



## Mastech Digital, Inc. (MHH)

Look For Accelerated Revenue Growth In 3Q:21 In Data & Analytics And IT Staffing, With EPS Expansion Muted By Strategic SG&A Initiatives; Maintain \$31 Target Citing Attractive Valuation

	2019	2020	2021E		2022E	
			OLD	NEW	OLD	NEW
Mar.	\$0.15	\$0.23	\$0.19A		\$0.30	
June	0.20	0.33	0.29A		0.37	
Sep.	0.23	0.32	0.34		0.44	
Dec.	<u>0.26</u>	<u>0.29</u>	<u>0.36</u>		<u>0.43</u>	
<b>Adjusted EPS</b>	<b>\$0.82</b>	<b>\$1.16</b>	<b>\$1.17</b>		<b>\$1.53</b>	

P/E **14.9x** **11.4x**

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. MHH's calculation of adjusted EPS excludes net amortization of intangibles expense and other non-cash or one-time items; adjusted EPS for 2019-2022E exclude \$0.23, \$0.33, \$0.24 and \$0.34, respectively, of expenses related to these items. 2019-2022E GAAP EPS include \$0.08, \$0.17, \$0.23 and \$0.23, respectively, of annual stock-based compensation expense. \*FCF excludes the add-back of stock-based compensation expense. Sum of quarterly EPS may not equal full-year total due to rounding and/or changes in share count. NC = Not covered by Sidoti & Co., LLC.

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Rev.(Mil.)	\$106.9	\$113.5	\$123.5	\$132.0	\$147.9	\$177.2	\$193.6	\$194.1	\$219.3	\$250.6
GAAP EPS*	\$0.44	\$0.38	\$0.31	\$0.28	\$0.16	\$0.60	\$0.99	\$0.83	\$0.93	\$1.19

\* 2018 and 2019 include \$0.09 and \$0.40 net benefits, respectively, that we calculate from the revaluation of a contingent consideration liability.  
**Description:** Mastech Digital ([www.mastechdigital.com](http://www.mastechdigital.com)) provides Digital Transformation IT Services. Through the IT Staffing unit (84% of 2020 revenue), the company provides contract IT professionals who specialize in digital and mainstream technologies. The Data & Analytics segment (16%) offers project-based consulting services that encompass data management, integration, analytics and digital transformation. Approximately 98% of revenue is derived from the U.S. Headquarters are near Pittsburgh, PA.

Release Date	Conference Call	Time (Eastern)	Contact	Co. Guidance	Consensus
October 27	October 27	9:00 am	877-407-3980	N/A	\$0.35

- As previously highlighted, we do not think enough credit is given to MHH's resilient *IT Staffing* and *Data & Analytics (DA)* operations, where revenue was flat year-over-year in 2020 and margins expanded from improved mix and cost cuts.
- Trends were increasingly positive in 1H:21. We saw a notable rise in billable IT consultants, as well as two strong quarters of bookings in DA (\$15 million each quarter) and improved pipeline opportunities in general that gave us confidence in a meaningful 2H:21 build/recovery for the segment.
- For 3Q:21, we estimate consolidated revenue surged 21% year-to-year with the strong 1H:21 bookings activity driving 40%-plus growth in DA, by our model.
- Management has noted ongoing investments in sales and delivery capabilities to support future growth opportunities, as well as the unwinding of several austerity measures put in place during the depths of the pandemic; while this is expected to lean on margins, we find that it positions MHH to rapidly scale.
- Nonetheless, this will likely dampen near-term EPS expansion, by our model; we estimate 3Q:21 EPS improved to \$0.34, from \$0.32 in the year ago period.
- Overall, our outlook for 2H:21-2022 reflects growing staffing volume, a robust DA recovery and operating leverage from a mix of higher-margin work. Trading at only 11x our 2022 EPS estimate, we argue the shares are not fully pricing this in.
- Free cash flow per share was \$1.58 in 2020 and we project \$0.43 in 2021 and \$1.18 in 2022, with the company ending 2022 with a net cash position of \$17 million.
- We maintain a \$31 price target, which is based on 20x our unchanged 2022 EPS estimate of \$1.53. The *Moderately Risky* rating reflects MHH's history of cash

