

Mastech Digital

(NYSE Amer: MHH)

MHH: Mastech Digital AI Offerings Pivot the Company Away from Staffing

Based on an EV-to-sales ratio of 0.6x estimated 2026 revenues, MHH stock could be worth approximately \$11.50 per share.

Current Price (10/29/2026) \$6.33
Valuation \$11.50

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 well below its peers and we expect stock price appreciation when the company returns to growth. Management has implemented a new focus on AI service to replace the decline Talent revenues as the industry needs fewer people to do the same amount of work in staffing. Its future success is expected to be from providing services to aid clients in AI implementation and use. It also plans to grow through acquisition.

SUMMARY DATA

52-Week High \$8.02
52-Week Low \$5.50
One-Year Return (%) -11.5
Beta 0.9
Average Daily Volume (sh) 8,393

Shares Outstanding (mil) 12.0
Market Capitalization (\$mil) \$76
Short Interest Ratio (days) 2.0
Institutional Ownership (%) 18
Insider Ownership (%) 43

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) -5.4
Earnings Per Share (%) -17.8
Dividend (%) N/A

P/E using TTM Non-GAAP EPS 12.7
P/E using 2026 Estimate 16.2
P/E using 2027 Estimate 13.8

Risk Level
Type of Stock
Industry
Average Small Value IT Services

ZACKS ESTIMATES

Revenue

(In millions of US\$)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2024	\$47 A	\$50 A	\$52 A	\$51 A	\$199 A
2025	\$48 A	\$49 A	\$48 A	\$45 A	\$191 A
2026	\$41 A	\$41 A	\$42 A	\$43 E	\$167 E
2027					\$170 E

Non-GAAP Earnings per Share

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
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	\$0.21 A	\$0.72 A
2026	\$0.11 A	\$0.08 A	\$0.10 A	\$0.12 E	\$0.39 E
2027					\$0.46 E

Mastech Digital AI Offerings Pivot the Company Away from Staffing

Mastech Digital is in the midst of a transformation of itself and its industry. Its traditional staffing business, where it supplied systems engineers to aid clients in building software and IT systems, is greatly impacted by AI, which, when used as a tool, makes people far more efficient, and the same amount of work can be done with fewer staffers. Fortunately, the rest of its business helps customers take advantage of AI capabilities, and this higher-margin business should allow the company to pivot without as much disruption as pure staffing companies. To facilitate this, the company spent last year cutting costs and low-margin business so it could invest in the pivot. So far, it has managed to stay profitable while it invests, and its AI-centric business has now shown two sequential quarters of revenue growth, combined with gross margin improvement. It is now in its seasonally weak Q4, and we expect that quarter to be similar to this just-reported Q3.

It now offers three core products in its Data & AI segment:

- **Modern Data** modernizes enterprise data and makes it usable at scale for insights, analytics, and AI. The offering is supported by a governance layer designed to keep data trusted and secure.
- **AI Governance, Trust and Safety** establishes the security guardrails, governed data access, enriched knowledge bases, model evaluation, and oversight needed to scale AI responsibly across the enterprise.
- **Applied AI** turns enterprise knowledge into solutions for targeted business problems. It combines agentic technology with Mastech's engineering talent to move solutions into production so they can scale and be adopted rather than remain pilots.

These products generate higher gross margins and customer stickiness as one project grows to many throughout an organization.

Since the company has \$3.12 per share in cash and no debt, the stock is now trading at an enterprise value of \$39 million with a revenue run rate of \$168 million and profits. Its peers trade at 2.1 times EV/2026 estimated sales while it trades at 0.2 times. As margins move up and revenue growth returns, we believe so will the stock price. We are slightly lowering our expectations for 2027, as we think the Talent headwinds are greater than expected as the consultant count continues to drop and opportunities decrease. We now expect 2027 revenues of \$170 million and non-GAAP EPS of \$0.46.

