

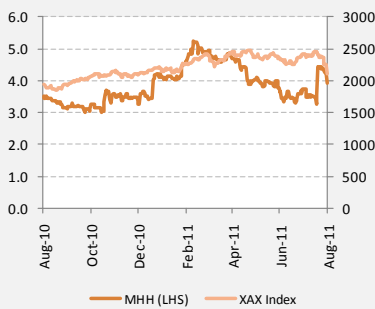
Mastech Holdings, Inc.

(Ticker: NYSE Amex: MHH)

August 8, 2011

RB MILESTONE GROUP 
Equity Research and Market Intelligence

Price (US\$):	3.91
Target Price (US\$):	5.39
Beta:	0.54
Price/Book Ratio:	1.12
Debt/Equity Ratio:	0.0
Listed Exchange:	NYSE Amex



Recent News

23/12/2010: Mastech Holdings, Inc. announces share repurchase program of up to 750,000 shares in next 24 months.

11/01/2010: Mastech Holdings, Inc. sells its brokerage operations staffing unit.

02/01/2010: Mastech Holdings, Inc. acquires Curastat Inc., an Arizona based healthcare staffing firm.

22/07/2009: Mastech Holdings, Inc. appoints new President and CEO.

28/04/2009: Mastech Holdings, Inc. announces CEO resignation.

Shares in Issue

3.678 M

Market Cap

(US\$M) 14.38

52 Week (High): US\$5.24

52 Week (Low): US\$2.94

Economic Revival, IT Spends and Changing Demographics to Drive Growth

Mastech Holdings, Inc. (MHH) is a U.S. based staffing firm providing IT and specialized healthcare staffing services to domestic clients. The company was spun-off from iGATE in 2008 and operates through its three sales channels – wholesale IT, retail IT and healthcare staffing. The company entered into the healthcare staffing sector by acquiring Curastat Inc., an Arizona based healthcare staffing firm, in January 2010. The acquisition allowed the Company to gain additional revenues from this new venture during FY2010 and post a positive growth in revenues since its spin-off.

Economic growth is highly correlated with staffing firm growth, thus the U.S. economy's gradual recovery from the Great Recession is good news for the staffing firm industry. As such optimism increased among the IT firms due to favorable economic conditions, it has allowed those firms to raise their budgets, which in turn favors IT staffing firms such as Mastech. In addition, the aging baby-boomer population is rapidly changing the demographics of the U.S. and has increased government attention towards healthcare that would also serve as a catalyst for firms like Mastech.

We have valued Mastech Holdings, Inc. using a mix of DCF valuation and relative valuation. In providing equal weights to both methods, we accordingly initiate coverage on Mastech Holdings, Inc. with a target price of US\$5.39/share, an upside of 37.8% from the last traded price of US\$3.91/share.

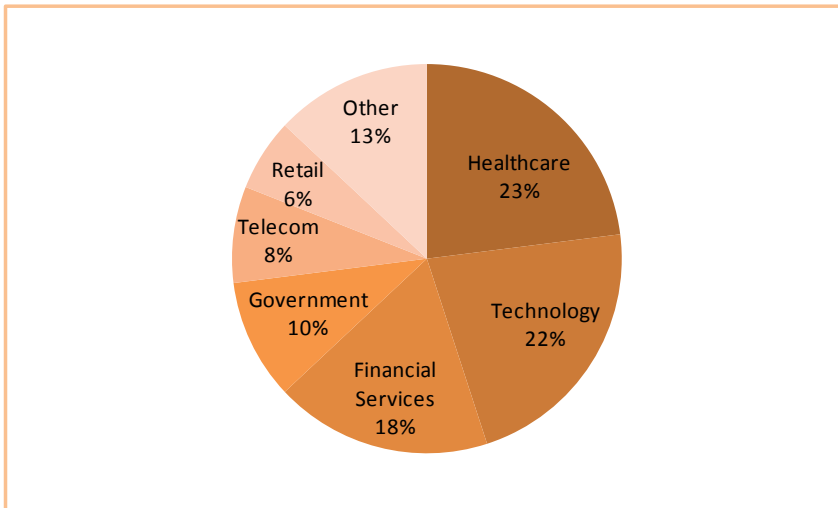
Investment Arguments

- **Economic Recovery to Boost Staffing Industry Growth:** The U.S. economy is gradually recovering from the perils of the recession. Further, the International Monetary Fund forecasts the U.S. GDP to grow by around 2.7% in the coming few years. As GDP growth is the main share price trigger for staffing firms, this should provide good growth potential for firms such as Mastech
- **Flexibility in Job and Talent – The Essentials:** The lookout of the employees is changing towards a greater emphasis on flexibility in the job arrangement while employers are becoming more quality conscious when it comes to talent acquisition. Staffing firms address these key concerns of both employees and businesses by providing businesses with top-notch talent and temporary or contract staffing as per the requirement. This kind of staffing flexibility will go a long way towards more and more recruiters turning to staffing services as providers for sourcing high quality talent
- **Increased IT Spends to Drive IT Staffing:** Temporary and contract IT staffing is highly correlated with economic growth and with the U.S. economy commencing down the revival path. The future looks bright for the IT staffing industry, with most of the IT firms raising their budget for IT spending. This would further provide IT staffing firms with more business as the IT firms search for the required talent to support their growing business
- **Demographic Changes and Healthcare Reforms to Work as Catalyst:** The U.S. population is undergoing a rapid demographic shift towards older people forming the majority of the future population. This will result in a greater need for healthcare services in future. In addition, healthcare practitioners will also be in short supply as their population ages as well. Such demographic change coupled with government's various healthcare initiatives are expected to drive healthcare industry growth, consequently providing more business to healthcare staffing firms like Mastech

Company Overview

Mastech Holdings, Inc. (NYSE Amex:MHH), headquartered in Pittsburgh, Pennsylvania is a provider of Information Technology (IT) and specialized healthcare staffing services. The company was also providing brokerage operations staffing services however, the business was sold in January 2010 in order to focus on its IT and healthcare staffing services. The company was actually spun-off from iGATE Corporation in September 2008. Prior to its spin-off, the company conducted its business as a subsidiary of iGATE since July 1986. Around 550 consultants work for Mastech, providing their services across a broad spectrum of industry verticals as shown in Exhibit 1 below.