**NR**

Price Target: \$31

Price: \$17.42

Risk Rating: M

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### Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$200
Enterprise Value	\$225
52-Week Range (NYSE)	21-14
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	16,000
Shares Out (Mil)	11.438
Float Shares (Mil)	2.328
Insider Ownership	74%
Institutional Holdings	10%
Annualized Dividend	Nil
Dividend Yield	N/A
FCF Per Share (2022E)*	\$1.18
FCF Yield (2022E)	6.8%
Net Cash Per Share (2022E)	\$1.30
Price to Book Value	3.0x
Return on Equity (2022E)	18.4%
Total Debt to Capital	24%
Interest Coverage Ratio	20.9x
Short Interest %	0.9%
Short Interest Days To Cover	1.6
Russell 2000	2,266
Russell 2000 – Last 12 Months	38.2%
MHH – Last 12 Months	-12.9%



Source: FactSet Prices

**generation and profitability, which we anticipate will continue through 2022.**

**We recall MHH's 2Q:21 earnings report that showcased robust IT Staffing demand and an improving Data & Analytics pipeline.** Revenue in 2Q:21 was up 13% (9% organic) year over year and 8% sequentially. Demand was strong within *IT Staffing* (83% of 2Q:21 revenue) with revenue up 10% year over year and 9% sequentially and billable IT consultant headcount up 8% sequentially, marking the second-best improvement in company history following the 9% gain achieved in 1Q:21. Results within the *Data & Analytics* division (DA, 17%) were also encouraging, with segment revenue up 4% year-to-year and 2% sequentially. It was noted that a notable recovery was building for DA driven by strong bookings (\$15 million in the quarter, on par with 1Q:21), a growing pipeline of opportunities and a general shift in dialogue with clients looking to initiate projects or re-engage on others that were delayed throughout the earlier days of the pandemic. Margins also showed improvement; management noted that the year-to-year and sequential gross margin expansion in 2Q:21 came from pricing discipline and a higher overall mix of DA work. Lastly, SG&A expense was down to 16.8% of revenue, from 19% in 2Q:20, despite ongoing efforts/investments to increase sales and delivery capabilities, as well as the reversal of some austerity measures put in place in 2020 in response to the pandemic.

**We expect the recovery accelerated in 3Q:21.** We model a year-to-year revenue advance of 21% for 3Q:21 to \$57 million. If we exclude the contribution from the 4Q:20 acquisition of *AmberLeaf*, a customer experience consulting business that became part of the DA unit (*AmberLeaf* generated roughly \$11 million in 2020 revenue), we anticipate organic growth was in the mid- to upper teens. Driven by the bookings trends and pipeline activity noted above, we anticipate robust growth the DA unit, north of 40% (20% organic) year-over-year by our model. While our model shows sequential gross margin improvement, we suspect a modest step down from 3Q:20 due in part to mix and ongoing. We also expect to see a marked increase in SG&A expense, both year-to-year and sequentially. As noted above, the company has stepped up investments in sales, operations and other personnel, in addition to easing austerity measures post-pandemic. We nonetheless expect that this was more than offset by the strong revenue performance. Accordingly, we estimate operating income rose to \$4.4 million in 3Q:21, from \$4.2 million a year earlier. By our model, this translates to adjusted EPS (excludes non-cash and/or one-time items) of \$0.34 for 3Q:21, up from \$0.32 in 3Q:20.

Exhibit 1: Mastech Digital, Inc. Earnings Preview Summary (\$ in '000s, except per share data)

	3Q:21 Estimated	3Q:20 Actual	Variance	% change
Total Revenue	\$57,426	\$47,383	\$10,043	21.2%
Gross Profit	15,651	13,090	2,561	19.6%
Gross Margin	27.3%	27.6%		
Operating Income	4,387	4,217	170	4.0%
Operating Margin	7.6%	8.9%		
GAAP Net Income	3,093	2,998	95	3.2%
Diluted GAAP EPS	0.25	0.25	(0.00)	-0.6%
<b>Pro-Forma Net Income</b>	<b>4,217</b>	<b>3,846</b>	<b>371</b>	<b>9.6%</b>
<b>Pro-Forma EPS</b>	<b>0.34</b>	<b>0.32</b>	<b>(0.02)</b>	<b>5.6%</b>

