Zacks Small-Cap Research

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Mastech Digital (NYSE Amer: MHH)

MHH: Mastech Digital's Restructuring Produces Increasing Profitability

Based on an EV to sales of 0.5x estimated 2025 revenues, we believe MHH stock could be worth approximately $11.40 per share.

Current Price (11/12/2025)	$7.39
Valuation	**$11.40**

OUTLOOK

Mastech Digital, based outside Pittsburgh, PA is an IT staffing business with a data and analytics, consulting, and project management service serving blue-chip customers in the US. The company trades below its peers and we expect stock price appreciation when the company returns to growth later this year. New management has implemented a new focus on AI and hopes to profit by aiding clients in its implementation. It also plans to grow through acquisition.

SUMMARY DATA

52-Week High	**$15.98**
52-Week Low	**$6.39**
One-Year Return (%)	**-44.7**
Beta	**0.9**
Average Daily Volume (sh)	**14,394**
Shares Outstanding (mil)	**11.8**
Market Capitalization ($mil)	**$83**
Short Interest Ratio (days)	**2.5**
Institutional Ownership (%)	**18**
Insider Ownership (%)	**43**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-1.0**
Earnings Per Share (%)	**-23.2**
Dividend (%)	**N/A**
P/E using TTM Non-GAAP EPS	**10.1**
P/E using 2025 Estimate	**9.6**
P/E using 2026 Estimate	**6.4**

Risk Level	**Below Average**
Type of Stock	**Small Value**
Industry	**IT Services**

ZACKS ESTIMATES

Revenue
(In millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023	$55 A	$52 A	$48 A	$46 A	$201 A
2024	$47 A	$50 A	$52 A	$51 A	$199 A
2025	$48 A	$49 A	$48 A	$46 E	$192 E
2026					$201 E

Non-GAAP Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2023	$0.12 A	$0.11 A	$0.11 A	$0.11 A	$0.44 A
2024	$0.06 A	$0.19 A	$0.23 A	$0.23 A	$0.71 A
2025	$0.06 A	$0.15 A	$0.29 A	$0.26 E	$0.77 E
2026					$1.15 E

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WHAT'S NEW

Mastech Digital Continues to Remake its Cost Structure and Offerings

Mastech has progressed further in implementing its EDGE (Efficiencies Driving Growth and Expansion) initiative, and it looks to have already cut approximately $2,500 a quarter in expenses. It plans to reinvest some of that into growth initiatives and higher margin revenue. The macro environment remains challenging as large customers cut and defer decisions. The Data & Analytics segment is moving its offering to be differentiated and is focusing on using data modernization and data consolidation to make its customers ready for an AI-first world. What this means is that corporations need to get their data to be able to work with LLMs to yield useful results. This will require a layer of fabric knowledge to go across all the legacy systems, which are in different locations and using different applications, and pull them into a usable format. Mastech is also doing this internally to drive efficiency and practice what it preaches.

Despite Down Revenues, Gross and Operating Margins Improve as Management Prioritizes Profits

In Q3 2025, Mastech generated total revenues of $48.5 million, down 6.4% from $51.8 million in Q3 2024. The IT staffing business was down 4.4% to $40.6 million versus $42.4 million a year ago, but rose slightly sequentially from $40.5 million in Q2 2025. IT staffing was 84% of revenues, and it ended the quarter with 947 billable consultants compared to 1,071 the year before. As of October, that number is down to 933. On a positive note, billing rates have improved to between $86.60 per hour from $83.60 last year. D&A declined to $7.9 million from $9.4 million in Q3 2024 (-15.8%). Its revenues also declined sequentially. D&A bookings in Q3 were $6.1 million compared to $5.8 million in Q2, which was half of the $11.7 million in Q1 2025; however, some of the Q2 bookings were pulled forward into Q1.

Total gross margin declined to 27.8% from 28.5% last year, below the company record at 29.0% in Q4 2024. Staffing's gross margin at 24.8% was improved from last year's quarter at 23.6%. The increase was due to higher billing rates and better execution despite lower headcount. Data & Analytics' gross margin fell to 46.0% from 50.7% a year ago.

