



Mastech Digital, Inc. (MHH)

MHH's 3Q:21 Results Top Expectations Driven By Robust IT Staffing Demand And Stronger Margin Profile Within Data & Analytics; Nudge Near-Term EPS Outlook Higher On Mix; Maintain \$31 Target

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.23	\$0.19A		\$0.30	\$0.31		\$0.37	
June	0.33	0.29A		0.37	0.38		0.44	
Sep.	0.32	0.34	0.38A	0.44	0.45		0.53	
Dec.	<u>0.29</u>	<u>0.36</u>	<u>0.37</u>	<u>0.43</u>			<u>0.51</u>	
Adjusted EPS	\$1.16	\$1.17	\$1.22	\$1.53	\$1.56		\$1.84	
P/E			15.1x		11.8x		10.0x	

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. MHH's calculation of adjusted EPS excludes net a amortization of intangibles expense and other non-cash or one-time items; adjusted EPS for 2020-2023E exclude \$0.33, \$0.24, \$0.34 and \$0.33, respectively, of expenses related to these items. 2020-2023E GAAP EPS include \$0.17, \$0.23, \$0.23 and \$0.22, 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	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$113.5	\$123.5	\$132.0	\$147.9	\$177.2	\$193.6	\$194.1	\$222.0	\$250.6	\$274.9
GAAP EPS*	\$0.38	\$0.31	\$0.28	\$0.16	\$0.60	\$0.99	\$0.83	\$0.97	\$1.21	\$1.51

* 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) 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.

- **We highlight MHH's resilient IT Staffing and Data & Analytics (DA) operations. Trends were increasingly positive in 1H:21, showing a notable rise in billable IT consultants, as well as two strong bookings quarters in DA and improved pipeline opportunities there, which gave us confidence in a meaningful 2H:21 lift.**
- **The recovery accelerated in 3Q:21, with consolidated revenue surging 26% year-to-year (21% organic) to \$59.5 million; we were at \$57.4 million. As expected, we saw a jump within DA propelled by recent wins and last year's AmberLeaf acquisition.**
- **The revenue delta, relative to our model, came from stronger IT Staffing volume, which was up 22% from 3Q:20 and 10% sequentially to a record \$49 million.**
- **The company also achieved stronger margins than we anticipated by leveraging the robust growth across each segment. Coupled with in line SG&A spend, relative to our model, adjusted EPS (excluding non-cash items) were \$0.38 in 3Q:21, above our estimate of \$0.34 and up from \$0.32 in the year ago quarter.**
- **Overall, our outlook for 4Q:21-2022 remains upbeat, reflecting growing staffing volume, a robust DA recovery and operating leverage from a mix of higher-margin work. In reviewing our model, we raise our EPS outlook to reflect stronger margins at DA and mix; this leads to our increased 2022 EPS estimate of \$1.56 (from \$1.53).**
- **We also introduce our 2023 projections, which imply organic consolidated annual revenue growth of almost 10% and EPS expansion of 18%, to \$1.84.**
- **Even with the shares up today following the upbeat earnings report, the stock only trades at 10x-12x our forward EPS estimates, offering ample upside to our \$31 target, which is based on 20x our new 2022 EPS estimate of \$1.56 (from \$1.53).**
- **Free cash flow per share was \$1.58 in 2020 and we project \$0.44 in 2021, \$1.22 in 2022 and \$1.72 in 2023 with a year-end 2023 net cash position of \$45 million.**

NR

Price Target: \$31

Price: \$18.40

Risk Rating: M

Josh Vogel
 (212) 453-7016
 (jvogel@sidoti.com)

Key Statistics

Analysts Covering	2
Market Cap (Mil)	\$210
Enterprise Value	\$227
52-Week Range (NYSE)	20-14
5-Year EPS CAGR	20%
Avg. Daily Trading Volume	14,000
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 (2023E)*	\$1.72
FCF Yield (2023E)	9.3%
Net Cash Per Share (2023E)	\$3.32
Price to Book Value	3.0x
Return on Equity (2023E)	19.2%
Total Debt to Capital	22%
Interest Coverage Ratio	20.9x
Short Interest %	0.8%
Short Interest Days To Cover	4.1
Russell 2000	2,274
Russell 2000 – Last 12 Months	43.0%
MHH – Last 12 Months	-10.2%



Source: FactSet Prices

- **The *Moderately Risky* rating reflects MHH's history of cash generation and profitability, which we foresee through 2023.**