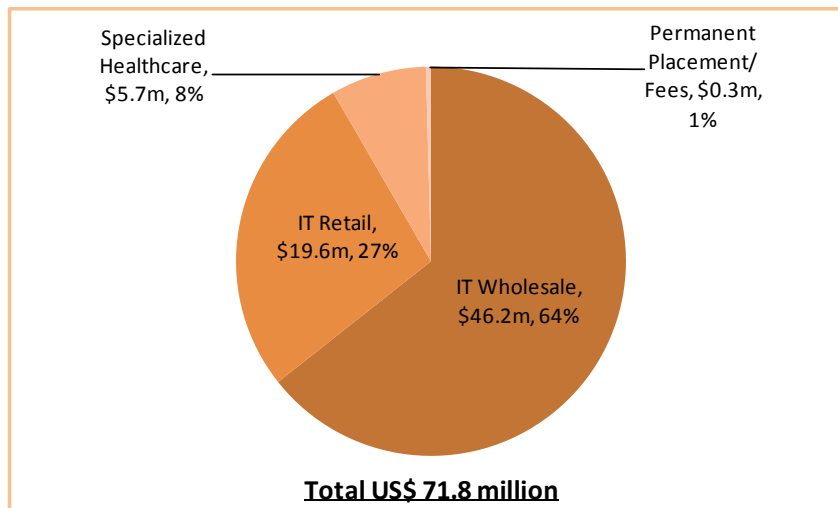
Exhibit 1 : Breakdown of IT Billable Consultant Base by Industry Verticals (December 31, 2010)



Source: Company Reports

The primary focus of the company is temporary and contract staffing with permanent placements historically representing less than 1% of total revenues. The business is carried out through the Company's three primary sales channels— IT wholesale, IT retail and specialized healthcare. During 2010, wholesale IT had the major contribution of around 64% to total revenues of US\$71.8 million followed by retail IT (27%) and specialized healthcare (8%).

Exhibit 2 : Revenue Breakdown According to Sales Channels for FY2010



Source: Company Reports

Business Model

The Company generates its entire revenues through the sale of staffing services in the U.S. for the IT and healthcare industries. Contract staffing remains the major service, historically constituting more than 99% of the Company's total revenues and remaining revenues contributed by permanent placements. The services to be provided to the client are agreed upon by either a simple standard terms sheet; by creating a Statement of Work specific to a project; or through a Master Services Agreement describing the framework of the relationship. The clients specify the employee positions they require staffed and the Company provides the best match of temporary contractors for that requirement while proposing the hourly billing rate. The fate of such a proposal depends on the quality, fit and pricing of the proposed temporary resource as perceived by the client.

The Company delivers its recruiting and sourcing services through its seven global recruiting centers in the United States and three in India. The focus for IT operations is on such major locations as California, Texas, Pennsylvania and the Washington D.C. area, while for healthcare staffing operations such states as Illinois, Arizona and New Mexico are the major locations.

IT Staffing

IT staffing services, mostly contract staffing, are the major revenue earner for Mastech contributing over 90% to total revenues. It delivers a broad range of services including business intelligence/data warehousing; web services; enterprise resource planning (ERP) and customer resource management (CRM); and e-Business solutions. The Company works to fulfill "project specific" temporary IT staffing requirements for big businesses with significant IT spending and recurring staffing requirements as well as for smaller organizations. The IT services are marketed through account executives within two sales channels – the IT wholesale and the IT retail sales channels. Much of the efforts employ a cost-effective "telesales" model supplemented with selective travel and client visits.

The wholesale IT sector consists of system integrators and other IT staffing firm customers who are on the lookout for highly qualified temporary technical computer professionals. Most of the company's strategic relationships in this channel are established at the Vice President or Sales Director level while the account executives work on expanding the business relationships with existing clients. Further, the Company also has a sales organization in India whose account executives target smaller IT staffing clients within the wholesale channel. These account executives are assigned a specific U.S. territory wherein they make sales calls to potential new customers within those territories.

The retail IT channel has customers that are end-users of the IT staffing services. The model is similar to that of wholesale IT in which account executives will call potential customers and service existing clients within specific geographies. Mastech's low-cost centralized telesales initiatives and its efficient offshore recruitment model make it well positioned to adapt to the growing use of Managed Service Providers (MSPs) who are increasingly playing key roles for IT firms, selecting and evaluating vendors for IT staffing services.

Healthcare Staffing – Curastat Acquisition

On January 2, 2010, Mastech acquired Curastat, Inc., an Arizona-based specialized healthcare staffing services firm, for US\$1.14 million. This acquisition, along with the creation of its subsidiary, helped Mastech Healthcare, Inc. expand and diversify the Company's portfolio of services in healthcare staffing. The Company now offers healthcare staffing services that cover a wide range of nursing and allied health disciplines such as nursing, imaging, rehabilitation therapy, laboratory personnel, physician, and behavioral health. It carries out these services to its clients consisting of hospitals and healthcare facility. The firm provides flexibility in staffing to its clients by providing staffing opportunities for per diem, local contract,

direct placement, or travel assignments. It also assists in recruiting foreign-trained healthcare professionals for long-term assignments and direct placements.

Industry Overview

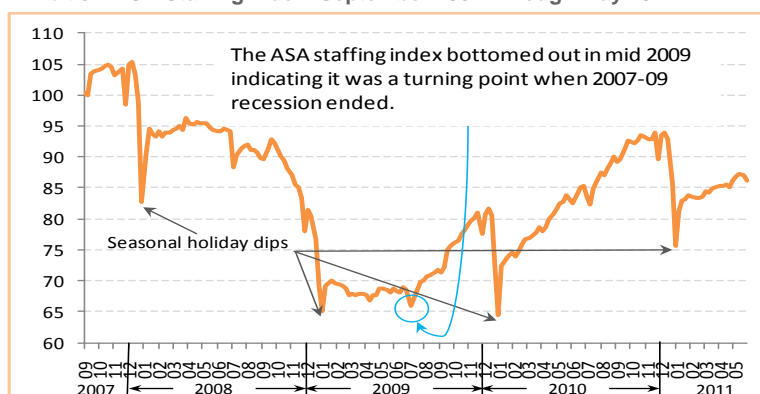
The staffing industry constitutes a broad grouping of staffing and employment related services in which a supplier, broker, agent, or consultant provides employment or employees to a client customer. The U.S. staffing industry is highly fragmented and hence very competitive with low barriers to entry.

Effect of Recession on Staffing

The recession that originated in the United States in 2008 marked the onset of a global economic downturn. Beginning with first quarter of 2008 in the U.S., real GDP declined in five of the following six quarters until June 2009. Since then the cumulative decline was 3.7%, on par with the depth of the 1957 U.S. recession. The 2007-09 recession was the most severe in the history of the U.S. post World War II, lasting for 18 months as compared to the 1957 recession in which the economy was fully recovered in just two quarters. Due to the recession, U.S. employment took a heavy beating with more jobs lost in the 2007-09 recession than had been created in the previous expansion. Non-farm employment reached its peak in December 2007 with around 138 million jobs but had bottomed out at 130 million jobs by December 2009. Around 8.4 million jobs were lost as compared to some 8.1 million jobs created after the 2001 recession. Job cuts increased unemployment that more than doubled to 10.1% in October 2009 from just 4.4% in 2007. As per estimates from the Bureau of Labor Statistics (BLS), the total number of unemployed and underemployed Americans reached roughly around 17 million.

The American Staffing Association (ASA) Staffing Index¹ is a good yardstick for understanding the developments in the US\$61 billion staffing industry. The ASA staffing index started its downward journey from December 2007 due to the recessionary effects. The downward trend continued throughout the recession period of 2007-2009. The index bottomed out in mid 2009 before regaining its northward journey starting July 2009. This coincided with the official end of the recession in June 2009, indicating high correlation between the staffing industry and the economy.