Q3 Results

In Q3 2026, Mastech generated total revenues of \$42.0 million, down 13.4% from \$48.5 million in Q3 2025. The Talent business was down 16.3% to \$27.9 million from \$33.3 million a year ago, and sequentially from \$28.0 million in Q2 2026. The consultant count dropped, but billing rates keep going up. There were 580 consultants at the end of the quarter compared to 734 the previous year. The number has dropped to 560 since then and is not increasing. The average bill rate was \$92.37 per hour, compared with \$89.65 per hour in the corresponding quarter of 2025. Talent accounted for 66% of revenue. Business with Fidelity grew as it spent \$3.2 million more than last year, or 36%.

D&AI declined to \$14.1 million from \$15.2 million in Q3 2025 (-7%) as contracts were completed. Its revenues increased sequentially for the second quarter in a row. We expect it may be able to show year-over-year growth in Q4. New bookings in Q3 2026 totaled approximately \$10.8 million, compared to bookings of \$13.6 million in the second quarter of 2026.

Total gross margin increased to 28.7% from 27.8% last year. Talent's gross margin at 23.1% improved from last year's quarter of 22.3%. The increase was due to higher billing rates and better execution despite lower headcount and lower revenues. D&AI's gross margin increased to 40.5% from 39.6% a year ago, as cost-cutting and the pursuit of higher-margin business bore fruit.

SG&A was \$12.0 million compared to \$12.6 million a year ago. It was actually down slightly sequentially.

Operating income was \$13,000 versus a profit of \$820,000 last year. Other income was \$237,000 compared to \$415,000 a year ago. Taxes in the quarter were \$243,000 versus \$294,000 last year.

GAAP net income was \$7,000 compared to \$941,000 last year. On a non-GAAP basis, there was a profit of \$1.2 million versus \$3.5 million. Fully diluted GAAP earnings per share were \$0.00 compared to \$0.08 a year ago. On a non-GAAP basis, EPS was \$0.10 compared to \$0.29 a year ago. The diluted share count was 12.2 million, up 221,000 shares from last year.

Balance Sheet

The company ended the September quarter with \$37.9 million in net cash (\$3.12 per share), a quick ratio of 4.3, working capital of \$54.0 million, and no debt. It currently has \$18.3 million available for borrowing under its revolving credit facility.

The Board of Directors authorized a repurchase up to \$5.0 million of outstanding common stock. Repurchases under the program may be made from time to time through privately negotiated transactions, block purchases, or other means, and no longer through open-market transactions. No repurchases were made under this program to date.

KEY POINTS

- 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 internal cash flow, leaving it with growing debt capacity and cash to grow through acquisition.
- In January 2025, Mastech hired a new CEO, and in April 2025, a new CFO/COO. New management is focusing on providing services to customers to create an AI-first initiative for their businesses. It is investing in training and tools so that it can offer more specialized talent and capabilities than before. As part of this transformation, the company has cut costs to fund the investment necessary to reach its goals.
- Today, MHH trades at a fully diluted enterprise value of \$39 million. This is 0.2 times its enterprise value to 2026 estimated sales, compared to its peers, who trade at 2.1 times. In addition, it has \$3.12 per share in cash.

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, 2025, it had 1,488 employees, down from 1,816 at the end of 2024. It has 752 North American employees and 536 employees offshore, in addition to 200 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 previously been 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. Talent 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 and perform analytics. Their valuations average 2.1 times EV to estimated 2026 sales, versus Mastech at 0.2 times. Keep in mind, the company has \$3.12 in cash per share and is profitable. All of these companies are generating higher margins than Mastech. If we apply a multiple of 0.6 times to Mastech's forecasted 2026 revenues, the company would have a market capitalization of \$138 million, or approximately \$11.50 per share.