MHH's 3Q:21 revenue exceeded expectations due to robust, ongoing IT Staffing demand and a notable step up in the higher-margin Data & Analytics business. The company posted consolidated revenue of a record \$59.5 million, which was up 26% year over year (21% organic) and 11% from 2Q:21. The result was \$2 million, or 4%, above our estimate, which was due to greater volume within the *IT Staffing* business (82% of 3Q:21 revenue); the segment posted record quarterly revenue of \$49 million, which was up 22% from 3Q:20 and 10% sequentially, driven by higher activity levels and a rapidly growing consultant base that was up by 24% through the first nine months of the year. We continue to highlight the strong secular drivers behind *IT Staffing*, where demand for IT professionals is strengthening coming out of the pandemic. We were also encouraged by the 47% year-to-year (19% organic) and 18% sequential jump in revenue within *Data & Analytics* division (DA, 18%), hitting our \$10.5 million estimate. As expected, the segment benefited from strong bookings in 1H:21 (\$15 million per quarter) and a general increase in the pipeline of opportunities coming to the table. It was noted that bookings were again strong in 3Q:21, coming at \$10 million and reflected two notable engagements that were pushed into 4Q:21, of which management is confident will close soon.

EPS also surpassed our estimate by \$0.04, driven by the revenue beat and stronger gross margin profile in the DA business, relative to our model. The company achieved a gross margin of 27.9% in 3Q:21, up 30 basis points year over year, 120 basis points sequentially and 60 basis points above our estimate. In addition to suspected pricing discipline, we attribute the beat to stronger margins within the DA business, where the company is benefiting from scale. SG&A expense was up to 19.6% of revenue, versus 18.7% in 3Q:21, hitting our target. As previously noted, the company was in the process of reversing some austerity measures put in place in 2020 in response to the escalating pandemic. Accordingly, the company posted adjusted 3Q:21 EPS (excluding non-cash and one-time items) of \$0.38, up from \$0.32 in 3Q:20 and \$0.04 above our estimate, which was due to the revenue beat and strong gross margin performance.

Exhibit 1: Mastech Digital, Inc. Results Variance Table (\$ in '000s, except per share data)

	3Q:21 Actual	3Q:20 Actual	3Q:21 Estimated	Variance (Act. Vs. Est.)	% change	Variance ('21 vs. '20)	% change
Total Revenue	\$59,531	\$47,383	\$57,426	\$2,105	3.7%	\$12,148	25.6%
Gross Profit	16,620	13,090	15,651	969	6.2%	\$3,530	27.0%
GAAP Operating Income	4,975	4,217	4,387	588	13.4%	\$758	18.0%
GAAP Net Income	3,406	2,998	3,093	313	10.1%	\$408	13.6%
Diluted GAAP EPS	\$ 0.28	\$ 0.25	\$ 0.25	0.04	14.5%	\$0.03	13.8%
Pro-Forma Net Income	4,568	3,846	4,217	351	8.3%	722	18.8%
Pro-Forma EPS	\$ 0.38	\$ 0.32	\$ 0.34	0.04	12.6%	\$0.06	18.9%

Sources: Company filings and Sidoti & Company, LLC estimates

We nudge our EPS outlook higher through 2022, reflecting a stronger margin profile within the DA business. As previously noted, we expect healthy, ongoing IT staffing orders, but some margin contraction for the business in the near term that reflects the unwinding of the 1H:20 austerity measures and expectations of higher expenses in the unit to support anticipated growth. Within DA, we still suspect some margin pressure to come from efforts to invest for future growth opportunities and well as project implementations. However, upon reviewing our model, and considering the 3Q:21 performance, we nudge our margin assumptions higher for the segment. This move raises our 4Q:21 EPS estimate to \$0.37, from \$0.36, and our full-year 2022 estimate to \$1.56, from \$1.53. We introduce our 2023 forecasts for annual revenue growth of 10%, to \$275 million and EPS expansion of 18%, to \$1.84.

MHH maintains a healthy financial profile, in our opinion. The company ended 3Q:21 with net debt of \$8.6 million, a total debt-to-total capital ratio of 22% and \$30 million available on the existing credit and revolving loan facilities; the average interest rate on the debt is approximately 3.5%. 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 (\$0.44 per share) for 2021, \$16 million (\$1.22) in 2022 and \$23 million (\$1.72) in 2023. We think MHH will focus on de-leveraging the balance sheet, with the total debt-to-total capital ratio falling to 7% at year-end 2023. 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.