Sources: Company filings and Sidoti & Company, LLC estimates

**MHH has a strong financial profile, in our opinion.** The company ended 2Q:21 with net debt of just below \$10 million, a total debt-to-total capital ratio of 24% and \$26 million available on the existing credit and revolving loan facilities; the average interest rate on the debt is approximately 4%. Free cash flow (FCF; excluding the add-back of stock-based compensation expense) per share was \$1.58 in 2020 (included the delay of certain payroll taxes to 2021 and 2022); based on our revenue, EPS and working capital assumptions, we estimate FCF of \$5 million (\$0.43 per share) for 2021 and \$15 million (\$1.18) in 2022. We think MHH will focus on de-leveraging the balance sheet, with the total debt-to-total capital ratio falling to 11% at year-end 2022. Management will likely explore additional acquisitions (akin to the 4Q:20 *AmberLeaf* deal that became part of the DA segment) that further expand the DA service offering, but no potential deals are reflected in our model.

<b>Valuation</b>	<b>We maintain a \$31 price target on MHH ahead of the 3Q:21 earnings report.</b> Our target reflects an unchanged 20x multiple applied to our 2022 adjusted EPS estimate of \$1.53. Overall, we continue to envision accelerated (and above industry-average) revenue growth for MHH in 2H:21-2022, as well as greater predictability in the DA segment's revenue stream following a spate of contract signings since late 2019. We also find that the company's overall staffing and D&A model should continue to insulate it from broader macro pressures and economic disruption tied to the pandemic, evident in the 2020-1H:21 results. Trading at only 11-15x our forward EPS estimates, we argue that the shares are not adequately reflecting this. The <i>Moderately Risky</i> rating reflects MHH's sound financial profile and history of free cash generation and profitability, which we expect to continue through at least 2022.		
<b>Key Risks</b>	U.S. recession	Client concentration	Longer project delays tied to the fallout from COVID-19

MASTECH DIGITAL, INC.

Table 1: Mastech Digital, Inc. Income Statement (\$ in 000s)

