

CLPS Incorporation

(NASDAQ: CLPS)

First Half of Fiscal Year 2021 Earnings Conference Call

March 5, 2021

CORPORATE PARTICIPANTS

Rhon Galicha, *Investor Relations*

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Rui Yang, *Acting Chief Financial Officer*

Li Li, *Chief Operating Officer*

Wilson Wong, *Executive Vice President*

CONFERENCE CALL PARTICIPANTS

William Gregozeski, *Greenridge Global*

Melissa Hu, *Private Investor*

Ben Luo, *Private Investor*

Jackie Lin, *Private Investor*

Lucy Wang, *Private Investor*

Sally Qu, *Private Investor*

Alice Zhang, *Private Investor*

Cathy Li, *Private Investor*

Jayden Wan, *Private Investor*

PRESENTATION

Operator

Hello, everyone. Welcome to the First Half of Fiscal Year 2021 Earnings Conference Call for the CLPS Incorporation.

Please note that today's conference is being recorded.

At this time, I would like to turn the call over to Mr. Rhon Galicha from CLPS Investor Relations for opening remarks and introductions. Please go ahead.

Rhon Galicha

Thank you, Operator.

Hello, everyone, and thank you for joining us on today's call.

CLPS Incorporation announced its first half of Fiscal Year 2021 financial results earlier this morning. An earnings release is now available on the Company's IR website at www.ir.clpsglobal.com.

Before we continue, please note that our discussions today may include forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation

Reform Act of 1995. Forward-looking statements involve a number of risks and uncertainties. As such, our results may be materially different from the views expressed today. Further information regarding these risks, uncertainties, assumptions and other factors that could affect our financial results is included in our Form 20-F filed with the U.S. Securities and Exchange Commission, and other documents filed with the U.S. SEC.

In that respect, I would like to read the following disclaimer applicable to such statements.

Certain of the statements made in our discussion today are forward-looking statements within the meaning and protection of Section 27A of the Securities Act of 1933, as amended, and Section 20E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements with respect to the Company's beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond the Company's control and which may cause the actual results, performance, capital ownership or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All such statements attributable to us are expressly qualified in their entirety with this cautionary notice, including, without limitation, those risks and uncertainties related to the Company's financial and operational performance in the first half of Fiscal 2021; its expectations of the Company's future performance; its preliminary outlook and guidance offered in this discussion as well as the risks and uncertainties described in the Company's most recently filed SEC reports and filings. Such reports are available upon request from the Company or from the Securities and Exchange Commission, including through the SEC's Internet website at www.sec.gov. We have no obligation and do not undertake to update, revise or correct any of the forward-looking statements after the date hereof or after the respective dates on which any such statements otherwise are made. All information provided today is of the date of this call, and CLPS does not undertake any obligation to update any forward-looking statements, except as required under the applicable law.

With respect to any non-GAAP measures discussed during today's call, the Company reconciliation information related to those measures can be found in the earnings release issued earlier today.

Now allow me to introduce the Management team present in the call.

Mr. Raymond Lin, Chief Executive Officer and Director of CLPS, will start off the call with a review of recent Company developments and operating results, followed by Ms. Rui Yang, Chief Financial Officer of CLPS, who will discuss financial results in more detail.

Please note that all lines have been placed on mute to prevent background noise.

Following Management's prepared remarks, we'll open up the call for a Q&A session. Mr. Li Li, the Company's Chief Operating Officer, and Mr. Wilson Wong, Executive Vice President of CLPS, will also join the Q&A session.

With that said, I would now like to turn the call over to Raymond. Raymond, please go ahead.

Raymond Lin

Yes. Okay. Thank you, Rhon. Thank you, Operator. Thank you all for joining the call today. I'm very happy to be here with you and everyone.

The past year has been very challenging on many levels, and the COVID-19 pandemic has changed many things to everyone. As I said before, COVID-19 will change our lives everywhere. Okay. I hope you and your family are safe and healthy. In here, I want to say thank you to my team, Henry, Rita, Wilson, Jenson and my IR team and the staff, and thank you to support our business, have the strong increasement (phon) and growth. Thank you. You are doing a great job. Thank you.