Company	Ticker	Cal. Rev 2027E	Cal. Rev 2026E	LTM	EBIDTA Margin	EV/Sales 2027E	EV/Sales 2026E	LTM	Enterprise Value
Accenture	ACN	NA	73,350	74,180	18%	NA	2.1	2.1	153,530
Cognizant	CTSH	23,230	22,200	21,889	18%	1.3	1.4	1.4	30,930
Fractal Analytics	FRACTAL.NS	NA	381	370	14%	NA	3.4	3.5	1,300
Infosys	INFY	NA	20,450	20,370	22%	NA	2.2	2.2	44,390
Kforce Inc.	KFRC	1,470	1,390	1,370	5%	0.8	0.8	0.8	1,130
LatentView Analytics	LATENTVIEW.NS	NA	123	120	21%	NA	3.3	3.4	410
Wipro	WIT	NA	10,370	9,702	18%	NA	1.6	1.7	16,810
Average					16.7%	0.8	2.1	2.2	33,099

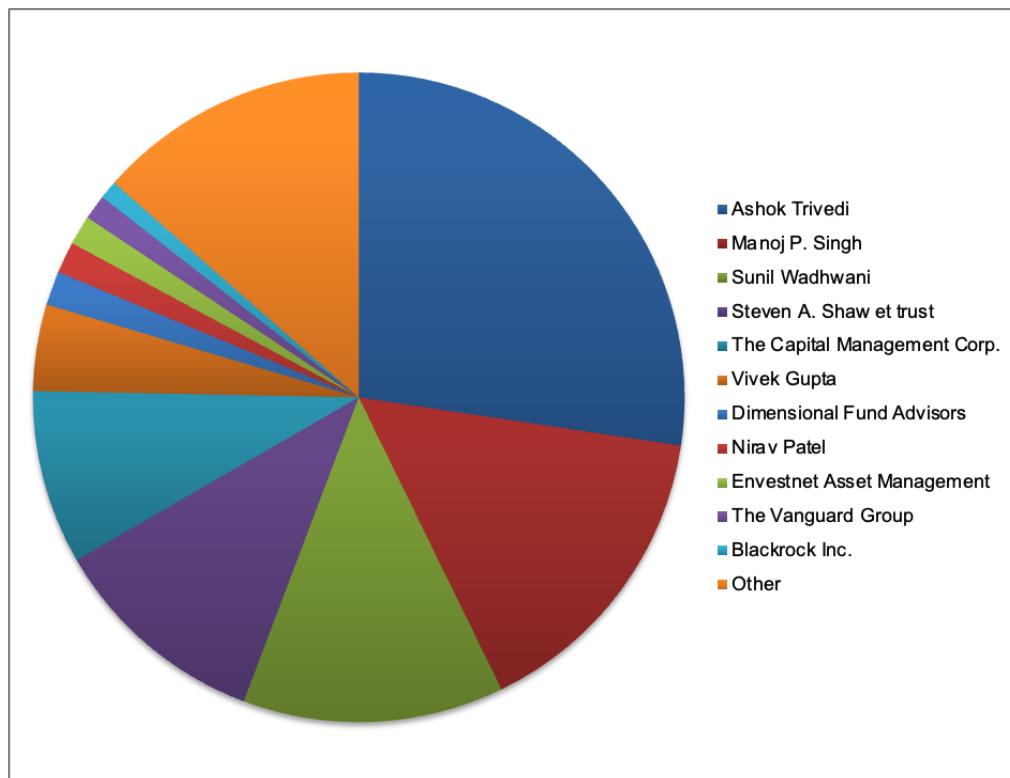
RISKS

- 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 three months ended September 30, 2026, Mastech had one client, Fidelity, at 28.5%, which exceeded 10% of total revenues. In the 2025 quarter, the company had three clients (Fidelity-18.1%, CGI-10.4%, and Populus-11.7%) that each exceeded 10% of total revenues. This means that in Q3 2026, Fidelity contributed an extra \$3.2 million in business versus last year. The company's top ten clients

represented approximately 60% and 58% of total revenues for the nine months ended September 30, 2026, and 2025, respectively.