Exhibit 3 : ASA Staffing Index- September 2007 Through May 2011



Source: American Staffing Association

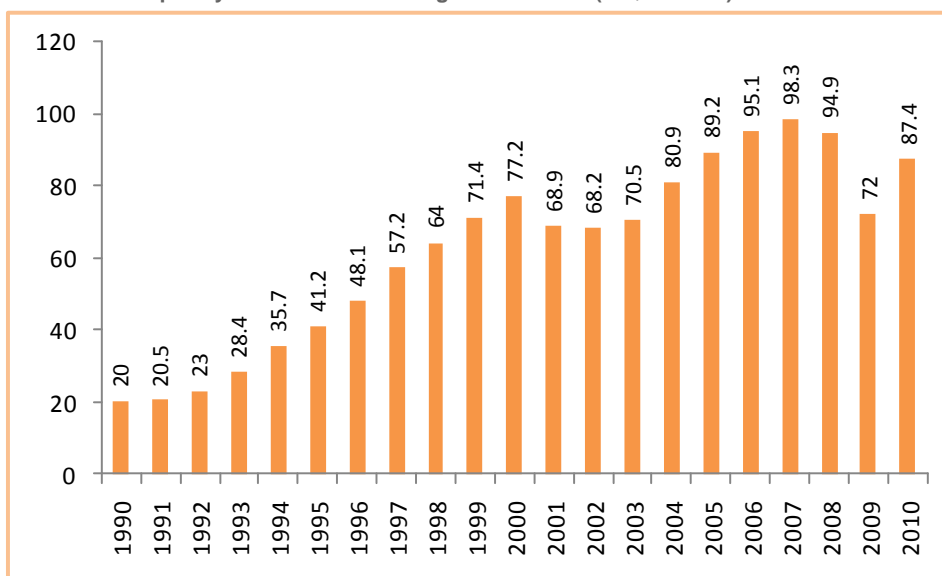
¹ ASA Staffing index was introduced in 2006 and it measures the percentage change in employment from week to week which is further applied to an index base line value that was arbitrarily set at 100 when index was publicly launched on June 12, 2006. ASA members account for ~85% of staffing industry sales covering more than one-third of the estimated 20,000 staffing firm offices in the U.S.

The economic slowdown reduced the demand for staffing services in 2009 and the impact was seen in the reduction of annual sales of the temporary and contract staffing industry that fell by 24% to US\$72 billion in 2009 as against US\$94.9 billion in 2008. In its 20 years of existence since 1990, the ASA quarterly staffing employment and sales survey reported a decline in annual sales during four years only – 2001, 2002, 2008 and 2009. Almost every quarter of 2009 exhibited double-digit year-to-year decline in sales with three of them down in the range of 26% to 30% each. According to Staffing Industry Analysts Inc., barring outplacement, all sectors experienced a decline in sales to the tune of 25% in 2009. Between the temporary and contract staffing services, information technology took the smallest hit going down by 20% as against the hardest hit sector of legal that declined by 40%. IT staffing revenues declined to US\$16 billion in 2009 as against US\$20 billion in 2008. Search and placement sales were substantially affected, down 51% overall: retained search was down by 40% to US\$4.4 billion; and contingent search was down 58% to US\$3.5 billion. Altogether, search and placement sales reached US\$7.9 billion in 2009. The ASA staffing index bottomed out and turned around by end of June 2009 and exhibited an upward trend since then, barring seasonal holiday dips. This indicated a high correlation with economic activity given that the 2007-09 recession also officially ended in June 2009.

Recovery in Staffing

With the gradual recovery of the economy continuing in 2010, the ASA staffing index regained the upward trend as seen in Exhibit 3 above. Accordingly, temporary and contract staffing sales improved by 21% reaching US\$87.4 billion in 2010, as shown in Exhibit 4 below. In the first quarter of 2011, sales increased 19.5% from the same quarter in 2010 to US\$22.8 billion.

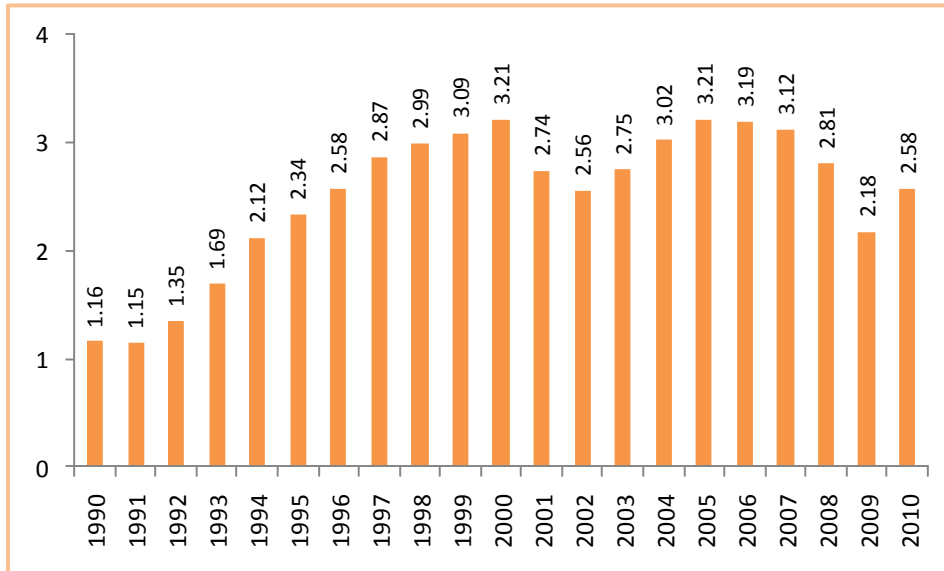
Exhibit 4 : Temporary and Contract Staffing Annual Sales (US\$ Billions)



Source: ASA, Employment and Sales Survey

According to data released June 13, 2011 by the ASA, the U.S. staffing companies created around 401,000 jobs in 2010. 2010's growth in the average daily employment of temporary and contract workers ranked second to the historical record of 428,000 reached in 1994. During 2010, the U.S. staffing firms employed 2.6 million workers on an average business day that was 18.4% more than in 2009. This was the highest growth recorded since 1993 and 1994, which at that time was around 25% per year. The growth momentum of 2010 continued into early 2011 with average daily employment reaching 2.6 million, up 14.3% over the prior corresponding period.