Okay. Now I'm pleased to announce that our core business strategy has been successfully implemented as reflected on the financial results for the first half of Fiscal Year 2021. We showed that early this morning.

Our revenue increased by 37% due to the continued demand for our IT services. As we enhanced our operating efficiency, the operating income significantly increased by 214%. The net income also increased by 115%, which results to the US\$0.30 basic and diluted earnings per share as compared with US\$0.17 basic and diluted earnings per share on the same period of the last year.

During this period, we have been aggressive in the global expansion strategy implementation, which contributed in achieving our growth. This was attested by the significant 54% increase in revenue generated outside Mainland China.

In our core business, we generated more partnership during the past periods. First, we got a partnership agreement with a China listed company. The company is specialized in the loan management system in the banking area in the China market. The partnership aims to explore global market opportunities as well. Second, we also opened an IT service agreement with the largest card associations in China. Last, our presence in the automotive industry have deepened with partnership with one of the biggest automobile manufacturer in Shanghai in China. We utilized the big data technology in the project to be used in driverless, new energy car and a navigation system.

In terms of the investments, we diversified our business growth, we ventured in the robotics technology in an effort in penetrating the chip industry. We also invest in Guangdong

Zhichuang Company to explore our business opportunity in telecom industry and social media platform area. And we acquired the remaining 20% ownership stake in RiDiK Singapore, and set up Singapore as our Southeast Asia headquarters. As a wholly-owned subsidiary, RiDiK Singapore will enable us to fully integrate our business in Southeast Asia, which will further advance our global expansion.

About the training, we have been and we will always focus on developing and maintaining the talent supply chain. In order to meet the demand for our global clients, we expanded our technical and business training overseas, including in Singapore and Hong Kong. Upon completion of the training, qualified IT talents have been dependent on our projects in the banking IT department and some in the insurance company IT department. And some of them have already joined our clients.

For the IT training, I'm very proud to tell you, for the past 15 years, CLPS has trained over thousands of talent. Now they are distributed all over the world. They work in different financial institutions and different jobs and make new contributions. I'm really, really happy about that. Here, I want to tell them, "Hey, guys, I love you all too much. I'm very proud of you."

Looking forward, we will continue to provide high-quality IT service to the clients. We are committed to enabling digital transformations among our clients. This is to improve their productivity and efficiency.

In addition, we will continue to invest in new business, new products and new technologies. We will continue to provide high-end training in technology and business and based on our clients' requirement. Business and our streamlined growth strategy will put us on a firm footing in order to reach our business goals for the remainder of Fiscal Year 2021 and beyond.

Now, I would like to turn the call over to our CFO, Rita Yang. She will tell you more about our financial results on the first half of Fiscal Year 2021. Rita, please go ahead.

Rui Yang

Thank you, Raymond. Thank you all for joining today's earnings call.

I will now provide an update on our financial performance from the reporting period. Please note that all numbers provided are in U.S. dollar terms and that all comparisons are made on a year-over-year basis.

In the first half of Fiscal 2021, our revenue is up 37% to \$58.3 million from \$42.6 million. This increase in revenue was mainly due to an increase in revenue from IT consulting services, in particular, revenue from IT consulting services up to 37.2% to \$57.1 million

from \$41.6 million. The increase was due to increased demand from existing and new clients.

Revenue from customized IT solution services up 51.1%, to \$1.1 million from \$0.7 million. The increase was primarily due to increased demand from existing clients in the banking and wealth management areas. Revenue from other services down 25.3% to \$0.2 million from \$0.3 million. The decrease was primarily due to decreased demand for other services, including headhunting service, that's the revenues by our three kind of services and about the revenue by geography. Revenue generated from outside Mainland China up 53.9% to \$6.6 million from \$4.3 million. The increase in revenue generated from outside Mainland China reflects the Company's successful and continuous global expansion strategy.

Gross profit up 20.2% to \$18.5 million from \$15.4 million.

As for operating expense, selling and marketing expense up 27.7% to \$1.8 million from \$1.4 million. The increase was due to the increase of salary expense as new staff were hired, enabling the implementation of the Company's global expansion strategy.

As a percentage of total revenue, selling and marketing expense decreased to 3.1% from 3.3%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale brought about by the Company's global expansion strategy.

