
4. Design and deploy enterprise data architectures that make the entire corpus of enterprise data available to business users – especially for analytics operations.
5. Build predictive models that are highly correlative with actual business performance.
6. Build advanced learning models that accommodate and co-evolve with changes in the business environment.

The purchase of InfoTrellis took almost a year to close and it had challenges from the beginning. It did not meet original expectations and in accordance with the acquisition terms, no contingent consideration (earnout), which was valued at $17.1 at the acquisition date, was paid New management was brought in this time last year, and since then the sales force and the pipeline has been vastly improved and is showing good growth. The first quarter after InfoTrellis was bought it was generating revenues at a $14 million run rate and since then it has grown to a $29 million run rate, showing over 30% growth per year. Mastech InfoTrellis growth accelerated throughout 2019. In Q4 2019, InfoTrellis reported 34% revenue growth. Not only is it rapidly growing, it provides Mastech with higher gross and operating margins. InfoTrellis had a gross margin of 47% in 2019 compared with only 21% for the staffing business. As this business becomes a bigger percent of total revenues, and if higher margins and faster growth continue, earnings growth should accelerate.

Typically, Mastech InfoTrellis is hired for a minimum of three months and then the clients adds on a longer duration as needed. The company is trying to move business to more long-term multi-year projects to give it better revenue visibility as well as smoothing revenue lumpiness. It calls these types of contracts “Centers of Excellence.” In Q4 2019 it closed several large multi-year contracts exemplifying this effort; in December alone the company closed $23 million in new business.

**IT Staffing**

Mastech Digital’s staffing business provides employees to the IT industry on a temporary project basis. These projects typically run about nine months and Mastech serves mostly Blue Chip clients. Only one customer is over 10% of sales, and that is CGI, a global outsourcing firm with which Mastech has a close relationship. In 2019, CGI was 11.3%% of total sales.

While many companies provide IT staffing, Mastech’s unique lower cost business model sets it apart in the staffing industry. The company employs professionals that are both US citizens and H-1B visa holders. Much of its recruiting is done from India which results in much lower costs than setting up offices throughout the US. It acknowledges that some IT skill sets are hard to find in the US and it uses legal non-citizens when needed. There has been much talk of limiting the issuance of H-1B visas but Mastech should not be affected by this as it rarely sponsors people to get new visas (maybe 10-20 per year,) rather it sources its ranks from those already in the US with valid H-1B visas. The logic is that the economics of sponsoring have increased greatly from a period when it used to cost $1,800 for a three-year visa, to a current price of $2,800 for a one-year visa. According to study by SHRM Council for Global Immigration and the National Foundation for American Policy, employers pay fees and attorney costs of between $3,400 and $16,560 for an initial H-1B petition, and $6,300 to $28,620 for the combined cost of an initial H-1B petition and an extension. Mastech’s cost is in the lower end of this range.

Consultants are particularly attracted to Mastech because of their prestigious blue chip clients. Mastech staffers are typically younger than the average age of employees in other organization. The company attracts both candidates that are mobile and want to build a resume with blue chip customer experience, as well as older employees interested in higher paying short term gigs in their preferred geographies.

**2019 Results**

For the year ending December 31, 2019, the company reported revenues of $194 million, up 9.3%. Staffing was $167 million (86% of sales,) up 8.8%, and data and analytics services was $31 million, up 14.8%.

Staffing grew both by having more placements as well as increased hourly rates. Both segments improved their gross margins. Staffing gross margin was at 21.3% compared to 21.1% a year ago, and data and analytics was at 46.7% compared to 44.0% a year ago. Gross margin dollars increased 12.8%.

SG&A increased $4.8 million and adjusted operating income was $10.9 million compared to adjusted operating income of $10.3 million. Operating margin declined slightly to 5.6% from 5.8% in 2018. Other expense also declined from $2.2 million to $1.8 million in 2019, as the debt and thus the interest on the debt, declined.

With a 26.8% tax rate this resulted in GAAP net income of $11.1 million versus $6.7 million. Taking out one-time charges and stock-based compensation, non-GAAP income was $9.3 million compared to $8.2 million a year ago, up 12.1%. GAAP EPS was $0.99 versus $0.60 while non-GAAP EPS was $0.82 versus $0.74, up 11.4%.