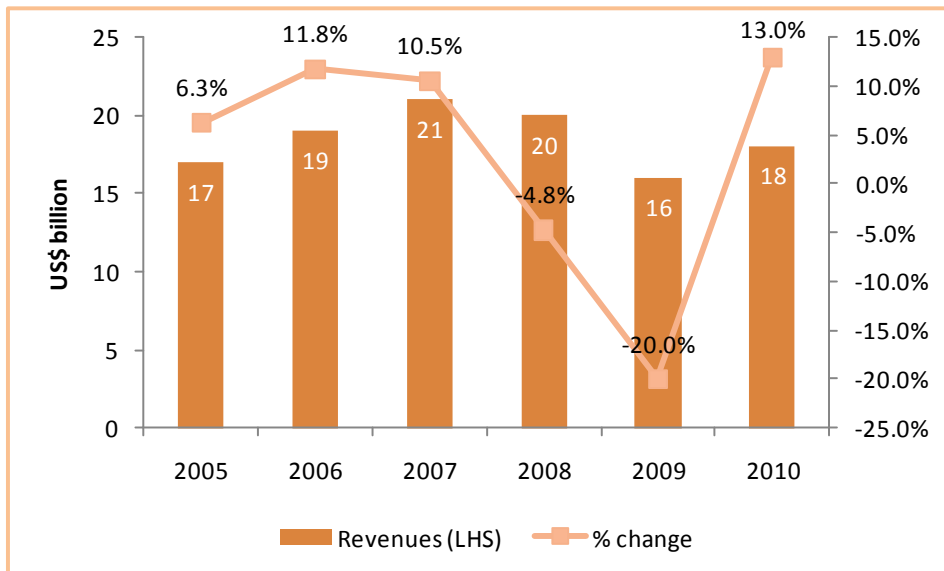
Exhibit 5 : Temporary and Contract Staffing Annual Average Daily Employment (Millions)



Source: ASA, Employment and Sales Survey

The IT staffing industry was adversely affected due to the recession. However, with the economic revival and overall positive growth posted in the staffing industry, IT staffing revenues in 2010 grew positively by 13%, rising to US\$18 billion in 2010 as against US\$16 billion in 2009.

Exhibit 6 : IT Staffing Revenues Trend



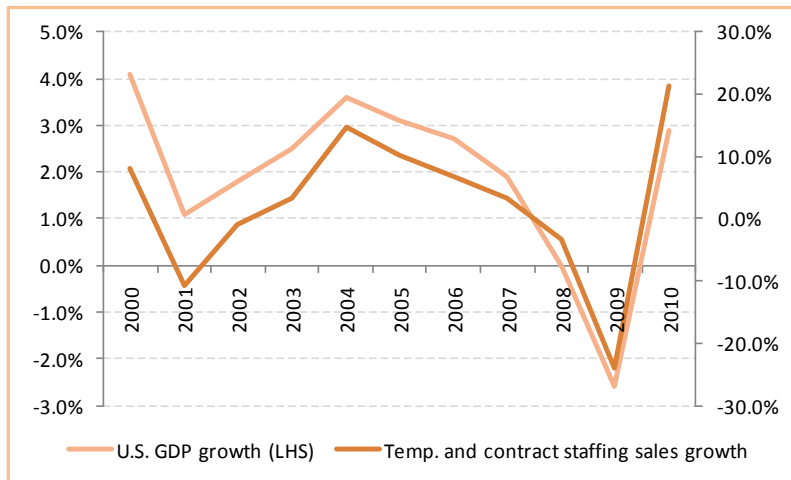
Source: Staffing Industry Analysts, RB Milestone

Growth Drivers

Economic Recovery to Boost Staffing Industry Growth

The global recovery remains intact. According to the International Monetary Fund (IMF), the global economy grew by around 5% in 2010 following a contraction in 2009. World GDP has been forecasted to grow by 4.5% in both 2011 and 2012. Overall, the recovery has become more self-sustaining.

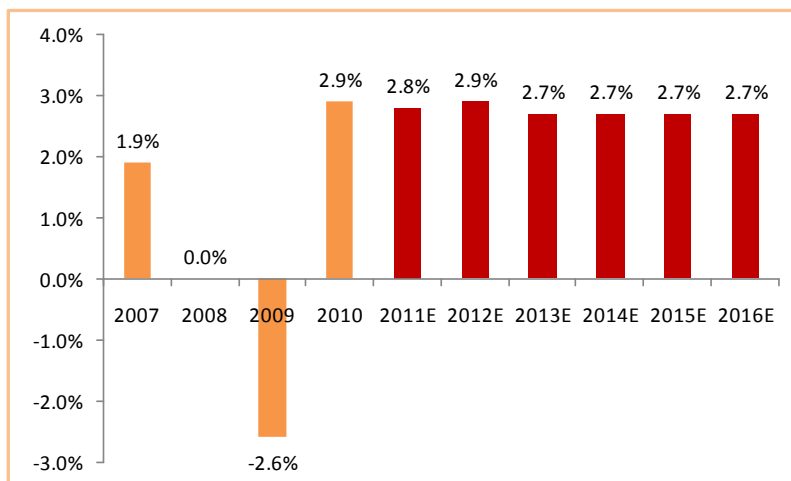
Exhibit 7 : High Positive Correlation of Temporary and Contract Staffing with U.S. GDP Growth



Source: RB Milestone

Signs of the recovery were observed in the U.S. economy with their GDP growing by 3% in 2010. Historically, the U.S temporary and contract staffing industry has been moving in tandem with the U.S. GDP, thus demonstrating a high correlation between the two, as seen in Exhibit 7 above. In other words, as the economy contracts the number of staffing jobs decline and, conversely staffing jobs increase with the onset of economic expansion. Going by IMF forecasts, the U.S. GDP is expected to grow by 2.8% and 2.9% in 2011 and 2012 respectively before stabilizing at 2.7% until 2016. Since the staffing industry is highly correlated with overall economic growth, it is anticipated to regain growth momentum thus adding more new jobs over the next decade as compared to any other industry.

Exhibit 8 : U.S. Real GDP forecasts



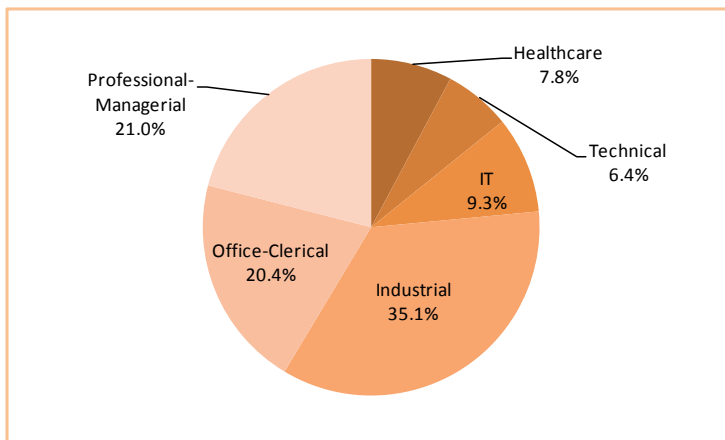
Source: IMF, NBER

Flexibility and Talent – The Need of The Hour

If the staffing industry is the first to be adversely affected during recession, it is also the first to recover during economic turnaround, with the same being true for temporary and contract staffing. One of the reasons for this is the flexibility provided by the industry. America’s staffing companies offer businesses work force flexibility and will thus play a key role in putting people back to work as the nation recovers from the Great Recession.

Employees want flexibility: The workforce of America is undergoing a change. Today, most of the people look for flexibility in their employment arrangements. According to an ASA survey conducted in 2006², two-thirds of respondents found flexible work time to be an important factor for agreeing to an employment arrangement. The urge to strike a work-life balance has increased and with more and more people finding temporary staffing jobs quite flexible, therefore the demand for temporary and contract staffing is bound to increase. Moreover, flexibility was also one of the major factors for the higher satisfaction levels found in temporary or contract employees. In the same survey, around 90% of temporary or contract employees said they were satisfied with their arrangements while 88% were happy to recommend temporary or contract employment to a friend or relative. Having strong experience in matching millions of people to the right job, staffing companies are experts at finding work assignments in virtually all sectors, as evident from Exhibit 9. Therefore overall flexibility; a bridge to permanent employment; choices in alternative employment; and training are some of the benefits staffing firms offer to today’s workers.