- Regulatory changes regarding H-1B visas could eventually trickle down to Mastech's pool of potential consultants; 49% of its US consultants held these visas at the end of 2025. In contrast to companies like Cognizant, Mastech does not sponsor these visas but seeks employees already holding them. Visa grants for new entries into the US now require paying \$100,000 per hire. Mastech sources its workforce from those who already have the appropriate visas. 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 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026E	2025	2026E	2027E
	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec			
Billable consultants	782	764	734	671	619	594	580	560	671	560	500
Average bill rate per hour	87.82	88.36	89.65	90.36	90.91	92.17	92.37	92.50	90.36	92.50	94.00
Data & AI	15,997	15,745	15,201	14,409	12,584	13,484	14,122	14,800	61,352	54,990	60,000
Yr-to-yr Growth					-21%	-14%	-7%	3%		-10%	9%
Data & AI Gross Margin	6,031	6,141	6,020	5,908	4,684	5,451	5,719	5,979	24,099	21,833	25,200
Gross Margin %	37.7%	39.0%	39.6%	41.0%	37.2%	40.4%	40.5%	40.4%	39.3%	39.7%	42.0%
Talent	32,320	33,350	33,295	31,052	28,499	27,963	27,865	27,200	130,017	111,527	110,000
Yr-to-yr Growth					-11.8%	-16.2%	-16.3%	-12.4%		-14.2%	-1.4%
Talent Gross Margin	6,852	7,704	7,425	6,987	6,341	6,548	6,446	6,310	28,967	25,645	25,300
Gross Margin %	21.2%	23.1%	22.3%	22.5%	22.2%	23.4%	23.1%	23.2%	22.3%	23.0%	23.0%
Revenue	\$48,317	\$49,097	\$48,496	\$45,461	\$41,083	\$41,447	\$41,987	\$42,000	\$191,371	\$166,517	\$170,000
Yr-to-yr Growth	3.2%	-0.9%	-6.4%	-10.4%	-15.0%	-15.6%	-13.4%	-7.6%	-3.8%	-13.0%	2.1%
Cost of revenue	35,425	35,277	35,035	32,578	30,058	29,448	29,938	29,710	138,315	119,154	119,500
Gross profit	12,892	13,820	13,461	12,883	11,025	11,999	12,049	12,290	53,056	47,363	50,500
Gross Margin %	26.7%	28.1%	27.8%	28.3%	26.8%	29.0%	28.7%	29.3%	27.7%	28.4%	29.7%
SG&A	14,745	13,793	12,641	11,876	10,974	12,324	12,036	12,674	53,055	48,008	51,000
Total operating expenses	14,745	13,793	12,641	11,876	10,974	12,324	12,036	12,674	53,055	48,008	51,000
Operating income:	(1,853)	27	820	1,007	51	(325)	13	(384)	1	(645)	(500)
Operating margin	-3.8%	0.1%	1.7%	2.2%	0.1%	-0.8%	0.0%	-0.9%	0.0%	-0.4%	-0.3%
Other income:											
Total other income	91	183	415	372	606	323	237	400	1,061	1,566	1,800
Income before income taxes	(1,762)	210	1,235	1,379	657	(2)	250	16	1,062	921	1,300
Pretax Margin	-3.6%	0.4%	2.5%	3.0%	1.6%	0.0%	0.6%	0.0%	0.6%	0.6%	0.8%
Income taxes	(323)	75	294	407	393	98	243	13	453	747	358
Tax rate	-18%	36%	24%	30%	60%	-4900%	97%	81%	43%	81%	28%
Net income	(1,439)	135	941	972	264	(100)	7	3	609	174	943
Yr-over-Yr	794%	-90%	-50%	227%	-118%	-174%	-99%	-100%	-82%	-71%	442%
Stk based compensation	895	714	729	780	750	818	861	861	3,118	3,290	3,400
One-time expenses plus amortization	1,300	981	1,797	747	267	258	361	361	4,825	1,247	1,300
Non-GAAP Income	756	1,830	3,467	2,499	1,281	976	1,222	1,225	8,552	4,704	5,643
Yr-over-Yr	-1%	-19%	25%	-11%	69%	-47%	-65%	-51%	0%	-45%	20%
Net income per share:											
Primary EPS	(0.12)	0.01	0.08	0.08	0.02	(0.01)	0.00	0.00	0.05	0.01	0.08
Diluted EPS	(0.12)	0.01	0.08	0.08	0.02	(0.01)	0.00	0.00	0.05	0.01	0.08
Diluted Non-GAAP EPS	0.06	0.15	0.29	0.21	0.11	0.08	0.10	0.10	0.72	0.39	0.46
	-2%	-19%	26%	-8%	72%	-47%	-65%	-52%	0%	-46%	19%
Shares											
Basic	11,753	11,767	11,782	11,705	11,828	12,011	12,029	12,029	11,747	11,974	12,029
Yr-over-Yr	1.2%	1.0%	0.7%	-0.1%	0.6%	2.1%	2.1%	2.8%	1%	2%	0%
Diluted	12,096	11,964	11,945	11,823	11,894	12,086	12,166	12,166	11,950	12,078	12,166
Yr-over-Yr	1.6%	0.4%	-0.5%	-3.0%	-1.7%	1.0%	1.9%	2.9%	-1%	1%	1%