	2019	Mar	Jun	Sep	Dec	2020	MarA	JunA	SepE	DecE	2021E	MarE	JunE	SepE	DecE	2022E
<b>Total Revenue</b>	\$ 193,574	\$ 50,425	\$ 47,583	\$ 47,383	\$ 48,710	\$ 194,101	\$ 49,775	\$ 53,658	\$ 57,426	\$ 58,421	\$ 219,280	\$ 60,498	\$ 61,294	\$ 65,322	\$ 63,499	\$ 250,614
Cost of Revenue	145,593	37,706	34,927	34,293	35,636	142,562	36,971	39,343	41,775	42,355	160,444	44,053	43,928	46,981	45,612	180,574
<b>Gross Profit</b>	<b>47,981</b>	<b>12,719</b>	<b>12,656</b>	<b>13,090</b>	<b>13,074</b>	<b>51,539</b>	<b>12,804</b>	<b>14,315</b>	<b>15,651</b>	<b>16,066</b>	<b>58,835</b>	<b>16,445</b>	<b>17,366</b>	<b>18,341</b>	<b>17,888</b>	<b>70,040</b>
Selling, General and Admin Expenses	30,994	10,243	9,042	8,873	9,978	38,136	10,935	9,004	11,264	11,203	42,405	12,507	12,277	12,004	11,601	48,388
<b>Total Operating Expenses</b>	<b>30,994</b>	<b>10,243</b>	<b>9,042</b>	<b>8,873</b>	<b>9,978</b>	<b>38,136</b>	<b>10,935</b>	<b>9,004</b>	<b>11,264</b>	<b>11,203</b>	<b>42,405</b>	<b>12,507</b>	<b>12,277</b>	<b>12,004</b>	<b>11,601</b>	<b>48,388</b>
<b>Operating Income (EBIT)</b>	<b>16,987</b>	<b>2,476</b>	<b>3,614</b>	<b>4,217</b>	<b>3,096</b>	<b>13,403</b>	<b>1,869</b>	<b>5,311</b>	<b>4,387</b>	<b>4,863</b>	<b>16,430</b>	<b>3,938</b>	<b>5,089</b>	<b>6,338</b>	<b>6,287</b>	<b>21,651</b>
Other Income (Expense), net	(1,768)	(226)	(157)	(191)	(196)	(770)	(232)	(144)	(150)	(150)	(676)	(150)	(125)	(100)	(100)	(475)
<b>Income Before Income Taxes</b>	<b>15,219</b>	<b>2,250</b>	<b>3,457</b>	<b>4,026</b>	<b>2,900</b>	<b>12,633</b>	<b>1,637</b>	<b>5,167</b>	<b>4,237</b>	<b>4,713</b>	<b>15,754</b>	<b>3,788</b>	<b>4,964</b>	<b>6,238</b>	<b>6,187</b>	<b>21,176</b>
Income Tax (Benefit)	4,074	381	488	1,028	875	2,772	443	1,429	1,144	1,272	4,289	1,023	1,340	1,684	1,670	5,718
<b>GAAP Net Income</b>	<b>11,145</b>	<b>1,869</b>	<b>2,969</b>	<b>2,998</b>	<b>2,025</b>	<b>9,861</b>	<b>1,194</b>	<b>3,738</b>	<b>3,093</b>	<b>3,440</b>	<b>11,466</b>	<b>2,765</b>	<b>3,624</b>	<b>4,554</b>	<b>4,516</b>	<b>15,459</b>
Diluted GAAP Earnings per Share	\$ 0.99	\$ 0.16	\$ 0.25	\$ 0.25	\$ 0.17	\$ 0.83	\$ 0.10	\$ 0.31	\$ 0.25	\$ 0.27	\$ 0.93	\$ 0.22	\$ 0.28	\$ 0.35	\$ 0.34	\$ 1.19