Exhibit 9 : Temporary and Contract Employees Work in All Sectors



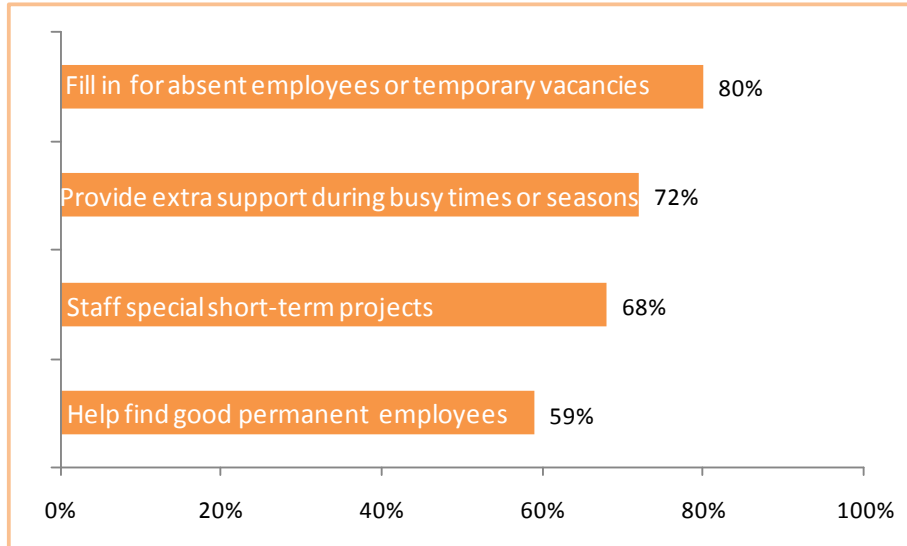
Source: American Staffing Association analysis of unpublished data from the BLS (February 2001)

The need for flexibility means that businesses are constantly in search for access to top-notch talent and for flexibility in sourcing the same. These factors are what drive the demand for staffing services. According to the American Management Association 2004³ survey of human resource managers, out of 1,248 firms slightly more than 90% said that the flexibility achieved through the engagement of temporary and contract employees from staffing companies was the most important reason to opt for the same rather than just saving on the payroll and benefits costs in hiring permanent employees. Further, temporary staffing was the first option for filling-in for absent employees or for project-specific temporary vacancies (Exhibit 10).

² Sourced from Staffing Industry Economic Analysis 2010 by ASA

³ Sourced from Staffing Industry Economic Analysis 2010 by ASA

Exhibit 10 : Major Reasons for Businesses to Turn to Staffing Firms



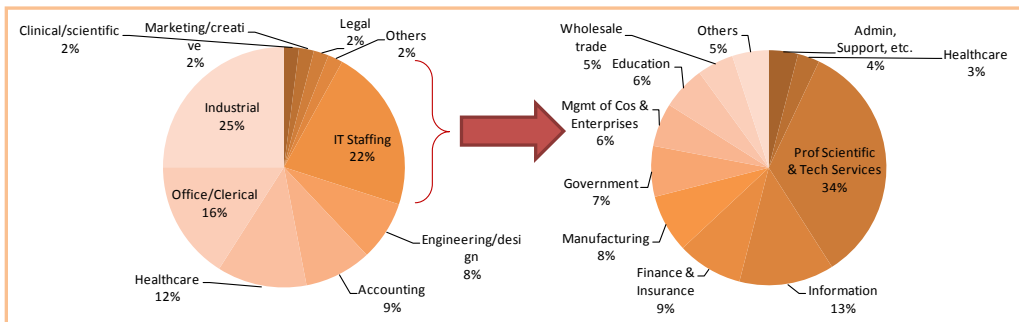
Source: Staffing Client Survey 2004 sourced from American Staffing Industry Economic Analysis 2010

Apart from flexibility, the survey indicated that businesses consider staffing firms as a good and reliable source of talent for even permanent employees. The continued trend of globalization is going to be the major reason for staffing services to thrive given that the geographical mix of employees is changing and there is no dearth of talent when considering the entire globe as a platform. Thus, flexibility and access to talent are the primary benefits that staffing firms bring to business clients.

IT Staffing to Benefit from Economic Recovery and Increased IT Spends

IT staffing forms a large component of the U.S. staffing industry, accounting for about 22% of overall staffing and servicing many industries as shown in Exhibit 11 below:

Exhibit 11 : IT Staffing – A Large Component of the U.S. Staffing Industry- Servicing Many Industries

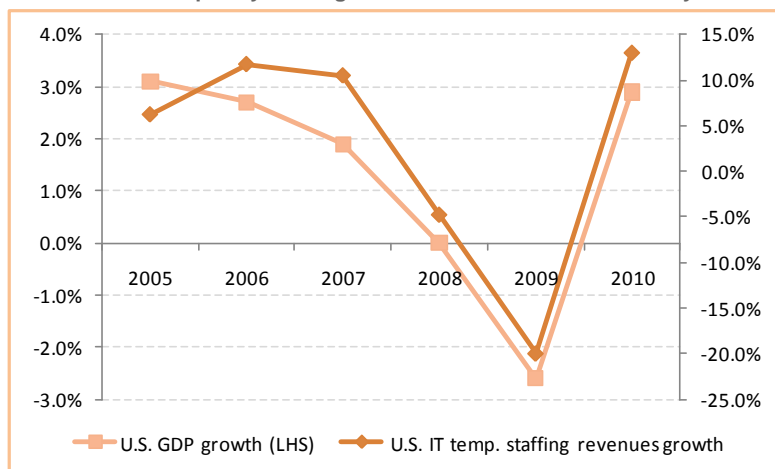


Source: Staffing Industry Analysts (2009), U.S. Bureau of Labor Statistics

IT Temporary Staffing Bound to Grow as the U.S. Economy Recovers: Historical data exhibits a high correlation between IT temporary staffing revenues and the U.S. GDP, as evident from Exhibit 12. IT staffing sales grew by 13% in 2010 as the U.S. GDP achieved positive growth of around 3%. With the IMF forecasting the U.S. GDP to grow at a stable rate of 2.7% over the coming few years, IT temporary staffing

is expected grow concurrently thus benefitting the U.S. IT staffing firms. According to the U.S. Department of Labor, technology jobs are forecasted to be the fastest growing employment segment through 2013. Consequently, the current penetration of contract staffing, estimated at 1.7%, is likely to rise due to favorable U.S. legislation and the higher cost of permanent employees.