SG&A once again included one-time expenses and was $12.6 million compared to $12.3 million a year ago. One-time expenses in the quarter were $2 million and included severance and finance and accounting transition expenses.

Operating income was almost breakeven at $820,000 versus $2.4 million last year. Taking out this year's one-time charges, operating income would have been $2.8 million. Other income was $415,000 compared to $133,000 a year ago. Taxes in the quarter were $294,000, compared to $697,000 last year. The tax rate for the full year is expected to be approximately 28%.

GAAP net income was $941,000 compared to $1.9 million last year. On a non-GAAP basis, it was a profit of $3.5 million versus $2.8 million. Fully diluted GAAP earnings per share were $0.08 compared $0.16 a year ago. On a non-GAAP basis, EPS was $0.29 compared to $0.23 a year ago. The diluted share count was 11.9 million, down 66,000 shares from last year.

Balance Sheet

The company ended the quarter with $32.7 million in net cash ($2.74 per share), a quick ratio of 3.1x, working capital of $46.7 million, and no debt. It currently has a borrowing availability of $20.8 million under its revolving credit facility. Cash flow increased significantly in the quarter to $2.4 million (not including changes in working capital). Free cash flow was $2.2 million.

The company has a stock buyback plan for 500,000 shares, of which 214,456 remain. 16,511 shares were bought back in May and June at an average price of $6.90, and 192,112 shares were bought in Q3 for approximately $1.5 million at an average of $7.68 per share. A 138,500 block was bought from one holder, and the rest was through its 10b5 program.

KEY POINTS

- Mastech Digital was solely an IT staffing company, but it entered the data and analytics business in 2017 by buying InfoTrellis. It added to this business in Q4 2020 with the purchase of AmberLeaf. This business operates at a higher margin and is ultimately expected to be 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 no debt and an increasing cash balance from internally generated cash flow, which leaves it with increasing debt capacity and cash to grow through acquisition.

- In January 2024, the company hired strategic consultants to improve the business, and in January 2025, it hired a new CEO, and in April 2025, a new CFO/COO.

- Today, MHH trades at a fully diluted enterprise value of $56 million. This is 0.3 times its enterprise value to 2025 estimated sales, compared to its peers, who trade at 2.0 times.

OVERVIEW

Mastech Digital is a minority-owned IT services company headquartered in Moon Township, PA, with US, Canada, and India offices. Additionally, it has domestic sales offices in Chicago, Boston, Orlando, Tampa, Dallas, Atlanta, Houston, Fremont, CA, and Toronto. Internationally, the company has a sales presence in Singapore, Ireland, and the UK, and it recruits and provides IT outsourcing through its locations in Noida and Chennai, India. On December 31, 2024, it had 1,816 employees. A large portion of its salaried employees were working under Mastech-sponsored H1-B temporary work permits. 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 data analytics, data management, and big data through acquisition. It reports the earnings of these two segments. IT staffing is still the largest part of the company, but the smaller and higher-margin data and analytics business should ultimately be an increasing percentage of total revenues going forward. This dynamic should result in continued accelerating margin expansion going forward, and this growth could result in an expansion of the stock's P/E ratio.

VALUATION

To value MHH, we are using comparable peer companies that staff technology people. The valuation for the group has come down as the industry suffers. Their valuations average 2.0 times EV to estimated 2025 sales. All of these companies, except Kforce, are generating much higher margins than Mastech. If we apply Kforce's multiple of 0.5 times to Mastech's forecasted 2025 revenues, the company is worth a market capitalization of $132 million, or approximately $11.40 per share. At 0.5 times, Mastech trades below the lowest comp ratio.

Company	Ticker	Cal. Rev 2026E	Cal. Rev 2025E	LTM	EBIDTA Margin	EV/Sales 2026E	EV/Sales 2025E	EV/Sales LTM	Enterprise Value
Accenture	ACN	74,710	70,480	69,670	18%	2.0	2.1	2.1	148,350
Cognizant	CTSH	22,050	21,090	20,860	18%	1.5	1.6	1.6	33,990
Infosys	INFY	NA	19,830	19,690	23%	NA	3.4	3.4	66,720
Kforce Inc.	KFRC	1,320	1,330	1,340	4%	0.5	0.5	0.5	626
Wipro	WIT	10,830	10,280	10,390	19%	2.2	2.3	2.3	23,710
Average					16.4%	1.5	2.0	2.0	49,937

In December 2023, CTG was acquired for $10.50 per share in cash, or $170 million. This was 0.6x its run rate based on its Q2 2023 revenues. Using this valuation and Mastech's Q2 2025 run rate, it would be worth $146 million or $12.37 per share.