Valuation	We maintain a \$31 price target on MHH following the upbeat 3Q:21 earnings report. Our target reflects an unchanged 20x multiple applied to our new 2022 adjusted EPS estimate of \$1.56 (from \$1.53). Overall, we continue to envision accelerated (and above industry-average) revenue growth for MHH in 4Q:21-2023, 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 2020-3Q:21 results. Trading at only 10-15x 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 2023.		
Key Risks	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	SepA	DecE	2021E	MarE	JunE	SepE	DecE	2022E	2023E
Total Revenue	\$ 193,574	\$ 50,425	\$ 47,583	\$ 47,383	\$ 48,710	\$ 194,101	\$ 49,775	\$ 53,658	\$ 59,531	\$ 59,009	\$ 221,973	\$ 60,498	\$ 61,294	\$ 65,322	\$ 63,499	\$ 250,614	\$ 274,867
Cost of Revenue	145,593	37,706	34,927	34,293	35,636	142,562	36,971	39,343	42,911	42,721	161,946	44,053	43,928	46,981	45,612	180,574	194,856
Gross Profit	47,981	12,719	12,656	13,090	13,074	51,539	12,804	14,315	16,620	16,288	60,027	16,445	17,366	18,341	17,888	70,040	80,011
Selling, General and Admin Expenses	30,994	10,243	9,042	8,873	9,978	38,136	10,935	9,004	11,645	11,483	43,067	12,564	12,220	11,999	11,654	48,437	51,579
Total Operating Expenses	30,994	10,243	9,042	8,873	9,978	38,136	10,935	9,004	11,645	11,483	43,067	12,564	12,220	11,999	11,654	48,437	51,579
Operating Income (EBIT)	16,987	2,476	3,614	4,217	3,096	13,403	1,869	5,311	4,975	4,805	16,960	3,880	5,147	6,342	6,234	21,603	28,432
Other Income (Expense), net	(1,768)	(226)	(157)	(191)	(196)	(770)	(232)	(144)	(235)	(150)	(761)	(150)	(125)	(100)	(100)	(475)	(475)
Income Before Income Taxes	15,219	2,250	3,457	4,026	2,900	12,633	1,637	5,167	4,740	4,655	16,199	3,730	5,022	6,242	6,134	21,128	27,957
Income Tax (Benefit)	4,074	381	488	1,028	875	2,772	443	1,429	1,334	1,257	4,463	1,007	1,356	1,685	1,656	5,705	7,548
GAAP Net Income	11,145	1,869	2,969	2,998	2,025	9,861	1,194	3,738	3,406	3,398	11,736	2,723	3,666	4,557	4,478	15,424	20,409
Diluted GAAP Earnings per Share	\$ 0.99	\$ 0.16	\$ 0.25	\$ 0.25	\$ 0.17	\$ 0.83	\$ 0.10	\$ 0.31	\$ 0.28	\$ 0.28	\$ 0.97	\$ 0.22	\$ 0.29	\$ 0.36	\$ 0.34	\$ 1.21	\$ 1.51
Pro-Forma Net Income (per MHH)	9,251	2,702	3,909	3,846	3,447	13,904	2,243	3,427	4,568	4,522	14,760	3,845	4,788	5,678	5,598	19,909	24,872
Pro-Forma Diluted EPS (per MHH)	\$ 0.82	\$ 0.23	\$ 0.33	\$ 0.32	\$ 0.29	\$ 1.16	\$ 0.19	\$ 0.29	\$ 0.38	\$ 0.37	\$ 1.22	\$ 0.31	\$ 0.38	\$ 0.45	\$ 0.43	\$ 1.56	\$ 1.84
Avg. Diluted Shares O/S	11,232	11,675	11,948	12,042	12,011	11,950	11,997	12,002	12,025	12,250	12,069	12,500	12,750	12,750	13,000	12,750	13,500
Margin Analysis:																	
Gross Margin	24.8%	25.2%	26.6%	27.6%	26.8%	26.6%	25.7%	26.7%	27.9%	27.6%	27.0%	27.2%	28.3%	28.1%	28.2%	27.9%	29.1%
SG&A as a % of Revenue	16.0%	20.3%	19.0%	18.7%	20.5%	19.6%	22.0%	16.8%	19.6%	19.5%	19.4%	20.8%	19.9%	18.4%	18.4%	19.3%	18.8%
Operating Margin	8.8%	4.9%	7.6%	8.9%	6.4%	6.9%	3.8%	9.9%	8.4%	8.1%	7.6%	6.4%	8.4%	9.7%	9.8%	8.6%	10.3%
Effective Tax Rate	26.8%	16.9%	14.1%	25.5%	30.2%	21.9%	27.1%	27.7%	28.1%	27.0%	27.6%	27.0%	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%	5.7%	5.8%	5.3%	4.5%	6.0%	7.0%	7.1%	6.2%	7.4%
Year-over-year comparisons:																	
Revenue Growth	9.3%	11.6%	-1.8%	-4.4%	-3.3%	0.3%	-1.3%	12.8%	25.6%	21.1%	14.4%	21.5%	14.2%	9.7%	7.6%	12.9%	9.7%
Gross Profit Growth	12.8%	17.4%	5.0%	6.2%	2.4%	7.4%	0.7%	13.1%	27.0%	24.6%	16.5%	28.4%	21.3%	10.4%	9.8%	16.7%	14.2%
Operating Income Growth	46.1%	32.4%	-57.9%	37.4%	-10.7%	-21.1%	-24.5%	47.0%	18.0%	55.2%	26.5%	NM	-3.1%	27.5%	29.7%	27.4%	31.6%
Net Income Growth	66.6%	93.9%	-50.2%	53.8%	-10.9%	-11.5%	-36.1%	25.9%	13.6%	67.8%	19.0%	NM	-1.9%	33.8%	31.8%	31.4%	32.3%
Pro-Forma Net Income Growth	12.1%	65.7%	79.4%	50.8%	19.2%	50.3%	-17.0%	-12.3%	18.8%	31.2%	6.2%	71.4%	39.7%	24.3%	23.8%	34.9%	24.9%
Diluted EPS	65.5%	86.3%	-53.4%	43.1%	-16.1%	-16.8%	-37.8%	25.3%	13.8%	64.5%	17.8%	NM	-7.7%	26.2%	24.2%	24.4%	25.0%
Pro-Forma Diluted EPS	11.4%	59.2%	67.6%	40.3%	12.3%	41.3%	-19.2%	-12.7%	18.9%	28.6%	5.1%	64.5%	31.5%	17.2%	16.7%	27.7%	18.0%