Exhibit 12 : IT Temporary Staffing Revenues are Linked to Economy



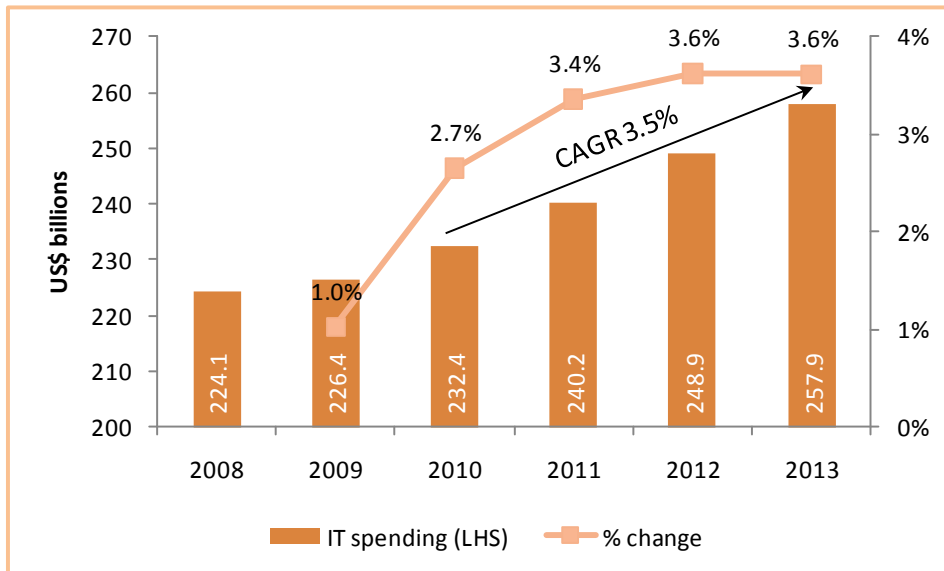
Source: RB Milestone

Increased IT Spends to Benefit IT Staffing: Supported by the economic revival, IT firms are quite optimistic of the IT industry given that the Gartner market research firm revised its IT spending forecast for 2011 upwards. While, the growth would trail last year's better than expected rise of 5.4%, Gartner expects global IT spending to total US\$3.6 trillion in 2011, up 5.9% from US\$3.4 trillion in 2010. Earlier, Gartner had forecasted 2011 IT spending to increase by 3.5%. Additionally, in 2011, IT services are seen to be growing at 4.6% to US\$818 billion while IT sub-sectors such as enterprise software and computing hardware is forecast to grow at 7.5%.

Results of a recent survey of 1,070 IT private and public-sector decision makers conducted by CDW IT Monitor⁴ indicated that there has been an uptick in temporary and full-time hiring in the IT industry. In addition, as of August 2010, 67% of IT executives at large organizations said they planned to increase technology budgets over the next six months. Further, staffing industry analysts forecast IT services spending in North America to reach US\$240 billion in 2011 and reaching US\$258 billion by 2013, thus growing at a CAGR of 3.5% between 2010 and 2013. Given these estimates, the only reasonable conclusion to be reached is a rise in demand for IT talent which would further boost growth for the staffing firms as IT firms would depend on IT staffing firms for flexible and top notch talent in the industry.

⁴ CDW IT Monitor is a bimonthly indicator of the direction, momentum and mindset of the U.S. IT marketplace.

Exhibit 13 : North America IT Services Spending Forecast



Source: Staffing Industry Analysts, IDC’s *Worldwide Black Book Query Tool, Version 1, 2009* (IDC #218368, May 2009), RB Milestone

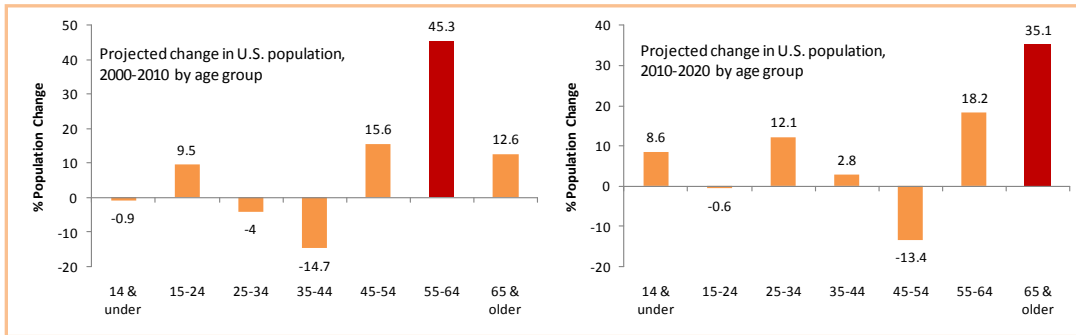
Moreover, recent legislation is also playing an active role in crafting the “future face of IT.” Such is the case with the U.S. government’s Recovery Act that supports numerous technology-based initiatives and will create a groundswell of job opportunity in this space. Additionally, of the US\$150 billion allocated to healthcare under the government’s stimulus package nearly US\$20 billion is proposed for healthcare IT alone, specifically for the Electronic Health Records (EHR) mandate by 2014. This would further benefit the IT staffing firms as they would greatly contribute to providing the necessary IT talent to the IT firms for fulfilling such mandates.

Changing Demographics and Healthcare Reforms to Drive Healthcare Staffing

Global healthcare spending in 2010 was US\$5,745 billion, up 5.2% over 2009 and it is estimated to reach US\$7,524 billion by 2015, thus growing at CAGR of 5.5% for the period 2010-15. For 2009, healthcare spending represented 10.1% of global GDP, slightly higher than in 2008 (9.9%), showing the resilience of the sector during the economic crisis. Main indicators such as those of population growth, demographic aging and treatment demands from patients, along with economic recovery, are expected to generate a recovery of healthcare spending after this temporary downturn in 2009.

Demographic Changes in the U.S.: The long-term macro driver for the healthcare staffing industry is demographic in nature. According to Bureau of Labor Statistics, healthcare in the U.S. will have generated 3.2 million new wage and salary jobs between 2008 and 2018, more than any other industry, largely in response to rapid growth in the elderly population of the U.S. Many job openings are likely to arise in all healthcare employment settings as a result of employment growth and the need to replace the retiring as well as those workers who leave their job for other reasons. The BLS projects that the 55-64 age-group will grow by more than 7 million over the next five years and those 65 and older will increase nearly 7 times as fast as the total labor force as indicated in Exhibit 14 below.

Exhibit 14 : Projected Demographics of the United States



Source: U.S. Census Bureau, HCI Lawson Talent Management Whitepaper

A recent report by the Centers for Medicare & Medicaid Services (CMS) expects national health spending to reach US\$4.5 trillion by 2019 driven in large part by a greater demand for healthcare services due to both an increasing and aging population. By 2050, the U.S. population is estimated to reach 420 million of which approximately 87 million people are projected to be of age 65 and older. Now in 2011, the oldest baby-boomers turn 65 years of age and become eligible for Medicare and the 55-64 age group is expected to expand to 40 million people by 2014.

The situation worsens given that the physician and nurse population is also aging. Approximately 47% of all licensed physicians in the U.S. are 50 years and older and, according to Association of Medical Colleges, nearly 33% of them are considering retirement in the next one to three years. Similarly, the U.S. Department of Health and Human Services has reported that nurses over the age of 50 comprised 45% of the total nurse population in 2008, as compared to 33% in 2000.