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. For the nine months ended September 30, 2025, Mastech had three clients (Fidelity was 15.4%, Populus was 12.7% and CGI was 11.1%) that each exceeded 10% of total revenues. For the nine months ended September 30, 2024, the company had two clients (CGI was 15.4% and Allegis was 10.6%) that each exceeded 10% of total revenues. Therefore, the nine-month revenue from CGI declined $6.6 million. The decline in CGI's revenues is due to the majority of its revenue coming from PNC, which has been outsourcing to India. For the nine months ended September 30, 2025, and 2024, Mastech's top ten clients represented approximately 58% and 54% of total revenues, respectively.

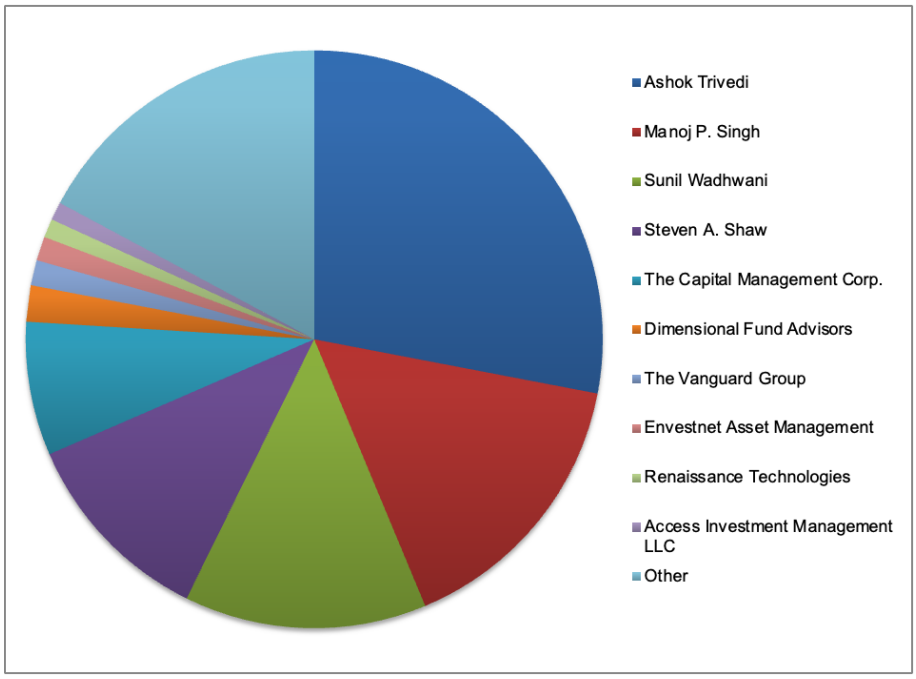
  For the three months ended September 30, 2025, the company had three clients (Fidelity at 18.1%, Populus at 12.7%, and CGI at 10.4%) that each accounted for more than 10% of total revenues. For the three months ended September 30, 2024, the company had two clients (CGI at 14.0% and Allegis at 11.7%) that were over 10% of total revenues. Therefore, Q3 CGI revenues declined $2.2 million from a year ago.

- Any regulatory changes regarding H-1B visas could eventually trickle down to Mastech's pool of potential consultants; 40% of its US consultants held these visas in 2024. In contrast to companies like Cognizant, Mastech does not sponsor these visas, but seeks employees already holding them. Although there has been talk about changes to visa grants for new entries into the US, including paying

$100,000 per hire, Mastech sources its workforce from those who already have the appropriate visas. The company does expect there will be greater compliance requirements going forward, and it is monitoring the topic. A greater acceptance of remote working, especially overseas, could decrease this risk.