### Balance Sheet

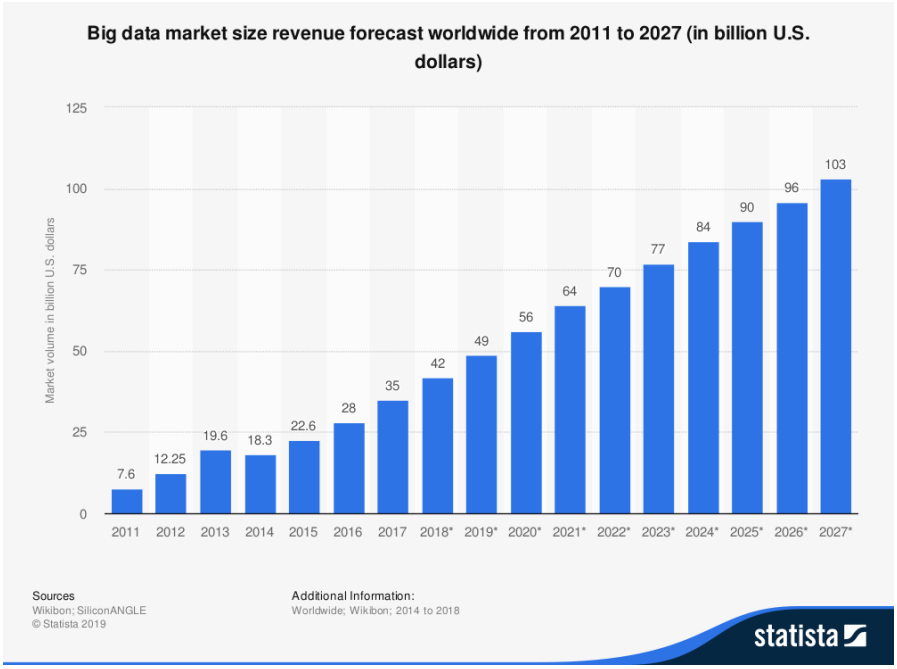
Mastech Digital ended 2019 with cash of $3 million and debt of $25 million. It had a quick ratio of 1.9 times and working capital of $17.8 million. Since last year it reduced total debt by $1.9 million and it continues to pay it down in 2020 focused the higher interest debt.

## INDUSTRY OUTLOOK

### The Staffing Industry

Staffing Industry Analysts estimates that the staffing industry generated $491 billion in revenue worldwide in 2018. SIA predicts that global staffing revenue growth decelerated from 5% in 2018 to 2% in 2019, driven by a global economic slowdown. It predicts an improvement to 3% growth in 2020 because of a pickup in global GDP growth. Staffing in the US is expected to grow 3% this year. IT staffing however is growing much faster. According to SIA, in 2018 temporary IT staffing revenue growth was approximately 10.7% year over year and almost entirely organically.

### Big Data and Business Analytics Consulting




According to the Global BigData Market Report just released by Infiniti Research Limited, the Big Data market is expected to grow with a CAGR of 13% from 2020 to 2024. The global big data and business analytics market was valued at $168.8 billion in 2018 and is forecast to grow to $274.3 billion by 2022. Within that market, Big Data market revenues are projected to increase from $49 billion in 2019 to $103B in 2027 according to Wikibon, as shown on the graph below. This is a CAGR of 9.7%

Within that market, The Big Data Analytics software market was valued at $12.5 billion in 2019 and is projected to reach $17.7 billion by 2025, at a CAGR of 6.5% during the forecast period.

## INDUSTRY POSITION

Mastech Digital competes in two different but related markets: IT staffing, and data and analytics services.

### IT Staffing Industry

Mastech's staffing business competes with hundreds of shop both large and small. Some of the larger competitors are highlighted below:

**ASGN Inc**. (NASDAQ:ASGN) is located in Calabasas, California and is a $3.6 billion company founded in 1985 and was formerly known as On Assignment. It provides IT and professional staffing services internationally. Mastech competes primarily with its Apex Systems segment that is focused on large-scale mission critical IT skills and offers technical, scientific, digital, and creative services and solutions for contract, contract-to-hire, and permanent placement positions to Fortune 1000 and mid-market clients. It also competes with ASGN's Oxford Core division that specializes in high-end IT and engineering staffing.

**Computer Task Group** (NYSE:CTG) is an $85 million company founded in 1966 and headquartered in Buffalo, NY, providing information technology solutions and staffing services company in North America, Europe, and India. It has 4,300 employees worldwide.

**KForce** (NASDAQ: KFRC) is an $800 million company founded in 1962 and headquartered in Tampa. Its Tech segment provides temporary staffing and permanent placement services to its clients primarily in systems/applications architecture and development, project management, enterprise data management, business intelligence, artificial intelligence, machine learning, network architecture, and security. It has over 30,000 employees serving 4,000 customers worldwide.

**Robert Half** (NYSE: RHI) is a $7 billion company founded in 1968 and headquartered in Menlo Park, CA. It is a generalist staffing agency and operates through three segments: Temporary and Consultant Staffing, Permanent Placement Staffing, and Risk Consulting and Internal Audit Services. Its IT staffing segment, Robert Half Technology, generated $683 million in revenue in 2019, up double digits.

#### Data and Analytics Market

There are a number of companies that Mastech InfoTrellis competes against on a regular basis. These include the following players as well as numerous small boutique firms.

**Accenture** (NYSE: ACN) is a $135 billion public company founded in 1989 and based in Dublin. It provides services world wide in strategy, consulting, digital, technology, and operations. It has more than 450,000 employees serving clients in over 120 countries.