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	2023E
Cash Flows From Operating Activities										
Net Income	\$ 11,145	\$ 1,869	\$ 2,969	\$ 2,998	\$ 9,861	\$ 1,194	\$ 3,738	\$ 11,736	\$ 15,424	\$ 20,409
Depreciation and Amortization	3,434	873	868	858	3,589	997	999	4,268	4,244	4,315
Bad Debt Expense	80							50	50	50
Int. Amortization and Def. Financing Costs	104	26	26	26	284	20	21	85	85	85
Stock-Based Compensation Expense	936	456	612	462	2,021	621	757	2,821	3,000	3,000
Deferred Income Taxes, net	1,322	(182)	(6)	(111)	(1,821)	(8)	341	500	500	500
Impairment of Goodwill										
Revaluation of Contingent Consid. Liability	(6,069)						(1,982)	(1,982)	0	0
Operating Lease Assets and Liabilities, net	100	(37)	14	27	18	12	129	150	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	17,628	23,453	28,509
Working Capital Items:										
Accounts Receivable and Unbilled Receivables	5,648	(1,244)	2,388	(50)	2,133	(4,072)	(2,378)	(7,107)	(2,986)	(2,823)
Prepaid and Other Current Assets	(386)	492	(169)	(1,373)	251	108	(2,178)	(542)	(144)	(186)
Accounts Payable	(100)	(587)	(367)	41	(1,613)	1,326	723	952	396	499
Accrued Payroll and Related Costs	174	1,554	1,655	3,321	6,287	508	(421)	(572)	898	1,162
Other Accrued Liabilities	(264)	(276)	668	(732)	91	141	(377)	(1,174)	(2,050)	0
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)	(8,444)	(3,886)	(1,349)
Operating Cash Flow	16,084	2,795	8,780	5,363	21,231	774	(596)	9,184	19,567	27,160
CAPEX	(1,014)	(119)	(36)	(105)	(298)	(128)	(198)	(1,000)	(1,000)	(1,000)
Free Cash Flow	15,070	2,676	8,744	5,258	20,933	646	(794)	8,184	18,567	26,160
Free Cash Flow (ex Stock-Based Comp)	14,134	2,220	8,132	4,796	18,912	25	(1,551)	5,363	15,567	23,160
Cash Flows From Investing Activities										
(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)	0
Cash Flows From Financing Activities										
(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)	(1,500)
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	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)	0
Beginning Cash and Equivalents	1,294	2,981	2,575	4,743	2,981	7,677	7,242	7,677	8,904	23,021
Effects of Exchange Rates	(129)	(267)	(38)	107	(187)	(19)	(95)	(114)	0	0
Change in Cash	1,687	(406)	2,168	(729)	4,696	(435)	(1,940)	1,227	14,117	26,160
Ending Cash and Equivalents	2,981	2,575	4,743	4,014	7,677	7,242	5,302	8,904	23,021	49,181
Per Share Data (Diluted Shares):										
Gross Cash Flow	0.98	0.26	0.38	0.35	1.17	0.24	0.33	1.46	1.84	2.11
Operating Cash Flow	1.43	0.24	0.73	0.45	1.78	0.06	(0.05)	0.76	1.53	2.01
Free Cash Flow	1.34	0.23	0.73	0.44	1.75	0.05	(0.07)	0.68	1.46	1.94
Free Cash Flow (ex Stock-Based Comp)	1.26	0.19	0.68	0.40	1.58	0.00	(0.13)	0.44	1.22	1.72
Cash and Equivalents	0.27	0.22	0.40	0.33	0.64	0.60	0.44	0.74	1.81	3.64
Number of Shares (Diluted)	11,232	11,675	11,948	12,042	11,950	11,997	12,002	12,069	12,750	13,500