Research and development expense up 22.7% to \$6.2 million from \$5.0 million. The increase was primarily due to research and development personnel-related expense, which enables the Company's continued R&D efforts with big data, cloud computing, robotic process automation, that's RPA, and artificial intelligence, AI.

As a percentage of total revenues, research and development expense decreased to 10.6% from 11.8%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale.

General and administrative expense down 16.1% to \$6.6 million from \$7.9 million. As a percentage of total revenues, general and administrative expense decreased to 11.4% from 18.6%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale and refined management and decrease in general and administrative personnel expense.

As a result of the above, operating income up 213.5% to \$3.9 million from \$1.2 million. Operating margin was 6.7% compared to 2.9% in the prior year period. Total other income net of other expense decreased to \$1.1 million from \$1.3 million.

Net income up 114.9% to \$4.9 million from \$2.3 million. After excluding the impact of non-cash share-based compensation expense, non-GAAP net income up 91.2% to \$6.4 million from \$3.4 million. After excluding the impact of non-controlling interest, net income

attributable to CLPS Incorporation's shareholders in the first half of Fiscal 2021 was \$4.9 million or \$0.30 per basic and diluted share compared to net income attributable to CLPS Incorporation's shareholders of \$2.4 million or \$0.17 basic and diluted earnings per share.

After excluding the impact of non-cash share-based compensation expense, non-GAAP net income attributable to CLPS Incorporation's shareholders in the first half of Fiscal 2021 was \$6.4 million or \$0.39 per basic and diluted share. This is compared to a non-GAAP net income attributable to CLPS Incorporation's shareholders of \$3.4 million or \$0.24 basic and diluted earnings per share in the prior year period.

As of December 31, 2020, we had cash and cash equivalents of \$26 million compared to \$12.7 million as of June 30, 2020.

As of December 31, 2020, we had total numbers of employees of 3,345, up 25% year-over-year.

Looking forward, for Fiscal Year 2021, we expect total sales growth in the range of approximately 30% to 35% compared to Fiscal Year 2020 financial results. The non-GAAP net income growth was adjusted in the range of approximately 60% to 65% from 32% to 37%, as previously forecasted in the Company's second half and full year of Fiscal 2020 financial report. This forecast is subject to change by the factors mentioned in our earnings release.

This concludes our prepared remarks.

Operator, we are now ready for questions.

Operator

Thank you. We'll now take our first question from William Gregozeski of Greenridge Global. Please go ahead.

William Gregozeski

Hi, great results. Can you talk about what's driving your revenue growth and your ability to continue to win new clients?

Raymond Lin

(Multiple speakers).

Li Li

I will take the question, first. Okay. Okay. No problem.

Raymond Lin

Henry?

Li Li

First off, thanks for your questions.

Actually, our rapid growth and our ability to win new clients are actually driven by our competitive advantages. We maintain strategic engagement with well-known global clients in banking, in wealth management, in e-commerce and the automotive industry. As mentioned by Rita just now, our CFO, we also have more than 3,300 world-class human capital base with bilingual or multilingual capability, of which majority of them have underwent our professional IT training programs.

This is to ensure our success in service delivery to our clients. In addition, our highly experienced Management team also maintains operational progress on technological innovation. Horizontally, we attract new clients through our global presence and through M&As. And vertically, we continuously enhance our IT services, such as consulting and the customized solution. It's also driven by our IT innovation through our innovation line by investing in cutting-edge technology like RPA, big data, cloud and so on. Thank you.

William Gregozeski

Okay, great. Then over the last few years, you've continued to grow in China but also expand in the rest of Asia and the U.S. Do you have a target mix of where you want to be at for those different regions by the end of this fiscal year or even next fiscal year?

Rui Yang

Okay. Thanks a lot for your question.

For the forecast of revenue distribution by geography, although we have been aggressive to be more visible in the overseas market financial and operation-wise, our business in Mainland China still significantly contributes to our growth. But on the other hand, our global expansion strategy has been effectively implemented. For the first half of Fiscal 2021, the revenue generated outside Mainland China has significantly increased by 53.9% to \$6.6 million or 11.4% of the total revenue compared to 10.1% in the prior year period.