- There is an industry shift to integrate AI into coding and IT in general. Mastech is working to help clients with this transition as well as integrating it into its operations. It is still unknown how it will affect the entire outsourcing industry

OWNERSHIP



INCOME STATEMENT

	Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025E				
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	2023	2024	2025E	2026E
Billable consultants	1,004	1,035	1,071	1,008	991	980	947	930	946	1,008	930	980
IT Staffing Services	38,756	40,658	42,441	40,463	39,357	40,508	40,586	38,800	166,740	162,318	159,251	165,000
Yr-to-yr Growth	-15%	-6%	7%	7%	2%	0%	-4%	-4%	-21%	-3%	-2%	4%
IT Staffing Gross Margin	8,371	9,595	10,016	9,630	8,934	9,924	10,065	9,506	36,102	37,613	38,430	40,425
Gross Margin %	21.6%	23.6%	23.6%	23.8%	22.7%	24.5%	24.8%	24.5%	21.7%	23.2%	24.1%	24.5%
Data & Analytics Services	8,067	8,876	9,398	10,284	8,960	8,589	7,910	7,500	34,358	36,625	32,959	36,255
Yr-to-yr Growth	-14.1%	1.2%	16.9%	26.2%	11.1%	-3.2%	-15.8%	-27.1%	-18.2%	7%	-10%	10%
Data & Analytics Gross Margin	3,743	4,367	4,765	5,091	3,951	3,882	3,639	3,435	14,943	17,965	14,907	17,402
Gross Margin %	46.4%	49.2%	50.7%	49.5%	44.1%	45.2%	46.0%	45.8%	43.5%	49.1%	45.2%	48.0%
Revenue	**$46,823**	**$49,534**	**$51,839**	**$50,747**	**$48,317**	**$49,097**	**$48,496**	**$46,300**	**$201,098**	**$198,943**	**$192,210**	**$201,255**
Yr-to-yr Growth	-15.0%	-5.1%	8.5%	10.2%	3.2%	-0.9%	-6.4%	-8.8%	-20.5%	-1%	-3%	5%
Cost of revenue	34,692	35,554	37,068	36,032	35,425	35,277	35,035	33,359	150,062	143,346	139,096	143,428
Gross profit	12,131	13,980	14,771	14,715	12,892	13,820	13,461	12,941	51,036	55,597	53,114	57,827
Gross Margin %	25.9%	28.2%	28.5%	29.0%	26.7%	28.1%	27.8%	28.0%	25.4%	27.9%	27.6%	28.7%
SG&A	12,537	12,287	12,332	14,650	14,745	13,793	12,641	11,000	51,911	51,806	52,179	48,000
Impairment of goodwill	0	0	0	0	0	0	0	0	5,300	0	0	0
Employment-related claim, net	0	0	0	0	0	0	0	0	3,100	0	0	0
Total operating expenses	12,537	12,287	12,332	14,650	14,745	13,793	12,641	11,000	60,311	51,806	52,179	48,000
Operating income:	(406)	1,693	2,439	65	(1,853)	27	820	1,941	(9,275)	3,791	935	9,827
Operating margin	-0.9%	3.4%	4.7%	0.1%	-3.8%	0.1%	1.7%	4.2%	-4.6%	1.9%	0.5%	4.9%
Other income:												
Total other income	124	116	133	260	91	183	415	400	244	633	1,089	1,089
Income before income taxes	(282)	1,809	2,572	325	(1,762)	210	1,235	2,341	(9,031)	4,424	2,024	10,916
Pretax Margin	-0.6%	3.7%	5.0%	0.6%	-3.6%	0.4%	2.5%	5.1%	-4.5%	2.2%	1.1%	5.4%
Income taxes	(121)	418	697	28	(323)	75	294	585	(1,893)	1,022	631	3,002
Tax rate	43%	23%	27%	9%	-18%	36%	24%	25%	21%	23%	31%	28%
Net income	(161)	1,391	1,875	297	(1,439)	135	941	1,756	(7,138)	3,402	1,393	7,914
Yr-over-Yr	-162%	-164%	1400%	-106%	794%	-90%	-50%	491%	222.1%	-148%	-59%	468%
Stk based compensation	550	461	542	647	895	714	729	730	3,082	2,200	3,068	3,000
One-time expenses plus amortization	374	397	352	1,858	1,300	981	1,797	650	9,331	2,981	4,728	3,000
Non-GAAP Income	763	2,249	2,769	2,802	756	1,830	3,467	3,136	5,275	8,583	9,189	13,914
Yr-over-Yr	-46%	74%	120%	111%	-1%	-19%	25%	12%	-159.5%	63%	7%	51%
Net income per share:												
Primary EPS	(0.01)	0.12	0.16	0.03	(0.12)	0.01	0.08	0.15	(0.61)	0.29	0.12	0.67
Diluted EPS	(0.01)	0.12	0.16	0.02	(0.12)	0.01	0.08	0.15	(0.61)	0.28	0.12	0.65
Diluted Non-GAAP EPS	0.06	0.19	0.23	0.23	0.06	0.15	0.29	0.26	0.44	0.71	0.77	1.15
	-45%	75%	119%	101%	-2%	-19%	26%	15%	-157.6%	62%	7%	50%
Shares												
Basic	11,615	11,652	11,695	11,713	11,753	11,767	11,782	11,697	11,613	11,669	11,750	11,753
Yr-over-Yr	-0.2%	0.3%	0.8%	1.0%	1.2%	1.0%	0.7%	-0.1%	0.2%	0%	1%	0%
Diluted	11,909	11,922	12,011	12,191	12,096	11,964	11,945	11,900	11,613	12,014	11,976	12,100
Yr-over-Yr	-1.2%	-0.3%	0.4%	5.1%	1.6%	0.4%	-0.5%	-2.4%	-4.0%	3%	0%	1%