**Cognizant** (NASDAQ: CTSH) is $38 billion company founded in 1994 and is located in Teaneck, NJ. In the last 12 months it generated $17 billion in sales. It provides consulting, technology, and outsourcing services worldwide. It offers expertise in analytics and artificial intelligence, digital engineering, intelligent process automation, interactive, and hybrid cloud services and solutions; and application development, systems integration, application testing and maintenance, infrastructure, and business process services.

**Deloitte** (private) In addition to accounting, tax and financial advisory services, Deloitte has a large IT consulting and outsourcing business. It was founded in 1845, is headquartered New York City and has 107,000 employees who generated $29 billion in sales in 2019. It has a division dedicated to Analytics, Artificial Intelligence (AI), and Automation.

**IBM** (NYSE:IBM) has a large consulting business as well as a provider of software and hardware in the data space. While Mastech is a partner and reseller for IBM software, it also competes with it in projects. IBM is a $136 billion market cap company based in Armonk, NY and incorporated in 1911.

**Tata Consultancy** (India: 532540-IN) was founded in 1968 and is headquartered in Mumbai, India. It provides information technology and IT enabled services worldwide in areas including: cognitive business, consulting, analytics, automation and artificial intelligence, Internet of Things, cloud applications, blockchain, cloud infrastructure, cyber security, interactive, industrial engineering, quality engineering, and enterprise services. It has 447,000 employees worldwide and last quarter it generated $5.6 billion in revenues.

## VALUATION

Based a blend of average 2019 and 2020 estimated revenues of its peers we believe MHH stock to be worth approximately $19 per share based on current estimates. As it evolves into a higher percentage of revenues from Mastech InfoTrellis we believe that multiple could expand in the future as that business enjoys higher multiples that basic staffing services as shown by the multiples below of companies such as Accenture, Cognizant, Infosys, and Wipro.

| Company | Ticker | Calendar Revenue 2020E | LTM | EBIDTA Margin | Enterprise Value / Sales 2020E | Enterprise Value / Sales LTM | Included in Average? | Enterprise Value |
|---|---|---|---|---|---|---|---|---|
| Accenture | CAN | 46,800 | 43,970 | 16% | 2.8 | 3.0 | y | 132,860 |
| Cross Country Healthcare, Inc. | CCRN | 854 | 808 | 2% | 0.5 | 0.6 | y | 463 |
| Capgemini SE | CAP.PA | 13,980 | 14,120 | 13% | 1.4 | 1.4 | y | 19,200 |
| Cognizant | CTSH | 17,340 | 16,780 | 19% | 2.1 | 2.1 | y | 35,820 |
| Computer Task Group | CTG | 392 | 388 | 3% | 0.2 | 0.3 | y | 97 |
| GEE Group, Inc. | JOB | 155 | 151 | 6% | 0.7 | 0.7 | y | 111 |
| Infosys | INFY | 13,700 | 12,640 | 24% | 3.3 | 3.6 | y | 45,310 |
| Kelly Services, Inc. Class A | KELYA | 5,490 | 5,360 | 2% | 0.2 | 0.2 | y | 833 |
| Kforce Inc. | KFRC | 1,430 | 1,350 | 6% | 0.6 | 0.6 | y | 808 |
| ManpowerGroup Inc. | MAN | 20,580 | 20,860 | 4% | 0.3 | 0.3 | y | 5,870 |
| ASGN Inc. | ASGN | 4,200 | 3,920 | 10% | 1.0 | 1.1 | y | 4,260 |
| Robert Half International Inc. | RHI | 6,380 | 6,070 | 11% | 1.1 | 1.1 | y | 6,730 |
| Staffing 360 Solutions, Inc. | STAF | 305 | 289 | 2% | 0.2 | 0.2 | y | 68 |
| TrueBlue, Inc. | TBI | 2,300 | 2,370 | 4% | 0.3 | 0.3 | y | 661 |
| Wipro | WIT | 8,900 | 8,570 | 1% | 2.4 | 2.5 | y | 21,620 |
| **Average** | | | | 8.2% | 1.1 | 1.2 | | 16,873 |

| | Projected Revenue 2020E | 2019 | Enterprise Value / Sales 2020E | 2019 | Valuation Range Low | High |
|---|---|---|---|---|---|---|
| | 212 | 194 | 1.1 | 1.2 | 231 | 241 |
| YoY growth | | | | | | |

| | |
|---|---|
| Conclusion of Enterprise Value | **$236,280,164** |
| Market Value | **$213,980,164** |
| Fully diluted shares | 11,314,000 |
| Price per Share | **$18.91** |

## RISKS

- The company is subject to the business cycle and tends to do better when the economy is robust or at the end of a recession when companies are reluctant to bring on full time hires.
- The company is almost entirely dependent on the US market in the IT Staffing segment.
- The top ten clients represent 45% of sales with CGI being over 10%.
- Any regulatory changes regarding H-1B visas could eventually trickle down to Mastech's pool of potential consultants; approximately 40% of its employee base is sourced from those currently holding these visas.