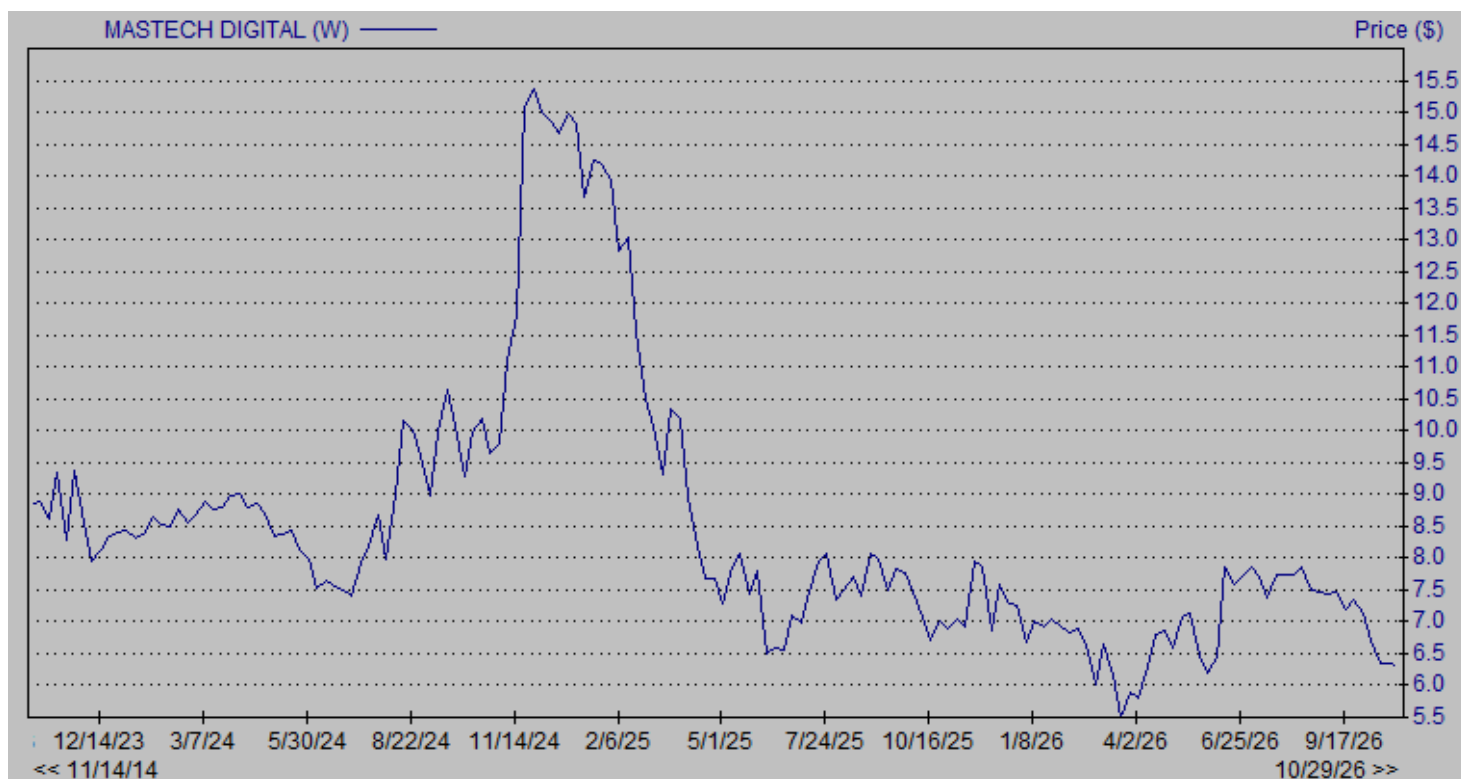
BALANCE SHEET

	Sept 30, 2026	June 30, 2026	Qtr-Qtr % Growth	Sept 30, 2025	Yr-Yr % Growth
Current assets:					
Cash and equivalents	\$ 37,939	\$ 35,603	6.6%	\$ 32,747	15.9%
Accounts receivable, net	25,634	27,740	-7.6%	28,863	-11.2%
Prepaid expenses & other curr assets	6,959	5,930	17.4%	7,680	-9.4%
Total current assets	70,532	69,273	1.8%	69,290	1.8%
Equipment, software and leasehold net	1,248	1,246	0.2%	1,740	-28.3%
Deferred income taxes	1,675	1,705	-1.8%	1,464	14.4%
Right-of-use assets	2,880	2,255	27.7%	2,865	0.5%
Deferred financing costs, net	24	47	-48.9%	118	-79.7%
Deferred compensation	625	750	-16.7%	1,125	-44.4%
Non-current deposits	511	518	-1.4%	446	14.6%
Goodwill, net	27,210	27,210	0.0%	27,210	0.0%
Intangible assets, net	5,945	6,549	-9.2%	8,359	-28.9%
Total assets	110,650	109,553	1.0%	112,617	-1.7%
Current liabilities:					
Accounts payable	3,142	3,139	0.1%	3,412	-7.9%
Accrued payroll and related costs	11,459	11,734	-2.3%	16,872	-32.1%