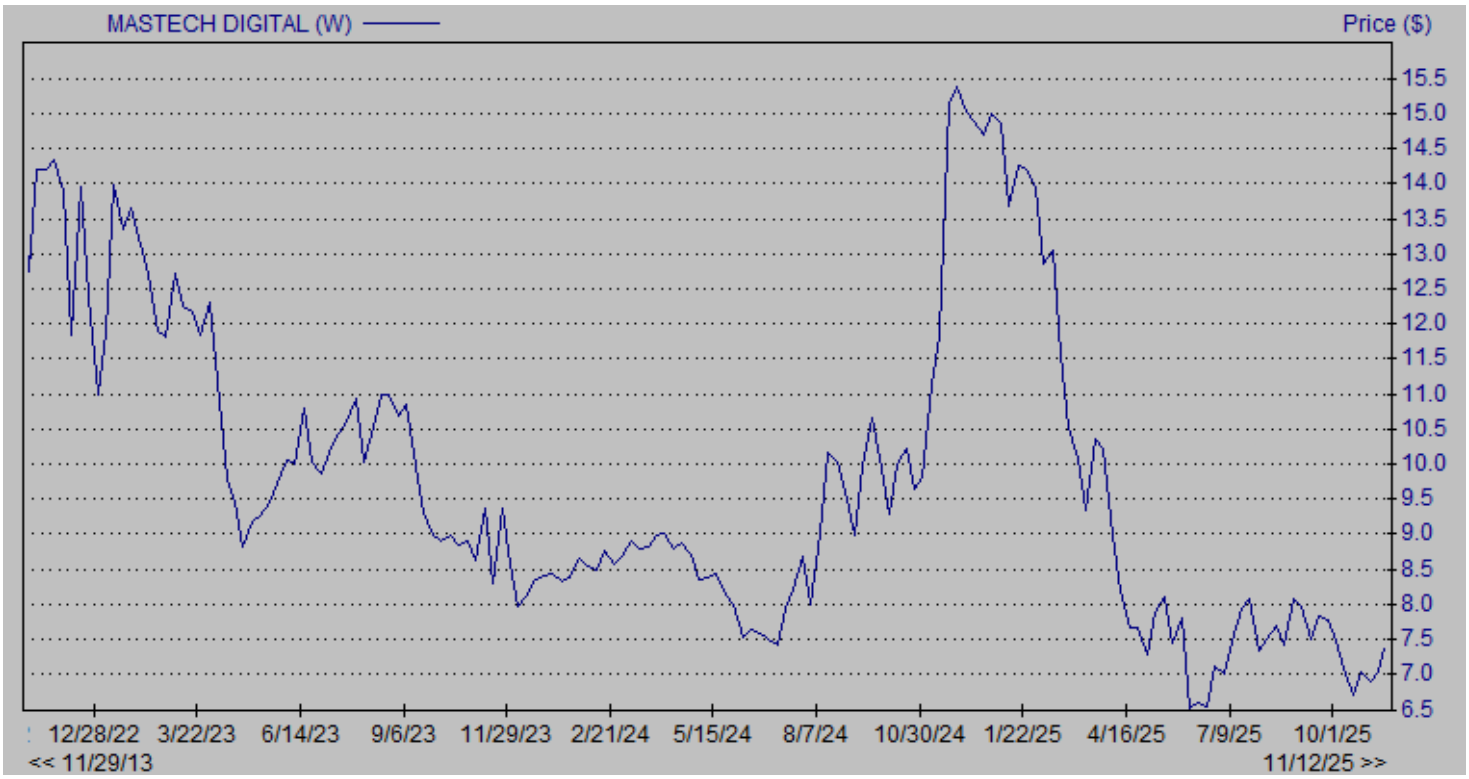
BALANCE SHEET

	Sept 30, 2025	June 30, 2025	Qtr-Qtr % Growth	Sept 30, 2024	Yr-Yr % Growth
Current assets:					
Cash and equivalents	**$ 32,747**	**$ 27,933**	17.2%	**$ 23,885**	37.1%
Accounts receivable, net	28,863	30,505	-5.4%	34,054	-15.2%
Prepaid expenses & other curr assets	7,680	7,221	6.4%	7,876	-2.5%
Total current assets	69,290	65,659	5.5%	65,815	5.3%
Equipment, software and leasehold net	1,740	1,793	-3.0%	2,083	-16.5%
Deferred income taxes	1,464	1,674	-12.5%	607	141.2%
Right-of-use assets	2,865	3,192	-10.2%	4,147	-30.9%
Deferred financing costs, net	118	142	-16.9%	213	-44.6%
Deferred compensation	1,125	1,250	-10.0%	0	NA
Non-current deposits	446	463	-3.7%	452	-1.3%
Goodwill, net	27,210	27,210	0.0%	27,210	0.0%
Intangible assets, net	8,359	9,009	-7.2%	10,958	-23.7%
Total assets	112,617	110,392	2.0%	111,485	1.0%
Current liabilities:					
Accounts payable	3,412	3,564	-4.3%	4,636	-26.4%
Accrued payroll and related costs	16,872	13,693	23.2%	14,717	14.6%