## MANAGEMENT

**Vivek Gupta**
**President and CEO**

Vivek has served as our President, CEO, and a director since March 2016. Prior to joining the company, from October 2015 to February 2016, Vivek served as the Chief Executive—Americas, RPG Group for RPG Enterprises, an Indian business conglomerate investing in portfolio companies in the areas of automotive tires, IT, infrastructure, pharmaceuticals, energy, and plantations. Prior to joining RPG Enterprises, he spent more than 30 years working for Zensar Technologies, a global information technology services company, which is also a portfolio company of the RPG Group. From 2011 to 2015, Mr. Gupta served as the Chief Executive of Global Infrastructure Management Services and as the Executive Chairman of Zensar's IT infrastructure management services business. Vivek earned a Bachelor of Technology from the Indian Institute of Technology and has attended executive management programs at the Indian Institute of Management and the University of Pennsylvania.

**Jack Cronin**
**Chief Financial Officer**

As the CFO of Mastech Digital, Jack oversees all finance functions as well as M&A related activities of the company. He has over 40 years of rich experience, 18 of which are at Mastech Digital. Prior to this, he was the CFO at Industrial Ceramics and Assistant Corporate Controller at Dravo Corporation. Jack has played a leadership role in the Mastech Digital's acquisition of Hudson's IT staffing business as well as the sale of IGATE's Canadian subsidiary. In the past, he has anchored the leverage-buyout of three major subsidiaries of Dravo as well as the private sale of Industry Ceramics. Jack earned an MBA from the Katz Business School, University of Pittsburgh, and is a certified CPA and CMA.

**Paul Burton**
**Chief Executive – Mastech InfoTrellis**

Paul comes to Mastech InfoTrellis after a successful tenure at Genpact, where he spent over two years as General Manager of their Data Analytics business. Prior to joining Genpact, Paul was with IBM for 14 years and has worked with other reputed organizations such as iXL, Hewlett Packard, and the United States Army. He brings with him 20+ years of experience in global sales, operations, and P&L management. Paul has a PhD in International Development from the University of Southern Mississippi and a JD degree from the

Concord Law School at Purdue University. He also holds an MBA and Master of Science degree from Georgia State University and the Industrial College of the Armed Forces, respectively.

## BOARD OF DIRECTORS

**Sunil Wadhwani**
**Co-Chairman**

Sunil has served as a director and co-Chairman since the founding of the company in 2008. He was the Co-Founder of iGATE Corporation, a provider of integrated technology and operations-based information technology solutions, and Mastech. Mr. Wadhwani served as Co-Chairman and Chief Executive Officer of iGATE from 1986 until April 2008, when he resigned as Chief Executive Officer, but remained a director of iGATE and Co-Chairman of the iGATE Board until July 2015. From 1986 through September 1996, Mr. Wadhwani served as Chairman of iGATE and held several other offices, including President and Chief Executive Officer. Mr. Wadhwani has a Bachelor's degree from the Indian Institute of Technology and a Master's degree from Carnegie Mellon University. Mr. Wadhwani also serves as the Managing Partner of SWAT Capital Administrator LLC and as the principal executive officer of the Wadhwani Family Office. Mr. Wadhwani's history and experience with the Company since its inception led to the Board's conclusion that he should continue as a Director of the Company.

**Ashok Trivedi**
**Co-Chairman**

Ashok has also served as a director and co-Chairman since the founding of the company in 2008 and was a Co-Founder of iGATE and Mastech. He served as Co-Chairman and President of iGATE from October 1996 until April 2008, when he resigned as President, but remained a director of iGATE and Co-Chairman of the iGATE Board until July 2015. Ashok also served as the Chairman of the Board of iGATE Global Solutions Limited, a subsidiary of iGATE, and held this position from July 2000 until July 2015. From 1988 through September 1996, he served as President of iGATE and held other offices, including Secretary and Treasurer. From 1976 to 1988, he held various marketing and management positions with Unisys Corporation. He is also Managing Partner of SWAT Capital Administrator LLC and as the principal executive officer of the Trivedi Family Office. Ashok earned an MBA from Ohio University and a MS in Physics from Delhi University.

**Vivek Gupta**
**President and CEO, Mastech**

**John Ausura**
**Former Founder and Managing Director of Capital Resolution**

John has served as a Director since its September 2008 founding. Until he retired in 2013, John was the founder and Managing Director of Capital Resolution, LLC, a professional services firm that provides interim management and operations improvement assistance to companies in transition that was started in 2003. Prior to Capital Resolution and between 2000 and 2003, he was a Principal with XRoads Solutions Group, LLC, a national restructuring professional services firm. Prior to 2000, John was a Senior VP with PNC Financial Services Group where he was CFO of the Consumer Bank and COO of PNC's Credit Card Bank.

John earned an MBA at the Wharton School of the University of Pennsylvania and a BA from the University of Scranton.