Healthcare Reforms: The Affordable Care Act in its current form is likely to increase the number of newly insured Americans requiring access to medical care, further boosting demand for various healthcare professionals. Moreover, under the government stimulus package more than US\$150 billion have been allocated to healthcare over a phased manner. Together, this will ultimately benefit the healthcare staffing firms who will play a key role in procuring the required healthcare professionals to bridge the talent gap.

The demographic changes in the U.S. population, and healthcare reforms, as they are implemented, are therefore expected to drive the demand for temporary, as well as permanent, healthcare professionals, thus generating ample opportunities for the healthcare staffing firms.

SWOT Analysis

Strengths

- A healthy balance sheet with no debt and a high cash balance works as a strength for Mastech in providing it with enough flexibility for strategic acquisitions to expand its business
- The Curastat acquisition at a purchase price of US\$1.14 million should prove accretive starting in the second half of 2011
- Mastech has the potential to enjoy relatively better operating margins than most of its industry peers due to its low cost telesales and offshore recruiting model. Mastech's Board of Directors and senior management comprise industry experts with extensive experience in the staffing industry and holding key positions with other leading staffing firms, as well as with iGATE, before the spin-off. Some of them are still serving as Directors on the Board of iGATE

Weaknesses

- A larger portion of revenues comes from the firm's wholesale IT sales channel that provides higher volumes but lower gross margins. A similar business mix in the future could bring gross margins under pressure, thus the overall gross margin for the firm would be forced downward

Opportunity

- With the U.S. GDP forecasted to grow at approximately 2% and with the increased IT spending budgets of various IT firms, the IT staffing industry is expected to witness increased demand for IT professionals, thus presenting immense opportunities for IT staffing firms
- The U.S. government's inclination and attention towards better healthcare has led to new healthcare initiatives that would increase the demand for healthcare professionals, thus providing healthcare staffing firms with more new business

Threat

- Although the U.S. economy is witnessing gradual recovery from recession, unemployment is still higher thus creating uncertainty in demand generation for staffing firms
- Any variation in reimbursement changes related to Medicare and Medicaid has the potential to affect the demand and service fees for the healthcare staffing business
- With the firm's presence in India, it is highly dependent on the Indian economy. Any adverse changes in regulatory environments, forex rates, tariffs or other trade barriers could materially impact the firm's cost structure

Financial Performance

FY2010 was a significant year for Mastech thanks to two strategic moves in January – entering the healthcare staffing business through its acquisition of Curastat Inc. and the divestiture of its brokerage operations staffing business.

The company witnessed a turnaround in its revenues for financial year ended December 31, 2010, with revenues growing positively by 1% to US\$71.8 as against a decline of 27% in 2009 largely due to the recessionary environment. Additional revenues generated from healthcare business in 2010 were largely offset by divested brokerage operations staffing services. With improved activity levels at the firm's integrator clients, the wholesale IT channel revenues posted a strong growth of 23% over 2009 while its retail IT channel revenues declined by 30%. This decline could be attributed to a lower level of billable consultants entering 2010 as compared to the consultant base at the start of 2009. Healthcare staffing contributed US\$5.7 million to total revenues in 2010 while revenues from permanent placements grew by 50% to US\$0.3 million, though from a lower base of US\$0.2 million in 2009.

During FY2010, the gross margin improved by 70 basis points to 19.6% as against 18.9% in 2009. This improvement was broadly due to pricing stabilization; margin expansion within certain technologies; higher placement fee revenues; divestiture of low margin brokerage service offerings; and a favorable channel mix of business during the year. The operating margin in 2010 declined to 1.5% from 3.3% in 2009 due to an increase in operating expenses. Operating expenses in 2010 were US\$13 million, up 17% from 2009, broadly due to the firm's entry into the new business of healthcare staffing. Additionally, investments in IT sales and recruitment organizations also contributed to higher operating expenses in 2010. The cascading effect was felt on net income that declined to US\$0.7 million as against US\$1.4 million in 2009. Net margins were also down by 104 basis points to 0.9%.

For the quarter ended March 31, 2011, revenues totaled US\$19.9 million, up 27% over the prior corresponding period (pcp) due to a higher level of IT billable consultants and the geographical expansion of healthcare services. Gross margin declined by 25 basis points over pcp due to lower gross margins in the wholesale IT channel and an unfavorable business mix for the period. Operating expenses were higher by 27.5% over pcp and this resulted in lowering the operating profit with a lower operating margin of 0.3% as against 0.7% in pcp. Net profit was down to US\$0.04 million as against US\$0.06 million in pcp and net margin declined by more than 20 basis points to 0.2% as against 0.4% in pcp.

The company has a strong, debt free balance sheet. As of March 31, 2011, the company had cash and cash equivalents of US\$4.8 million accounting for around 27% of total assets. Additionally, it has revolving credit facility for US\$10 million that is expiring on October 15, 2011. The borrowing base under this facility was US\$8.7 million as of March 31, 2011 and the company is planning to replace this facility on or before its expiration.

Valuation & Investment View

With the economic revival in the U.S., IT and healthcare staffing is expected to gain momentum that would further generate increased demand for specialized staffing firms such as Mastech. The Company's Curastat acquisition has enabled them to gain entry into the healthcare staffing space and it is expected to contribute significantly to the top line due to the increased healthcare spending plans of the U.S. government.

We believe Mastech is well positioned to tap the expected increase in demand for IT and healthcare professionals. We expect the revenues to remain in line with, if not exceed, the forecasted U.S. GDP growth and IT spending growth. Accordingly, we forecast revenues to grow conservatively in the range of 1%-2%, with major growth coming from the wholesale IT staffing channel.

We have valued Mastech Holdings, Inc. using a mix of two approaches – DCF and Peer Group Valuation. We expect Mastech to generate future positive free cash flows, getting good support from its entry into the healthcare staffing industry. We have explicitly forecasted revenues earned from all the channels until 2015 for Mastech and have accordingly arrived at free cash flows to the firm. To remain conservative in our forecasts, we have assumed the free cash flows will grow perpetually by 2% beyond 2015. In the absence of any debt, the company's cost of equity calculated using CAPM has been considered as the appropriate weighted average cost of capital (WACC). Having discounted free cash flows to the firm by WACC, we arrived at the firm value. Adjusting the firm value for the latest net cash and dividing the same by the number of shares outstanding, we arrived at the DCF value of US\$5.0 per share, indicating a 27.9% upside to its last traded price of US\$3.91 per share.

In order to understand the firm's valuation as compared to its peers, we also conducted relative valuation. Peer group companies were selected that were in similar businesses as Mastech, however most of the companies were quite larger than Mastech in terms of revenue and market capitalization.

We have used Price/Earnings (P/E) and Price/Book (P/B) ratios believing that these ratios provide a view as to how the market values the earnings and book values of the peer firms under comparison. We took average of the peer group P/S and P/B ratios while ignoring outliers like the P/E values for TSR Inc. and Hudson Highland Group Inc. so as not to distort the average values. Thereafter, we calculated the implied share price for Mastech using trailing twelve months EPS and book value per share. Giving equal weights to the calculated share prices, we arrived at a fair value of US\$5.78 per share for Mastech, indicating an upside of 47.7% to its last traded price of US\$3.91 per share.