<b>Pro-Forma Net Income (per MHH)</b>	<b>9,251</b>	<b>2,702</b>	<b>3,909</b>	<b>3,846</b>	<b>3,447</b>	<b>13,904</b>	<b>2,243</b>	<b>3,427</b>	<b>4,217</b>	<b>4,565</b>	<b>14,452</b>	<b>3,887</b>	<b>4,746</b>	<b>5,674</b>	<b>5,637</b>	<b>19,944</b>
<b>Pro-Forma Diluted EPS (per MHH)</b>	<b>\$ 0.82</b>	<b>\$ 0.23</b>	<b>\$ 0.33</b>	<b>\$ 0.32</b>	<b>\$ 0.29</b>	<b>\$ 1.16</b>	<b>\$ 0.19</b>	<b>\$ 0.29</b>	<b>\$ 0.34</b>	<b>\$ 0.36</b>	<b>\$ 1.17</b>	<b>\$ 0.30</b>	<b>\$ 0.37</b>	<b>\$ 0.44</b>	<b>\$ 0.43</b>	<b>\$ 1.53</b>
Avg. Diluted Shares O/S	11,232	11,675	11,948	12,042	12,011	11,950	11,997	12,002	12,500	12,750	12,312	12,750	13,000	13,000	13,250	13,000
<b>Margin Analysis:</b>																
Gross Margin	24.8%	25.2%	26.6%	27.6%	26.8%	26.6%	25.7%	26.7%	27.3%	27.5%	26.8%	27.2%	28.3%	28.1%	28.2%	27.9%
SG&A as a % of Revenue	16.0%	20.3%	19.0%	18.7%	20.5%	19.6%	22.0%	16.8%	19.6%	19.2%	19.3%	20.7%	20.0%	18.4%	18.3%	19.3%
Operating Margin	8.8%	4.9%	7.6%	8.9%	6.4%	6.9%	3.8%	9.9%	7.6%	8.3%	7.5%	6.5%	8.3%	9.7%	9.9%	8.6%
Effective Tax Rate	26.8%	16.9%	14.1%	25.5%	30.2%	21.9%	27.1%	27.7%	27.0%	27.0%	27.2%	27.0%	27.0%	27.0%	27.0%	27.0%
Net Margin	5.8%	3.7%	6.2%	6.3%	4.2%	5.1%	2.4%	7.0%	5.4%	5.9%	5.2%	4.6%	5.9%	7.0%	7.1%	6.2%
<b>Year-over-year comparisons:</b>																
Revenue Growth	9.3%	11.6%	-1.8%	-4.4%	-3.3%	0.3%	-1.3%	12.8%	21.2%	19.9%	13.0%	21.5%	14.2%	13.8%	8.7%	14.3%
Gross Profit Growth	12.8%	17.4%	5.0%	6.2%	2.4%	7.4%	0.7%	13.1%	19.6%	22.9%	14.2%	28.4%	21.3%	17.2%	11.3%	19.0%
Operating Income Growth	46.1%	32.4%	-57.9%	37.4%	-10.7%	-21.1%	-24.5%	47.0%	4.0%	57.1%	22.6%	110.7%	-4.2%	44.5%	29.3%	31.8%
Net Income Growth	66.6%	93.9%	-50.2%	53.8%	-10.9%	-11.5%	-36.1%	25.9%	3.2%	69.9%	16.3%	131.6%	-3.1%	47.2%	31.3%	34.8%
Pro-Forma Net Income Growth	12.1%	65.7%	79.4%	50.8%	19.2%	50.3%	-17.0%	-12.3%	9.7%	32.4%	3.9%	73.3%	38.5%	34.5%	23.5%	38.0%
Diluted EPS	65.5%	86.3%	-53.4%	43.1%	-16.1%	-16.8%	-37.8%	25.3%	-0.6%	60.1%	12.9%	117.9%	-10.5%	41.5%	26.3%	27.7%
Pro-Forma Diluted EPS	11.4%	59.2%	67.6%	40.3%	12.3%	41.3%	-19.2%	-12.7%	5.6%	24.7%	0.9%	63.1%	27.9%	29.4%	18.8%	30.7%