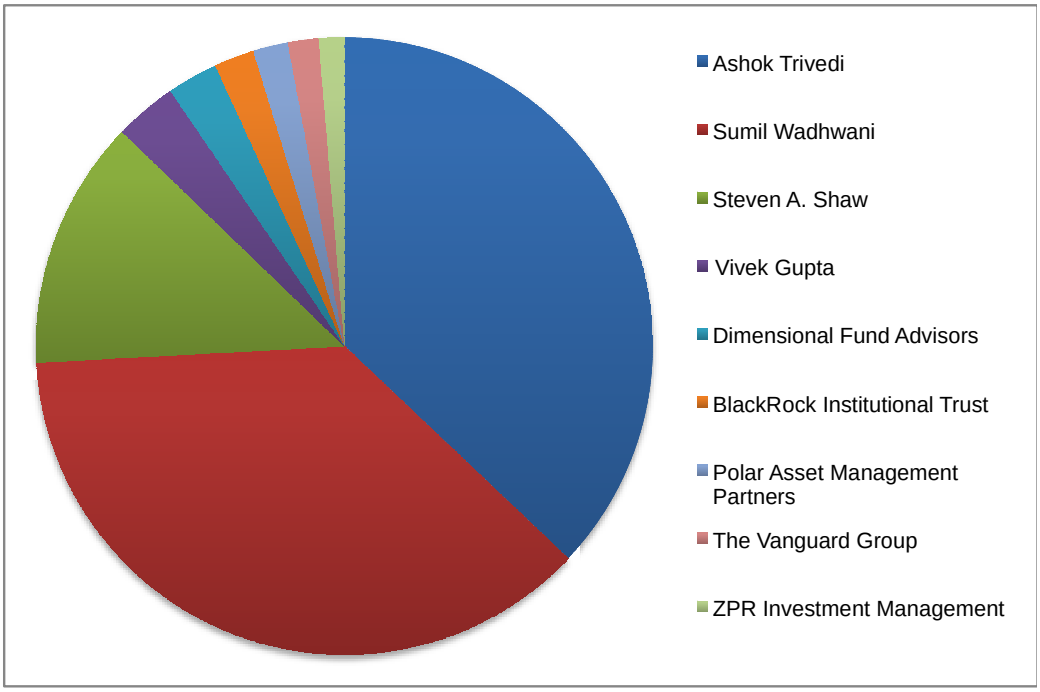
**Brenda Galilee**

Brenda has served as a director since its September 2008 founding. She is currently the Chief Consulting Officer for CES-Customer Experience Solutions, a “Voice of the Customer” consulting company, and has held this position since January 2013. Ms. Galilee was the CEO and Chairman of the Board of InTouch Corporation, a customer acquisition and retention services company serving the financial industries, until her resignation in 2013. Ms. Galilee assumed this role in March 2008, upon the completion of a management buyout. In March 1991, Ms. Galilee founded and served as the CEO and Chairman of Hall Kinion and Associates, an IT staffing company, until being acquired by Kforce Corporation in June 2004. Brenda completed the OPM program at Harvard University.

**Gerhard Watzinger**

Gerhard has served as a director since the founding of the company in September 2008. Between April 2013 and September 2013, he served as the interim CEO of iGATE. He was the Executive VP for Corporate Strategy and Mergers & Acquisitions of the McAfee business unit of Intel until his resignation in 2012. Gerhard joined Intel upon Intel’s acquisition of McAfee. Gerhard joined McAfee in November 2007 upon McAfee’s acquisition of SafeBoot where Mr. Watzinger served as CEO from 2004 to 2007. From 2003 to 2004, he was the CEO of Mascot Systems, a subsidiary of iGATE focused on offshore IT operations. From 1998 to 2003, Gerhard served as Senior VP of iGATE’s staffing and solutions operations. Prior to joining iGATE, he held senior positions at APT, PricewaterhouseCoopers, and Cap Gemini. Mr. Watzinger currently serves as a director for Telesign and CrowdStrike. He has a BS in Computer Science from the University of Munich.