Current portion of operating lease liability	1,151	1,274	-9.7%	1,287	-10.6%
Other accrued liabilities	774	746	3.8%	1,001	-22.7%
Total current liabilities	16,526	16,893	-2.2%	22,572	-26.8%
Lease liability	1,601	851	88.1%	1,466	9.2%
Long term severance liability	0	0	0.0%	572	-100.0%
Total liabilities	18,127	17,744	2.2%	24,610	-26.3%
Stockholders' equity					
Common stock	140	140	0.0%	136	2.9%
Additional paid-in capital	46,381	45,490	2.0%	41,215	12.5%
Retained earnings	56,598	56,591	0.0%	55,454	2.1%
Accumulated other comp loss	(3,465)	(3,281)	5.6%	(2,321)	49.3%
Treasury stock, at cost	(7,131)	(7,131)	0.0%	(6,477)	10.1%
Total stockholders' equity	92,523	91,809	0.8%	88,007	5.1%
Total liabilities and stockholders' equity	110,650	109,553	1.0%	112,617	-1.7%
Current and quick ratio	4.3	4.1	4.1%	3.1	39.0%
Working Capital	54,006	52,380	3.1%	46,718	15.6%
Net cash	37,939	35,603	6.6%	32,747	15.9%
Cash per share	\$3.12	\$2.95	5.9%	\$2.74	13.8%
Debt	0	0	0.0%	0	0.0%