Finally, we arrived at the target price of US\$5.39/share as an average of fair values obtained through DCF and relative valuation. Thus, the target price suggests an upside of 37.8% from its last traded price of US\$3.91/share.

Key Risk Factors

- **Highly Competitive Industry:** The IT and specialized healthcare staffing industry is highly fragmented and hence very competitive, comprising many global, national, regional and local staffing service providers. Because of low barriers to entry for the staffing industry, it is much easier for new players to enter the industry, further intensifying the competition. Moreover, many big players with greater financial, technical, marketing resources and well established brand names may be able to gain greater market share or may even lead to consolidation within the industry
- **Revenue Concentration:** Mastech's revenues are highly dependent on U.S. clients while being highly concentrated at the client level. Around 57% of total revenue is generated from its top ten clients. Any significant change in the spending of such top clients can have a considerable effect on the firm's revenues and profitability. Moreover, IBM and TEK Systems accounted for approximately 19% and 10% of 2010 revenues respectively, making the firm highly dependent on such major clients. While most of the contracts are terminable without penalty, loss of even a single major client could result in heavy revenue loss for the firm
- **Economic Conditions:** With all of the firm's revenues generated from clients within the U.S., the business is highly dependent on the U.S. economic climate. Staffing budgets of the clients could shrink with a weaker economic environment. This would reduce demand for the firm's services, consequently affecting the firm's revenues
- **Government Regulation Related to Immigration.** The firm sponsors H1-B visas in the U.S. and therefore has to comply with U.S. immigration laws and regulations. As of December 31, 2010, approximately 45% of the firm's U.S. IT workforce was working under Mastech sponsored H1-B temporary work permits. With recent legislation limiting the number of H1-B petitions that can be approved within a fiscal year, the firm's business could be adversely affected in the event that it is unable to attain H1-B visas for its employees in sufficient quantities. In absence of any positive legislation in the long term, the pool of available H1-B workers in the U.S. that are not subject to the annual quota may be substantially limited. This limitation of H1-B workers could adversely affect the company's revenues if it is not able to recruit enough domestic workers to provide a sufficient number of IT professionals to its clients.
- **Concentrated Ownership:** The co-founders of iGATE, Mr. Sunil Wadhvani and Mr. Ashok Trivedi, own approximately 55% of the firm's common stock. This provides them with sufficient voting power to elect the Board of Directors as compared to other shareholders. The interests of other shareholders could be jeopardized in the case of a conflict of interest arising between these two majority shareholders and remaining shareholders and this could have an adverse effect on the company's overall operations

Management and Board of Directors

Mr. Sunil Wadhvani, Director and Co-Chairman

Mr. Sunil Wadhvani is the Co-Founder of Mastech Holdings, Inc. and iGATE Corporation. Mr. Wadhvani served as Co-Chairman and Chief Executive Officer of iGATE Corporation from 1986 until April 2008 when he resigned as Chief Executive Officer. He remains a director of iGATE and Co-Chairman of the iGATE Board. From 1986 through September 1996, he was the Chairman of iGATE and held several other offices including those of President and CEO. Mr. Wadhvani holds a Bachelor's degree in Engineering from the Indian Institute of Technology (India) and a Master's degree in Management from Carnegie Mellon University.

Mr. Ashok Trivedi, Director and Co-Chairman

Mr. Ashok Trivedi is a Co-Chairman of Mastech Holdings, Inc. Mr. Trivedi is the Co-Founder of iGATE Corporation and Mastech Holdings, Inc. Mr. Trivedi served as Co-Chairman and President of iGATE Corporation from October 1996 until April 2008, when he resigned as President but he remains a director of iGATE and Co-Chairman of the iGATE Board. Mr. Trivedi is also the Chairman of the Board of iGATE Global Solutions Limited, a subsidiary of iGATE, and has held this position since July 2000. From 1988 through September 1996, Mr. Trivedi served as President of iGATE and held other offices including those of Secretary and Treasurer. From 1976 to 1988, he held various marketing and management positions with Unisys Corporation, a worldwide information technology consulting services and solutions company. Mr. Trivedi holds a Master's degree in Business Administration from Ohio University and a Master's degree in Physics from Delhi University.

Mr. Thomas B. Moran, Director, President and Chief Executive Officer

Mr. Thomas B. Moran is the President, Chief Executive Officer and Director of Mastech Holdings, Inc. since July 20, 2009. Mr. Moran has more than 20 years experience in the staffing industry while having assumed leadership positions at several companies in the industry. Prior to joining Mastech, Mr. Moran served as CEO Partner for Frontenac Company, Inc., a private equity firm. From 2002 to 2007, Mr. Moran served as the President and CEO of Hudson Highland Group, Inc., Americas, where he built a management team that led the organization to record revenues and profits. Mr. Moran also assumed various leadership roles at Robert Half International from 1995 to 2002.

Mr. John J. Cronin, Jr., Chief Financial Officer and Corporate Secretary

Mr. John J. Cronin, Jr., is the Chief Financial Officer and Corporate Secretary of Mastech Holdings Inc., since September 30, 2008. Mr. Cronin served as Mastech, Inc.'s Chief Financial Officer since 2002. Prior to joining iGATE Corporation in August of 1998, Mr. Cronin served as the Chief Financial Officer at Industrial Ceramics, Inc. Mr. Cronin has a Master's degree in Business Administration from the University of Pittsburgh and holds C.P.A. and C.M.A. certifications.

Disclaimer

Some of the information in this report relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can be only estimations and the actual events or results may differ from those discussed due to, among other things, the risks described in Mastech Holdings, Inc. reports. The content of this report with respect to Mastech Holdings, Inc. has been compiled primarily from consultations and, information provided by Mastech Holdings, Inc. and information available to the public released by Mastech Holdings, Inc. through news releases and SEC (if applicable) or other actual government regulatory filings. Although RBMG may verify certain aspects of information provided to it, Mastech Holdings, Inc. is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by Mastech Holdings, Inc. or RBMG. Certain summaries of scientific or other activities and outcomes have been condensed to aid the reader in gaining a general understanding. For more complete information about Mastech Holdings, Inc., the reader is directed to the Company's website at www.mastech.com. RBMG is an investor relations firm the operations of which seek to increase investor awareness to the small cap community. RBMG research analysts do not invest in or own shares of companies analyzed and reported on by them. RBMG is not responsible for any claims or losses sustained by an investor resulting from any of its reports, company profiles or in any other investor relations materials disseminated by them. This report is published solely for information purposes and is not to be construed as advice designed to meet the investment needs of any particular investor or as an offer to sell or the solicitation of an offer to buy any security in any state. Investing in the Stock Market past performance does not guarantee future performance. This report is not to be copied, transmitted, displayed, distributed (for compensation or otherwise), or altered in any way without RBMG's prior written consent. RBMG is not compensated for the analytical research and evaluation services that were performed in connection with the preparation of this report for Mastech Holdings, Inc.; but RBMG has received cash compensation (under thirty four thousand US dollars) in exchange for other segregated services.

We strongly urge all investors to conduct their own research before making any investment decision.