## OWNERSHIP




**Source: Zacks Investment Research**

## INCOME STATEMENT

| | Q1 2019 31-Mar | Q2 2019 30-Jun | Q3 2019 30-Sep | Q4 2019 31-Dec | Q1 2020E 31-Mar | Q2 2020E 30-Jun | Q3 2020E 30-Sep | Q4 2020E 31-Dec | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Billable consultants | 1,116 | 1,113 | 1,197 | 1,167 | 1,116 | 1,113 | 1,197 | 1,200 | 1,100 | 1,167 | 1,300 | 1,500 |
| Average bill rate per hour | 74.56 | 74.75 | 74.60 | NA | | | | | 73.01 | NA | 74.70 | 74.70 |
| IT Staffing Services | 39,431 | 41,818 | 42,463 | 43,199 | 42,000 | 45,000 | 46,000 | 48,000 | 153,361 | 166,911 | 181,000 | 198,000 |
| Yr-to-yr Growth | 7% | 8% | 10% | 10% | 7% | 8% | 8% | 11% | 11% | 9% | 8% | 9% |
| IT Staffing Gross Margin | 8,202 | 8,991 | 9,087 | 9,245 | 8,988 | 9,630 | 9,844 | 10,272 | 32,326 | 35,524 | 38,734 | 43,560 |
| Gross Margin % | 21% | 22% | 21% | 21% | 21% | 21% | 21% | 21% | 21.1% | 21.3% | 21.4% | 22% |
| Data & Analytics Services | 5,768 | 6,654 | 7,080 | 7,161 | 7,000 | 7,400 | 8,000 | 8,200 | 23,803 | 26,663 | 30,600 | 36,600 |
| Yr-to-yr Growth | -12% | 9% | 22% | 34% | 21% | 11% | 13% | 15% | 159% | 12% | 15% | 20% |
| Data & Analytics Gross Margin | 2,624 | 3,067 | 3,236 | 3,516 | 3,220 | 3,478 | 3,800 | 3,936 | 10,477 | 12,444 | 14,434 | 17,934 |
| Gross Margin % | 46% | 46% | 46% | 49% | 46% | 47% | 48% | 48% | 44.0% | 46.7% | 47.2% | 49% |
| **Revenue** | **$45,199** | **$48,472** | **$49,543** | **$50,360** | **$49,000** | **$52,400** | **$54,000** | **$56,200** | **$177,164** | **$193,574** | **$211,600** | **$234,600** |
| Yr-to-yr Growth | 4% | 8% | 12% | 13% | 8% | 8% | 9% | 12% | 20% | 9.3% | 9.3% | 10.9% |
| Cost of revenue | 34,364 | 36,418 | 37,214 | 37,597 | 36,792 | 39,292 | 40,356 | 41,992 | 134,636 | 145,593 | 158,432 | 173,106 |
| Gross profit | 10,835 | 12,054 | 12,329 | 12,763 | 12,208 | 13,108 | 13,644 | 14,208 | 42,528 | 47,981 | 53,168 | 61,494 |
| Gross Margin % | 24.0% | 24.9% | 24.9% | 24.5% | 24.9% | 25.0% | 25.3% | 25.3% | 24.0% | 24.8% | 25.1% | 26.2% |
| | | | | | | | | | | | | |
| SG&A | 8,965 | 9,544 | 9,259 | 9,295 | 9,500 | 9,700 | 9,800 | 10,000 | 32,221 | 37,063 | 39,000 | 45,000 |
| Impairment of goodwill | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,738 | 0 | 0 | 0 |
| Revaluation of contingent consideration liabilty | 0 | (6,069) | 0 | 0 | 0 | 0 | 0 | 0 | (11,056) | (6,069) | 0 | 0 |
| Total operating expenses | 8,965 | 3,475 | 9,259 | 9,295 | 9,500 | 9,700 | 9,800 | 10,000 | 30,903 | 30,994 | 39,000 | 45,000 |
| | | | | | | | | | | | | |
| Operating income: | 1,870 | 8,579 | 3,070 | 3,468 | 2,708 | 3,408 | 3,844 | 4,208 | 11,625 | 16,987 | 14,168 | 16,494 |
| Operating margin | 4.1% | 17.7% | 6.2% | 6.9% | 5.5% | 6.5% | 7.1% | 7.5% | 6.6% | 8.8% | 6.7% | 7.0% |
| | | | | | | | | | | | | |
| **Other income:** | | | | | | | | | | | | |
| Interest income | (539) | (468) | (413) | NA | (400) | (400) | (400) | (400) | (2,171) | NA | (1,600) | (900) |
| Other income | (15) | (39) | 33 | NA | - | - | - | - | (40) | NA | - | - |
| Total other income | (554) | (507) | (380) | (327) | (400) | (400) | (400) | (400) | (2,211) | (1,768) | (1,600) | (900) |
| | | | | | | | | | | | | |
| Income before income taxes | 1,316 | 8,072 | 2,690 | 3,141 | 2,308 | 3,008 | 3,444 | 3,808 | 9,414 | 15,219 | 12,568 | 15,594 |
| Pretax Margin | 2.9% | 16.7% | 5.4% | 6.2% | 4.7% | 5.7% | 6.4% | 6.8% | 5.3% | 7.9% | 5.9% | 6.6% |
| | | | | | | | | | | | | |
| Income taxes | 352 | 2,114 | 741 | 867 | 619 | 806 | 923 | 1,021 | 2,723 | 4,074 | 3,393 | 4,210 |
| Tax rate | 27% | 26% | 28% | 28% | 27% | 27% | 27% | 27% | 28.9% | 26.8% | 27% | 27% |
| Net income | 964 | 5,958 | 1,949 | 2,274 | 1,689 | 2,202 | 2,521 | 2,787 | 6,691 | 11,145 | 9,175 | 11,384 |
| Yr-over-Yr | -30% | 112% | 20% | 160% | 75% | -63% | 29% | 23% | 312% | 67% | -18% | 24% |
| | | | | | | | | | | | | |
| Stk based compensation | 236 | 267 | 263 | 170 | 275 | 275 | 275 | 275 | 470 | 936 | 1,100 | 1,100 |
| One-time expenses | 431 | (4,046) | 338 | (224) | 0 | 0 | 0 | 0 | 1,088 | (5,518) | - | - |
| Non-GAAP Income | 1,631 | 2,179 | 2,550 | 2,891 | 1,964 | 2,477 | 2,796 | 3,062 | 8,249 | 9,251 | 10,275 | 12,484 |
| Yr-over-Yr | -17% | -5% | 16% | 63% | 20% | 14% | 10% | 6% | 79% | 12.1% | 11% | 21% |
| | | | | | | | | | | | | |
| **Net income per share:** | | | | | | | | | | | | |
| Primary EPS | 0.09 | 0.54 | 0.18 | 0.21 | 0.15 | 0.20 | 0.23 | 0.25 | 0.61 | 1.01 | 0.83 | 1.03 |
| Diluted EPS | 0.09 | 0.53 | 0.17 | 0.20 | 0.15 | 0.19 | 0.22 | 0.24 | 0.60 | 0.99 | 0.83 | 1.03 |
| Diluted Non-GAAP EPS | 0.15 | 0.20 | 0.23 | 0.26 | 0.17 | 0.22 | 0.24 | 0.27 | 0.74 | 0.82 | 0.93 | 1.12 |
| | -18% | -6% | 16% | 61% | 19% | 11% | 7% | 4% | 60% | 11% | 13% | 21% |
| **Shares** | | | | | | | | | | | | |
| Basic | 10,998 | 11,022 | 11,039 | 11,049 | 11,059 | 11,069 | 11,079 | 11,089 | 10,950 | 11,029 | $11,049 | $11,100 |
| Yr-over-Yr | 0.7% | 0.9% | 0.7% | 0.5% | 0.6% | 0.4% | 0.4% | 0.4% | 10.3% | 1% | 0% | 0% |
| Diluted | 11,218 | 11,164 | 11,205 | 11,314 | 11,364 | 11,414 | 11,464 | 11,514 | 11,161 | 11,232 | 11,050 | 11,101 |
| Yr-over-Yr | 1.4% | 0.2% | -0.1% | 1.1% | 1.3% | 2.2% | 2.3% | 1.8% | 11.6% | 1% | -2% | 0% |