Going forward, the Company expects, absent material acquisition or non-recurring transaction, for the revenue that will be generated from outside Mainland China, including from U.S. at approximately 12% for the whole year of Fiscal 2021 and at 15% for Fiscal

2022. Please be informed that this is a preliminary view and may be subject to change. Thank you.

William Gregozeski

Okay, great. Last question, do you have any specific plans you can disclose about the cash you raised or even generally how you're planning to use it to further your growth?

Li Li

Okay.

Rui Yang

Raymond, can you answer this question?

Raymond Lin

Yes. Yes. Can you repeat the question, sorry?

William Gregozeski

Yes. Do you have any specific plans for the cash you just raised or even just generally how you can use it to further growth?

Wilson Wong

Yes. Let me take the questions, Raymond.

Raymond Lin

Yes. Okay.

Wilson Wong

Yes. In terms of the capital that we raised, we will hedge to our global expansion strategies that we will work along with our well-known global clients, our management, e-commerce, automotive investment clients. Also, we will invest, as Raymond mentioned, continuing in the training of IT talent. And also that we will grow outside as Rita has mentioned, out of Mainland China. We will continue our global expansion in the international market, like based in Singapore, so that with the recent acquisition of the remaining 20% equity stake in RiDiK.

So that will allow us to penetrate the IT services market in the neighboring country, in the Southeast and Asia-Pacific regions. On top of that, we also plan to roll out for business in the U.S. As you know that we've just got two new contracts from our existing client, which they are all headquartered in the U.S.

Moving forward, we are also developing more businesses and exposure in the U.S. market. The cash that we raised that is the lever that we are concentrating and moving ahead and spending in the international market.

William Gregozeski

Okay, great. Thank you.

Rui Yang

Yes. In addition, for this direct offering, we have successfully closed the \$16 million worth of registered direct offering priced at \$6 per share on March 3, 2021.

Operator

Thank you. We'll now take our next question from Melissa Hu. Please go ahead.

Melissa Hu

Congratulations on your new contracts from clients in the U.S. However, I would like to know if you can disclose the name of this client. That's all my question.

Raymond Lin

Okay. I can answer your questions. Thank you for your questions.

Due to the confidentiality agreement between the CLPS and the client, we are only requested to disclose certain information, such as those that we mentioned in the press release. It's also to protect our long-term business relationship with them, which will enable us for our continued growth. And in return, we will bring more value to our shareholders.

In addition, our U.S. counsel have thoroughly reviewed the contents of the contract and of the press release to ensure that we follow the terms and conditions strictly.

We have been aggressive with our global expansion strategy, and we are looking forward to gain more business opportunities from the overseas market. As a takeaway, our major priority is to inform our shareholders and market of all significant news about the Company. Thank you.

Operator

Thank you. We'll now take our next question from Ben Luo. Please go ahead.

Ben Luo

Okay. Congratulations on your outstanding financial performance. However, your market has spread outside the Mainland China. What's the strategy behind the global expansion?

Raymond Lin

Wilson, can you help me to answer the question, please?

Wilson Wong

As mentioned earlier, in terms of our global strategies outside Mainland China, as you know that we already have acquired RiDiK 100% in Singapore, as I'm also based in Singapore, and I can attest that there is a strong demand for our IT services in Singapore as well in this region. So with the reason 100% of the remaining 20% share that we acquired in RiDiK, that will help us to penetrate the IT services and focus our investment development in the nearby countries in Southeast Asia and Asia Pacific.

In addition, we also grew our business in the U.S. as mentioned earlier, that we have recently got two new customers contract from our existing clients, which they are also based in the U.S. So that will give us a new, moving forward, opportunity to develop and deepen our business and exposure in the U.S. market.

Last but not least, we are pleased that our global expansion strategy is fundamentally sound, effective and is now contributing to our financials as highlighted by our CFO. Thank you.

Operator

Thank you. We'll now take our next question from Jackie Lin. Please go ahead.

Jackie Lin

Hello. Hello, Management team. Thank you for taking my question. My question is, how is your business affected by the COVID-19 pandemic?

Li Li

Okay.

Raymond Lin

Henry, can you help me to answer?

Li Li

Yes. Sure. I would like to take the question. Thanks for your questions.