Sources: Sidoti & Company, LLC estimates; Company reports

MASTECH DIGITAL, INC.

Table 2: Mastech Digital, Inc. Statement of Cash Flow (\$ in thousands)

	2019	Mar	Jun	Sep	2020	MarA	JunA	2021E	2022E
<b>Cash Flows From Operating Activities</b>									
Net Income	\$ 11,145	\$ 1,869	\$ 2,969	\$ 2,998	\$ 9,861	\$ 1,194	\$ 3,738	\$ 11,466	\$ 15,459
Depreciation and Amortization	3,434	873	868	858	3,589	997	999	4,266	4,244
Bad Debt Expense	80							50	50
Int. Amortization and Def. Financing Costs	104	26	26	26	284	20	21	85	85
Stock-Based Compensation Expense	936	456	612	462	2,021	621	757	2,878	3,000
Deferred Income Taxes, net	1,322	(182)	(6)	(111)	(1,821)	(8)	341	500	500
Impairment of Goodwill									
Revaluation of Contingent Consid. Liability	(6,069)						(1,982)	(1,982)	0
Operating Lease Assets and Liabilities, net	100	(37)	14	27	18	12	129	150	150
Long-Term Accrued Income Taxes	(19)				(20)				
Loss on Disposition of Fixed Assets		2	0	0	4				
Gross Cash Flow	11,033	3,007	4,483	4,260	13,936	2,836	4,003	17,413	23,488
Working Capital Items:									
Accounts Receivable and Unbilled Receivables	5,648	(1,244)	2,388	(50)	2,133	(4,072)	(2,378)	(6,716)	(3,377)
Prepaid and Other Current Assets	(386)	492	(169)	(1,373)	251	108	(2,178)	(523)	(163)
Accounts Payable	(100)	(587)	(367)	41	(1,613)	1,326	723	916	432
Accrued Payroll and Related Costs	174	1,554	1,655	3,321	6,287	508	(421)	(690)	1,016
Other Accrued Liabilities	(264)	(276)	668	(732)	91	141	(377)	(1,174)	(2,050)
Deferred Revenue	(21)	(151)	122	(104)	146	(73)	32		
Total Changes in Working Capital	5,051	(212)	4,297	1,103	7,295	(2,062)	(4,599)	(8,187)	(4,142)
<b>Operating Cash Flow</b>	<b>16,084</b>	<b>2,795</b>	<b>8,780</b>	<b>5,363</b>	<b>21,231</b>	<b>774</b>	<b>(596)</b>	<b>9,226</b>	<b>19,345</b>
CAPEX	(1,014)	(119)	(36)	(105)	(298)	(128)	(198)	(1,000)	(1,000)
<b>Free Cash Flow</b>	<b>15,070</b>	<b>2,676</b>	<b>8,744</b>	<b>5,258</b>	<b>20,933</b>	<b>646</b>	<b>(794)</b>	<b>8,226</b>	<b>18,345</b>
<b>Free Cash Flow (ex Stock-Based Comp)</b>	<b>14,134</b>	<b>2,220</b>	<b>8,132</b>	<b>4,796</b>	<b>18,912</b>	<b>25</b>	<b>(1,551)</b>	<b>5,348</b>	<b>15,345</b>
<b>Cash Flows From Investing Activities</b>									
(Payment for) Recovery of Non-current Deposits	135	17	3	(7)	9	(63)	(136)	(199)	
Acquisition of AmberLeaf, incl. net Earn-Outs					(9,345)			(1,450)	(1,450)
<b>Cash Flows From Financing Activities</b>									
(Repayments) Borrowings on Credit Facility, net	(3,976)	(2,244)	(2,307)	(4,950)	(9,551)			(4,375)	
Borrowings on Term Loan Facility					17,500				
(Repayments) on Term Loan Facility	(9,575)	(1,144)	(5,106)	(1,144)	(15,969)	(1,100)	(1,100)	(2,500)	(4,500)
Proceeds from Issuance of Common Shares	168		107	(2)	222		181	181	
Purchase of Treasury Stock	(13)				(246)				
Proceeds from Exercise of Stock Options	7	556	765	9	1,330	101	4	1,500	1,500
Total Cash Flows From Investing and Financing	(13,254)	(2,815)	(6,538)	(6,094)	(16,050)	(1,062)	(1,051)	(6,843)	(4,450)
<b>Beginning Cash and Equivalents</b>	<b>1,294</b>	<b>2,981</b>	<b>2,575</b>	<b>4,743</b>	<b>2,981</b>	<b>7,677</b>	<b>7,242</b>	<b>7,677</b>	<b>8,946</b>
Effects of Exchange Rates	(129)	(267)	(38)	107	(187)	(19)	(95)	(114)	0
Change in Cash	1,687	(406)	2,168	(729)	4,696	(435)	(1,940)	1,269	13,895
<b>Ending Cash and Equivalents</b>	<b>2,981</b>	<b>2,575</b>	<b>4,743</b>	<b>4,014</b>	<b>7,677</b>	<b>7,242</b>	<b>5,302</b>	<b>8,946</b>	<b>22,841</b>
<b>Per Share Data (Diluted Shares):</b>									
Gross Cash Flow	0.98	0.26	0.38	0.35	1.17	0.24	0.33	1.41	1.81
Operating Cash Flow	1.43	0.24	0.73	0.45	1.78	0.06	(0.05)	0.75	1.49
Free Cash Flow	1.34	0.23	0.73	0.44	1.75	0.05	(0.07)	0.67	1.41
Free Cash Flow (ex Stock-Based Comp)	1.26	0.19	0.68	0.40	1.58	0.00	(0.13)	0.43	1.18
Cash and Equivalents	0.27	0.22	0.40	0.33	0.64	0.60	0.44	0.73	1.76
Number of Shares (Diluted)	11,232	11,675	11,948	12,042	11,950	11,997	12,002	12,312	13,000

Sources: Sidoti & Company, LLC estimates; Company reports

MASTECH DIGITAL, INC.