## BALANCE SHEET

| | Dec. 31, 2019 | Sept. 30, 2019 | Qtr-Qtr % Growth | Dec. 31, 2018 | Yr-Yr % Growth |
|---|---|---|---|---|---|
| **Current assets:** | | | | | |
| Cash and equivalents | **$ 2,981** | **$ 1,963** | 51.9% | **$ 1,294** | 130.4% |
| Accounts receivable, net | 32,352 | 26,537 | 21.9% | 28,913 | 11.9% |
| Unbilled receivables | 0 | 8,423 | -100.0% | 9,167 | -100.0% |
| Prepaid expenses & other curr assets | 1,597 | 1,392 | 14.7% | 1,321 | 20.9% |
| Total current assets | 36,930 | 38,315 | -3.6% | 40,695 | -9.3% |
| | | | | | |
| Net equip., software, and leasehold | 2,476 | 2,534 | -2.3% | 2,208 | 12.1% |
| Deferred income taxes | 0 | 0 | 0.0% | 297 | -100.0% |
| Right-of-use assets | 4,617 | 4,993 | -7.5% | NA | NA |
| Non-current deposits | 405 | 410 | -1.2% | 540 | -25.0% |
| Goodwill, net | 26,106 | 26,106 | 0.0% | 26,106 | 0.0% |
| Intangible assets, net | 20,050 | 20,721 | -3.2% | 22,738 | -11.8% |
| Total assets | 90,584 | 93,079 | -2.7% | 92,584 | -2.2% |
| | | | | | |
| **Current liabilities:** | | | | | |
| Current portion of long-term debt, net | **4,576** | **4,575** | 0.0% | **4,575** | 0.0% |
| Acconts payable | 4,027 | 4,359 | -7.6% | 4,127 | -2.4% |
| Accrued payroll and related costs | 7,902 | 9,828 | -19.6% | 7,728 | 2.3% |
| Current portion of operating lease liability | 1,396 | 1,407 | -0.8% | NA | NA |
| Other accrued liabilities | 1,191 | 1,329 | -10.4% | 1,218 | -2.2% |
| Deferred revenue | 0 | 246 | -100.0% | 258 | -100.0% |
| Total current liabilities | 19,092 | 21,744 | -12.2% | 17,906 | 6.6% |
| | | | | | |
| Long-term debt, net | **20,682** | **22,547** | -8.3% | **34,129** | -39.4% |
| Contingent consideration liabilities | **0** | **0** | 0.0% | **6,069** | -100.0% |
| Lease liability | 3,321 | 3,686 | -9.9% | NA | NA |
| Long term accrued income taxes | 185 | 204 | -9.3% | 204 | -9.3% |
| Long term deferred income taxes | 1,025 | 1,082 | -5.3% | 0 | NM |
| Total liabilities | 44,305 | 49,263 | -10.1% | 58,308 | -24.0% |
| | | | | | |
| **Stockholders' equity** | | | | | |
| Common stock | 127 | 127 | 0.0% | 126 | 0.8% |
| Additional paid-in capital | 21,939 | 21,700 | 1.1% | 20,829 | 5.3% |
| Retained earnings | 28,759 | 26,485 | 8.6% | 17,614 | 63.3% |
| Accumulated other comp loss | (358) | (309) | 15.9% | (119) | 200.8% |
| Treasury stock, at cost | (4,187) | (4,187) | 0.0% | (4,174) | 0.3% |
| Total stockholders' equity | 46,280 | 43,816 | 5.6% | 34,276 | 35.0% |
| Total liabilities and stockholders' equity | 90,585 | 93,079 | -2.7% | 92,584 | -2.2% |
| | | | | | |
| Current and quick ratio | 1.9 | 1.8 | 9.8% | 2.3 | -14.9% |
| Working Capital | 17,838 | 16,571 | 7.6% | 22,789 | -21.7% |
| Net cash | 2,981 | 1,963 | 51.9% | 1,294 | 130.4% |
| Debt | 25,258 | 27,122 | -6.9% | 38,704 | -34.7% |
| Debt/TA | 28% | 29% | -4.3% | 42% | -33.3% |