Current portion of operating lease liability	1,287	1,313	-2.0%	1,257	2.4%
Other accrued liabilities	1,001	1,148	-12.8%	1,491	-32.9%
Total current liabilities	22,572	19,718	14.5%	22,101	2.1%
Lease liability	1,466	1,825	-19.7%	2,857	-48.7%
Long term severance liability	572	1,039	-44.9%	0	NA
Total liabilities	24,610	22,582	9.0%	24,958	-1.4%
Stockholders' equity					
Common stock	136	135	0.7%	134	1.5%
Additional paid-in capital	41,215	40,064	2.9%	37,473	10.0%
Retained earnings	55,454	54,513	1.7%	55,520	-0.1%
Accumulated other comp loss	(2,321)	(1,903)	22.0%	(1,715)	35.3%
Treasury stock, at cost	(6,477)	(4,999)	29.6%	(4,885)	32.6%
Total stockholders' equity	88,007	87,810	0.2%	86,527	1.7%
Total liabilities and stockholders' equity	112,617	110,392	2.0%	111,485	1.0%
Current and quick ratio	3.1	3.3	-7.8%	3.0	3.1%
Working Capital	46,718	45,941	1.7%	43,714	6.9%
Net cash	32,747	27,933	17.2%	23,885	37.1%
Cash per share	$2.74	$2.33	17.4%	$1.99	37.9%
Debt	0	0	0.0%	0	0.0%