Table 3: Mastech Digital, Inc. Balance Sheet (\$ in thousands)

	2019	Mar	Jun	Sep	2020	MarA	JunA	2021E	2022E
<b>Assets</b>									
Current Assets:									
Cash and Cash Equivalents	\$ 2,981	\$ 2,575	\$ 4,743	\$ 4,014	\$ 7,677	\$ 7,242	\$ 5,302	\$ 8,946	\$ 22,841
Accounts Receivable, net	32,352	33,596	31,208	31,258	32,134	36,206	38,584	38,850	42,227
Prepaid and Other Current Assets	1,597	1,036	1,224	2,647	1,346	1,238	3,416	1,869	2,032
<b>Total Current Assets</b>	<b>36,930</b>	<b>37,207</b>	<b>37,175</b>	<b>37,919</b>	<b>41,157</b>	<b>44,686</b>	<b>47,302</b>	<b>49,665</b>	<b>67,100</b>
Equip., Enterprise Sftwr, net	2,476	2,393	2,230	2,133	1,971	1,895	1,887	1,871	1,771
Operating Lease Right-of-Use Assets	4,617	4,348	3,978	3,642	3,286	3,199	5,595	5,432	5,151
Deferred Income Taxes					796	804	595	600	600
Non-Current Deposits	405	388	385	392	396	459	463	500	500
Goodwill, net	26,106	26,106	26,106	26,106	32,510	32,510	32,510	32,510	32,510
Intangible Assets, net	20,050	19,377	18,708	18,052	21,930	21,137	20,344	18,764	15,620
<b>Total Assets</b>	<b>\$ 90,584</b>	<b>\$ 89,819</b>	<b>\$ 88,582</b>	<b>\$ 88,244</b>	<b>\$ 102,046</b>	<b>\$ 104,690</b>	<b>\$ 108,696</b>	<b>\$ 109,342</b>	<b>\$ 123,252</b>
<b>Liabilities</b>									
Current Liabilities:									
Current Portion of Long-Term Debt	4,575	8,537	4,575	4,575	4,400	4,400	4,400	4,400	4,400
Current Portion of Oper. Lease Liability	1,396	1,392	1,295	1,188	1,079	1,056	1,435	1,500	1,500
Accounts Payable	4,027	3,440	3,073	3,114	2,589	3,915	4,638	3,505	3,937
Accrued Payroll and Related Costs	7,902	9,456	9,616	11,325	12,374	12,882	12,461	11,684	12,700
Other Accrued Liabilities	1,191	764	1,554	739	1,529	1,571	1,226	1,500	1,500
<b>Total Current Liabilities</b>	<b>19,091</b>	<b>23,589</b>	<b>20,113</b>	<b>20,941</b>	<b>21,971</b>	<b>23,824</b>	<b>24,160</b>	<b>22,589</b>	<b>24,037</b>
Long-Term Debt, net	20,682	13,358	9,933	3,865	12,875	11,795	10,716	6,000	1,500
Contingent Consideration Liability					2,882	2,882	900	900	-
LT Operating Lease Liability	3,321	3,019	2,760	2,558	2,325	2,273	4,419	4,425	4,025
Long-Term Accrued Income Taxes	185	185	185	185	165	165	165	165	165
Long-Term Payroll Tax Liability			1,495	3,107	2,295	2,295	2,295	1,150	-
Deferred Income Taxes and Other	1,025	843	837	726	-	-	-	-	-
<b>Total Liabilities</b>	<b>44,304</b>	<b>40,994</b>	<b>35,323</b>	<b>31,382</b>	<b>42,513</b>	<b>43,234</b>	<b>42,655</b>	<b>35,229</b>	<b>29,727</b>
<b>Shareholders' Equity</b>									
Common Stock	127	128	130	130	130	130	131	134	136
Additional Paid-in Capital	21,939	22,950	24,432	24,901	25,509	26,231	27,172	28,968	33,266
Retained Earnings	28,759	30,628	33,597	36,595	38,620	39,814	43,552	50,086	65,545
Accum. Other Comprehensive Income (Loss)	(358)	(694)	(713)	(577)	(539)	(532)	(627)	(888)	(1,234)
Treasury Stock, at cost	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)
<b>Total Shareholders' Equity</b>	<b>46,280</b>	<b>48,825</b>	<b>53,259</b>	<b>56,862</b>	<b>59,533</b>	<b>61,456</b>	<b>66,041</b>	<b>74,113</b>	<b>93,526</b>
<b>Liabilities and Shareholders' Equity</b>	<b>\$ 90,584</b>	<b>\$ 89,819</b>	<b>\$ 88,582</b>	<b>\$ 88,244</b>	<b>\$ 102,046</b>	<b>\$ 104,690</b>	<b>\$ 108,696</b>	<b>\$ 109,342</b>	<b>\$ 123,252</b>
<b>Selected Data:</b>									
Working Capital	17,839	13,618	17,062	16,978	19,186	20,862	23,142	27,076	43,064
Current Ratio (times)	1.93	1.58	1.85	1.81	1.87	1.88	1.96	2.20	2.79
Total Debt-to-Capital	39%	35%	26%	18%	26%	24%	24%	18%	11%
Pro-Forma ROA (average, ttm)	12.2%	12.8%	9.8%	11.2%	10.2%	9.4%	10.1%	10.8%	13.3%
Pro-Forma ROE (average, ttm)	27.7%	28.6%	19.1%	20.1%	18.6%	16.7%	16.7%	17.2%	18.4%
Net (Debt) Cash per share	(1.98)	(1.65)	(0.82)	(0.37)	(0.80)	(0.75)	(0.82)	(0.12)	1.30
BV per share	4.19	4.42	4.68	5.00	5.22	5.38	5.77	6.44	8.06
Tangible Book Value per share	1.82	2.06	2.39	2.70	2.37	2.53	2.93	3.62	5.26
DSO	60	60	59	60	58	65	63	62	59