## CASH FLOWS

| | Year 2018 | 3 Mo Ended Mar 31, 2019 | 3 Mo Ended Jun 30, 2019 | 3 Mo Ended Sep 30, 2019 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net income | 6,691 | 964 | 5,958 | 1,949 |
| | | | | |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | | | |
| Depreciation and amortization | 3,182 | 839 | 869 | 869 |
| Bad debt expense | 10 | - | 30 | 50 |
| Interest amortization of deferred financing costs | 100 | 26 | 26 | 26 |
| Stock-based compensation | 470 | 236 | 267 | 263 |
| Deferred income taxes, net | 171 | (95) | 1,549 | (75) |
| Impairment of goodwill | 9,738 | | | |
| Reevaluation of contingent consideration liability | (11,056) | - | (6,069) | - |
| Loss on disposition of fixed assets | 7 | | | |
| Long term accrued income taxes | 136 | | | |
| Operating lease assets and liabilities, net | - | - | 95 | 5 |
| | | | | |
| **Change in operating assets and liabilities:** | | | | |
| Accounts receivable & unbilled receivables | (7,428) | (1,051) | 3,310 | 781 |
| Prepaid expenses and other current assets | 283 | 110 | (248) | (52) |
| Accounts payable | (901) | (196) | (22) | 450 |
| Accrued payroll | (1,241) | (112) | 2,472 | (260) |
| Other accrued liabilities | (461) | 327 | (448) | 232 |
| Deferred revenues | (172) | 80 | (164) | 72 |
| | | | | |
| Net cash used by operating activities | (471) | 1,128 | 7,625 | 4,310 |
| | | | | |
| **Cash flows from Investing activities:** | | | | |
| (Payment for) recovery of non-current deposits | (285) | 9 | 84 | 37 |
| Capital expenditures | (771) | (404) | (190) | (292) |
| Net cash used in investing activities | (1,056) | (395) | (106) | (255) |
| | | | | |
| **Cash flows from Financing activities:** | | | | |
| Borrowings on revolving credit facility, net | 4,526 | 656 | (4,183) | (4,701) |
| (Repayments) on term loan facility | (4,003) | (1,144) | (1,144) | (1,144) |
| Proceeds from the issuance of common shares | - | | 106 | - |
| Payment of deferred financing costs | (71) | - | - | - |
| Purchase of treasury stock | (20) | | (13) | - |
| Proceeds from the exericise of stock options | 118 | - | - | - |
| **Net cash provided by financing activities** | 550 | (488) | (5,234) | (5,845) |
| Effect of exchange rate changes of cash | (207) | 9 | 36 | (116) |
| Net change - cash | (1,184) | 254 | 2,321 | (1,906) |
| Cash, beginning of quarter | 2,478 | 1,294 | 1,548 | 3,869 |
| Cash, end of period | 1,294 | 1,548 | 3,869 | 1,963 |
| | | | | |
| **Supplemental information:** | | | | |
| Interest paid | 2,060 | - | - | - |
| Income taxes paid | 2,031 | - | - | - |
| | | | | |
| **Cash Flow** | 10,624 | 1,970 | 8,699 | 3,082 |
| **Free cash flow** | 9,853 | 1,566 | 8,509 | 2,790 |

## HISTORICAL STOCK PRICE




**Source: Zacks Investment Research**

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