CASH FLOWS

	Year 2023	Year 2024	3 Mo Ended Mar 31, 2025	3 Mo Ended Jun 30, 2025	3 Mo Ended Sep 30, 2025	3 Mo Ended Dec 31, 2025	Year 2025	3 Mo Ended Mar 31, 2026	3 Mo Ended Jun 30, 2026	3 Mo Ended Sep 30, 2026
Cash flows from operating activities:										
Net income	(7,138)	3,402	(1,439)	135	941	972	609	264	(100)	7
Adjustments to reconcile net income to net cash provided by operating activities:										
Depreciation and amortization	3,855	3,499	832	841	848	803	3,324	803	806	817
Bad debt expense	(30)	(217)	-	36	-	-	36	(6)	-	(24)
Interest amortization of deferred financing costs	73	95	24	23	24	23	94	24	24	23
Stock-based compensation	3,082	2,200	895	714	729	780	3,118	750	818	861
Deferred income taxes, net	(1,714)	(509)	3	(379)	206	(1,120)	(1,290)	637	28	29
Impairment of goodwill	5,300	-	-	-	-	-	-	-	-	-
Loss on disposition of fixed assets	1	24	-	-	4	-	4	-	-	-
Amortization of deferred compensation	-	-	125	125	125	125	500	125	125	125
Unrealized FX on monetary items	-	-	-	-	-	-	-	(102)	-	(41)
Long-term severance liability	-	987	573	(521)	(467)	(242)	(657)	-	-	-
Payment of deferred compensation	-	-	(2,000)	-	-	-	(2,000)	-	-	-
Long term accrued income taxes	(36)	(69)	-	-	-	-	-	-	-	-
Operating lease assets and liabilities, net	75	46	15	5	11	14	45	20	34	2
Change in operating assets and liabilities:										
Accounts receivable & unbilled receivables	12,537	(1,411)	(703)	1,605	1,641	2,470	5,013	(1,313)	(25)	2,128
Prepaid expenses and other current assets	(1,718)	(1,605)	(127)	425	(574)	2,005	1,729	210	(445)	(1,082)
Accounts payable	186	39	(942)	(177)	(138)	42	(1,215)	(78)	(218)	4
Accrued payroll	1,276	1,452	(302)	246	3,267	(1,455)	1,756	(4,452)	1,199	(235)
Other accrued liabilities	(248)	(386)	162	149	(162)	208	357	(217)	56	2
Deferred revenues	477	(355)	(111)	69	21	(267)	(288)	173	(194)	32
Net cash used by operating activities	15,978	7,192	(2,995)	3,296	6,476	4,358	11,135	(3,162)	2,108	2,648
Cash flows from investing activities:										
(Payment for) recovery of non-current deposits	119	-	(19)	-	1	(92)	(110)	(15)	1	-
Capital expenditures	(335)	(941)	(114)	(55)	(182)	(25)	(376)	(66)	(64)	(224)
Net cash used in investing activities	(216)	(941)	(133)	(55)	(181)	(117)	(486)	(81)	(63)	(224)
Cash flows from Financing activities:										
(Repayments) on term loan facility	(1,100)	-	-	-	-	-	-	-	-	-
Proceeds ESPP & the iss. of common shares	204	223	-	70	-	21	91	3	25	-
Payment of deferred financing costs	(64)	-	-	-	-	-	-	-	-	-
Purchase of treasury stock	(618)	(80)	-	(114)	(1,478)	(654)	(2,246)	-	-	-
Proceeds from the exercise of stock options	-	511	27	81	422	499	1,029	681	85	30
Net cash provided by financing activities	(1,578)	654	27	37	(1,056)	(134)	(1,126)	684	110	30
Effect of exchange rate changes of cash	(94)	(310)	24	(10)	(425)	(321)	(732)	(424)	(226)	(118)
Net change - cash	14,090	6,595	(3,077)	3,268	4,814	3,786	8,791	(2,983)	2,053	2,336
Cash, beginning of quarter	7,057	21,147	27,742	24,665	27,933	32,747	27,742	36,533	33,550	35,603
Cash, end of period	21,147	27,742	24,665	27,933	32,747	36,533	36,533	33,550	35,603	37,939
Supplemental information:										
Interest paid	43	-	-	-	-	-	-	-	-	-
Income taxes paid	1,356	2,227	-	-	-	-	868	-	-	-
Cash Flow	3,468	9,458	(972)	979	2,421	1,355	3,783	2,515	1,735	1,799
Free cash flow	3,133	8,517	(1,086)	924	2,239	1,330	3,407	2,449	1,671	1,575

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

DISCLOSURES

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