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	SepA	2021E	2022E	2023E
Assets											
Current Assets:											
Cash and Cash Equivalents	\$ 2,981	\$ 2,575	\$ 4,743	\$ 4,014	\$ 7,677	\$ 7,242	\$ 5,302	\$ 5,447	\$ 8,904	\$ 23,021	\$ 49,181
Accounts Receivable, net	32,352	33,596	31,208	31,258	32,134	36,206	38,584	45,375	39,241	42,227	45,050
Prepaid and Other Current Assets	1,597	1,036	1,224	2,647	1,346	1,238	3,416	4,171	1,888	2,032	2,218
Total Current Assets	36,930	37,207	37,175	37,919	41,157	44,686	47,302	54,993	50,033	67,280	96,449
Equip., Enterprise Sftwr, net	2,476	2,393	2,230	2,133	1,971	1,895	1,887	2,201	2,171	2,071	1,871
Operating Lease Right-of-Use Assets	4,617	4,348	3,978	3,642	3,286	3,199	5,595	5,229	5,132	5,151	4,751
Deferred Income Taxes					796	804	595				
Non-Current Deposits	405	388	385	392	396	459	463	597	600	700	800
Goodwill, net	26,106	26,106	26,106	26,106	32,510	32,510	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	19,552	18,762	15,618	12,503
Total Assets	\$ 90,584	\$ 89,819	\$ 88,582	\$ 88,244	\$ 102,046	\$ 104,690	\$ 108,696	\$ 115,082	\$ 109,208	\$ 123,330	\$ 148,884
Liabilities											
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	4,400	4,400
Current Portion of Oper. Lease Liability	1,396	1,392	1,295	1,188	1,079	1,056	1,435	1,494	1,500	1,500	1,500
Accounts Payable	4,027	3,440	3,073	3,114	2,589	3,915	4,638	4,942	3,541	3,937	4,436
Accrued Payroll and Related Costs	7,902	9,456	9,616	11,325	12,374	12,882	12,461	15,552	11,802	12,700	13,862
Other Accrued Liabilities	1,191	764	1,554	739	1,529	1,571	1,226	1,458	1,500	1,500	1,500
Total Current Liabilities	19,091	23,589	20,113	20,941	21,971	23,824	24,160	27,846	22,742	24,037	25,697
Long-Term Debt, net	20,682	13,358	9,933	3,865	12,875	11,795	10,716	9,636	6,000	1,500	-
Contingent Consideration Liability					2,882	2,882	900	900	900	-	-
LT Operating Lease Liability	3,321	3,019	2,760	2,558	2,325	2,273	4,419	4,052	4,425	4,025	3,625
Long-Term Accrued Income Taxes	185	185	185	185	165	165	165	165	165	165	165
Long-Term Payroll Tax Liability			1,495	3,107	2,295	2,295	2,295	2,295	1,150		
Deferred Income Taxes and Other	1,025	843	837	726				17	-	-	-
Total Liabilities	44,304	40,994	35,323	31,382	42,513	43,234	42,655	44,911	35,382	29,727	29,487
Shareholders' Equity											
Common Stock	127	128	130	130	130	130	131	131	134	136	138
Additional Paid-in Capital	21,939	22,950	24,432	24,901	25,509	26,231	27,172	27,865	28,411	32,909	37,888
Retained Earnings	28,759	30,628	33,597	36,595	38,620	39,814	43,552	46,958	50,356	65,779	86,688
Accum. Other Comprehensive Income (Loss)	(358)	(694)	(713)	(577)	(539)	(532)	(627)	(596)	(888)	(1,034)	(1,130)
Treasury Stock, at cost	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)	(4,187)
Total Shareholders' Equity	46,280	48,825	53,259	56,862	59,533	61,456	66,041	70,171	73,826	93,603	119,397
Liabilities and Shareholders' Equity	\$ 90,584	\$ 89,819	\$ 88,582	\$ 88,244	\$ 102,046	\$ 104,690	\$ 108,696	\$ 115,082	\$ 109,208	\$ 123,330	\$ 148,884
Selected Data:											
Working Capital	17,839	13,618	17,062	16,978	19,186	20,862	23,142	27,147	27,291	43,243	70,752
Current Ratio (times)	1.93	1.58	1.85	1.81	1.87	1.88	1.96	1.97	2.20	2.80	3.75
Total Debt-to-Capital	39%	35%	26%	18%	26%	24%	24%	22%	18%	11%	7%
Pro-Forma ROA (average, ttm)	12.2%	12.8%	9.8%	11.2%	10.2%	9.4%	10.1%	10.2%	11.1%	13.3%	15.0%
Pro-Forma ROE (average, ttm)	27.7%	28.6%	19.1%	20.1%	18.6%	16.7%	16.7%	16.3%	17.6%	18.4%	19.2%
Net (Debt) Cash per share	(1.98)	(1.65)	(0.82)	(0.37)	(0.80)	(0.75)	(0.82)	(0.71)	(0.12)	1.34	3.32
BV per share	4.19	4.42	4.68	5.00	5.22	5.38	5.77	6.12	6.42	8.07	10.29
Tangible Book Value per share	1.82	2.06	2.39	2.70	2.37	2.53	2.93	3.28	3.59	5.27	7.49
DSO	60	60	59	60	58	65	63	66	62	59	57