CASH FLOWS

	Year 2022	Year 2023	3 Mo Ended Mar 31, 2024	3 Mo Ended Jun 30, 2024	3 Mo Ended Sep 30, 2024	3 Mo Ended Dec 31, 2024	Year 2024	3 Mo Ended Mar 31, 2025	3 Mo Ended Jun 30, 2025	3 Mo Ended Sep 30, 2025
Cash flows from operating activities:										
Net income	8,712	(7,138)	(161)	1,391	1,875	297	3,402	(1,439)	135	941
Adjustments to reconcile net income to net cash provided by operating activities:										
Depreciation and amortization	4,195	3,855	898	907	865	829	3,499	832	841	848
Bad debt expense	50	(30)	(92)	-	-	(125)	(217)	-	36	-
Interest amortization of deferred financing costs	73	73	24	24	23	24	95	24	23	24
Stock-based compensation	2,225	3,082	550	461	542	647	2,200	895	714	729
Deferred income taxes, net	655	(1,714)	55	77	53	(694)	(509)	3	(379)	206
Impairment of goodwill	-	5,300	-	-	-	-	-	-	-	-
Loss on disposition of fixed assets	-	1	-	1	20	3	24	-	-	4
Amortization of deferred compensation	-	-	-	-	-	-	-	125	125	125
Long-term severance liability	-	-	-	-	-	987	987	573	(521)	(467)
Payment of deferred compensation	-	-	-	-	-	-	-	(2,000)	-	-
Long term accrued income taxes	(20)	(36)	-	(69)	-	-	(69)	-	-	-
Operating lease assets and liabilities, net	(379)	75	14	5	8	19	46	15	5	11
Change in operating assets and liabilities:										
Accounts receivable & unbilled receivables	1,021	12,537	(2,108)	(628)	(1,411)	2,736	(1,411)	(703)	1,605	1,641
Prepaid expenses and other current assets	95	(1,718)	(1,396)	(497)	(506)	794	(1,605)	(127)	425	(574)
Accounts payable	(479)	186	816	317	(1,151)	57	39	(942)	(177)	(138)
Accrued payroll	(3,155)	1,276	(371)	(630)	3,378	(925)	1,452	(302)	246	3,267
Other accrued liabilities	(41)	(248)	407	(409)	(303)	(81)	(386)	162	149	(162)
Deferred revenues	(337)	477	38	231	(94)	(530)	(355)	(111)	69	21
Net cash used by operating activities	12,615	15,978	(1,326)	1,181	3,299	4,038	7,192	(2,995)	3,296	6,476
Cash flows from Investing activities:										
(Payment for) recovery of non-current deposits	17	119	-	1	-	(1)	-	(19)	-	1
Capital expenditures	(835)	(335)	(278)	(474)	(74)	(115)	(941)	(114)	(55)	(182)
Net cash used in investing activities	(818)	(216)	(278)	(473)	(74)	(116)	(941)	(133)	(55)	(181)
Cash flows from Financing activities:										
(Repayments) on term loan facility	(12,000)	(1,100)	-	-	-	-	-	-	-	-
Proceeds from the issuance of common shares	263	204	-	136	-	87	223	-	70	-
Payment of deferred financing costs	-	(64)	-	-	-	-	-	-	-	-
Purchase of treasury stock	-	(618)	(80)	-	-	-	(80)	-	(114)	(1,478)
Proceeds from the exericise of stock options	1,323	-	-	322	118	71	511	27	81	422
Net cash provided by financing activities	(10,414)	(1,578)	(80)	458	118	158	654	27	37	(1,056)
Effect of exchange rate changes of cash	(948)	(94)	(39)	(3)	(45)	(223)	(310)	24	(10)	(425)
Net change - cash	435	14,090	(1,723)	1,163	3,298	3,857	6,595	(3,077)	3,268	4,814
Cash, beginning of quarter	6,622	7,057	21,147	19,424	20,587	23,885	21,147	27,742	24,665	27,933
Cash, end of period	7,057	21,147	19,424	20,587	23,885	27,742	27,742	24,665	27,933	32,747
Supplemental information:										
Interest paid	324	43	-	-	-	-	-	-	-	-
Income taxes paid	2,164	1,356	-	-	-	-	2,227	-	-	-
Cash Flow	15,511	3,468	1,288	2,797	3,386	1,987	9,458	(972)	979	2,421
Free cash flow	14,676	3,133	1,010	2,323	3,312	1,872	8,517	(1,086)	924	2,239

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

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