Actually, although we have been aggressive to be more visible in the overseas market, financial and operational wise, our business in Mainland China contributes to our growth.

As for the COVID-19 pandemic, Mainland China has quickly recovered from the COVID-19 pandemic, which, in fact, has not greatly affected CLPS and the industry. In fact, the technology market has been on demand since the pandemic and more businesses and the projects were moved to China.

So globally speaking, to ensure the safety of our employees, some of them are encouraged by our clients to work from home. Thank you.

Operator

Thank you. We'll now take our next question from Lucy Wang. Please go ahead.

Lucy Wang

Thank you, Operator.

First, congratulations on the strong financial performance. My question is, could you give more color on the economies of scale? How does it improve your operating efficiency? Thank you.

Rui Yang

Okay. Thank you for your question.

Raymond Lin

Rita...

Rui Yang

Yes, I will answer this question, Raymond.

Raymond Lin

Yes. Go ahead.

Rui Yang

Yes. As we expanded our business, our top line revenue also increased. We also needed to have more employees to support our growing business as reflected in our returns. On the other hand, with our extensive experience in IT services, our growing staff has been able to meet more demand from our clients as attested in decreased expense as a percentage of total revenue ratio.

As a result, we generated a better bottom line, which will provide more value to our shareholders. That's all. Thank you.

Operator

Thank you. We'll now take our next question from Sally Qu. Please go ahead.

Sally Qu

Hi, everybody. My question is, what's the reason for the adjusted non-GAAP net income gross forecast? Thank you.

Rui Yang

Okay. I will take this question. Thanks for your question.

As a result of strong demand for IT services from our growing network of clients and enhanced operational efficiency, we have adjusted our non-GAAP net income forecast for the Fiscal Year 2021 to 60% to 65% from 32% to 37%. Yes. That's all. Thank you.

Operator

Thank you. We'll now take our next question from Alice Zhang, please go ahead.

Alice Zhang

Yes. I have a question to the CFO. How do you recognize your revenue?

Rui Yang

Thank you. Thanks a lot for your question.

As for time and expense basis contract, the Company's reimbursement for actual hours incurred at pre-agreed negotiated hourly billing rate, but revenues from fixed price

customers, like the solution contracts, require the Company to perform services for system design, planning and integrating based on customers' (inaudible), which requires significant production and customization. The required customization work period is generally less than one year. Upon delivery of the services, customer acceptance is generally required.

In the same context, the Company is generally required to provide post customer support for a period from three months to one year after the customized application is delivered. Yes. That's all for your question. Thank you.

Operator

Thank you. We'll now take our next question from Cathy Li. Please go ahead.

Cathy Li

Thank you. My question is for the COO. What's your edge among your competitors? Thank you.

Raymond Lin

Hello, Henry, question for you.

Li Li

Thanks. I'd like to take the question. Thanks for your question.

Actually, CLPS has been 15 years in the industry. We believe that our expertise in providing high-quality IT service is one of the great advantages among our competitors. In addition, our focus and big clients are international companies in the financial and the technology sectors. So those are the edge among our competitors. Thanks.

Operator

Thank you. We'll now take our next question from Jayden Wang. Please go ahead.

Jayden Wang

Okay. I have a question for the CFO. How is your revenue outside Mainland China trending during these periods?

Rui Yang

Okay. Thanks for your question.

The revenue generated outside Mainland China has significantly increased by 53.9% to \$6.6 million, thanks to our successful implementation and continuous global expansion strategy. Aggregate revenue generated outside the Mainland China comes from Hong Kong, Singapore, India, Japan and Malaysia. That's all. Thank you.

Operator

Thank you. There are no further questions at this time. I would like to turn the conference back over to Mr. Galicha for any additional or closing remarks. Thank you.

Rhon Galicha

Raymond, please go ahead for the closing remarks.

Raymond Lin

Yes. Okay. Thank you, Rhon. Thank you, Operator. Thank you to investors. Thank you for your questions. And thank you, again, for joining us on today's call. We appreciate your ongoing support. We look forward to updating you on our progress in the weeks and months ahead. Have a good day, everybody. Thank you. Thank you very much.

Li Li

Bye-bye.

Wilson Wong

Bye.

Raymond Lin

Thank you.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.