Sources: Sidoti & Company, LLC estimates; Company reports

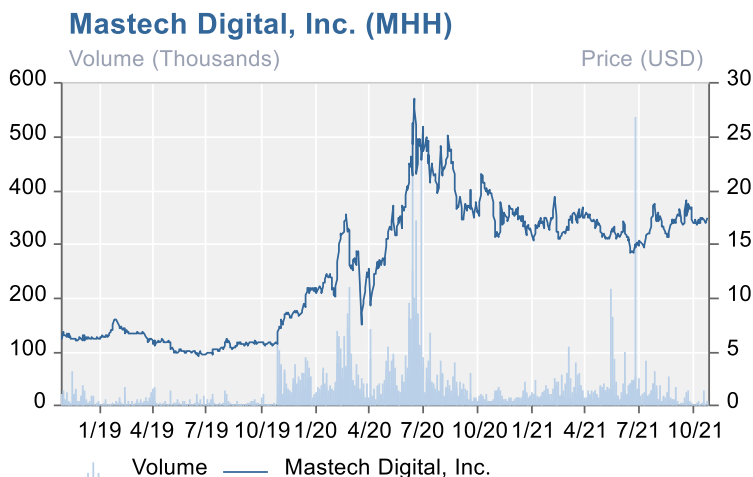
Appendix Required Disclosures

Required Disclosures

Mastech Digital, Inc. (MHH-\$18.40) 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	
PT	10/18/21	17.4		31	



Source: FactSet Prices

Valuation	<p>We maintain a \$31 price target on MHH following the upbeat 3Q:21 earnings report. Our target reflects an unchanged 20x multiple applied to our new 2022 adjusted EPS estimate of \$1.56 (from \$1.53). Overall, we continue to envision accelerated (and above industry-average) revenue growth for MHH in 4Q:21-2023, 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 2020-3Q:21 results. Trading at only 10-15x 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 2023.</p>		
Key Risks	U.S. recession	Client concentration	Longer project delays tied to the fallout from COVID-19

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