Sources: Sidoti & Company, LLC estimates; Company reports

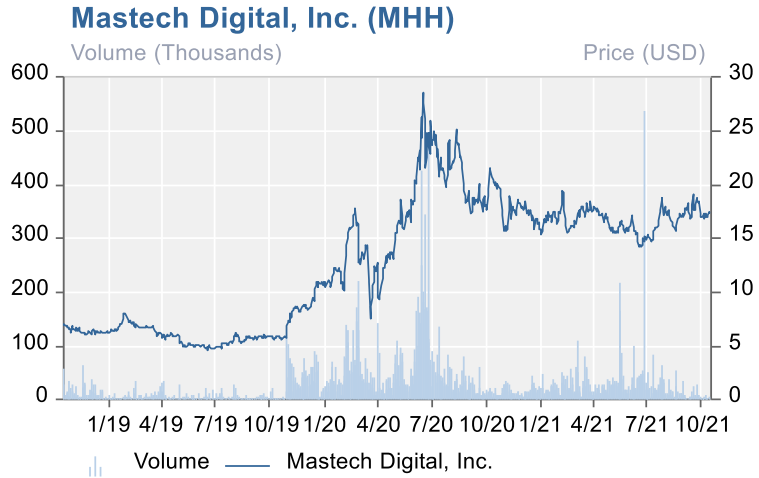
**Appendix**  
Required Disclosures

**Required Disclosures**

**Mastech Digital, Inc. (MHH-\$17.42) NR Price Target: \$31 Risk Rating: M**

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	12/9/19	8.6	NR	15	M
PT	2/12/20	15.6		22	
PT	3/19/20	7.8		18	
PT	4/29/20	14.2		20	
PT	6/11/20	23.2		31	
PT	12/10/20	17.4		31	
PT	1/26/21	17.6		31	
PT	2/10/21	18		31	
PT	4/5/21	18.1		31	
PT	4/28/21	16.3		31	
PT	7/14/21	15.7		31	
PT	7/28/21	18.2		31	
PT	9/27/21	18.5		31	



Source: FactSet Prices

<b>Valuation</b>	We maintain a \$31 price target on MHH ahead of the 3Q:21 earnings report. Our target reflects an unchanged 20x multiple applied to our 2022 adjusted EPS estimate of \$1.53. Overall, we continue to envision accelerated (and above industry-average) revenue growth for MHH in 2H:21-2022, as well as greater predictability in the DA segment's revenue stream following a spate of contract signings since late 2019. We also find that the company's overall staffing and D&A model should continue to insulate it from broader macro pressures and economic disruption tied to the pandemic, evident in the 2020-1H:21 results. Trading at only 11-15x our forward EPS estimates, we argue that the shares are not adequately reflecting this. The Moderately Risky rating reflects MHH's sound financial profile and history of free cash generation and profitability, which we expect to continue through at least 2022.		
<b>Key Risks</b>	U.S. recession	Client concentration	Longer project delays tied to the fallout from COVID-19

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