

CLPS Incorporation

(NASDAQ: CLPS)

Second Half and Full Year of Fiscal 2020

Earnings Conference Call

October 23, 2020

CORPORATE PARTICIPANTS

Rhon Galicha, *Investor Relations*

Raymond Lin, *Chief Executive Office and Director*

Rui Yang, *Acting Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Peter Wu, *Private Investor*

Mary Lu, *Private Investor*

PRESENTATION

Operator:

Hello, everyone, and welcome to the Second Half and Full Year Fiscal 2020 Earnings Conference Call for 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, 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 second half and full year fiscal 2020 financial results yesterday. The 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, 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 this discussion are forward-looking statements within the meaning and protections of Section 27A of the Securities Act of 1933, as amended, and Section 21E 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 the future results, performance or achievements expressed or implied by such forward-looking statements.

Also, statements attributable to us are expressly qualified in their entirety by this cautionary notice, including, without limitation, to those risks and uncertainties related to the Company's financial and operational performance in the second half and full year of fiscal 2020, its expectations of the Company's future performance, its preliminary outlook and guidance offered in this presentation, 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 days in 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 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 yesterday.

Now, allow me to introduce the Management team on the call today, 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, acting 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. Henry 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. Hello. Thank you, Rhon. Hello, everyone.

I want to say thank you for being here for today's call. We are pleased to have you join us for a discussion of our second half and full year fiscal 2020 result.

We are pleased to conclude our fiscal 2020 with a solid result following the (inaudible) of our new engine growth strategy to increase revenue. We surpassed our guidance with a 37.7% increase for fiscal year 2020 revenue due to our close relationship with existing clients and the addition of international and domestic clients as a result of the successful implementation of our global expansion strategy.

As a part of our horizontal growth strategy, we further extended our footprint in the Southeast Asia region, with acquisition of RiDiK. That is a Singapore-based IT service company, which we integrate along with Infogain into CLPS Singapore. In addition, we have established CLPS California, which focuses on the U.S. market to support the Company business growth. Credit card services is one of our core competencies. CLPS established Qinson credit card service company in Hong Kong (inaudible) to the increasing demand for credit card service in the financial industry.

Revenue from our overseas services increased by 158.5% to \$10.6 million for the year ended June 30, 2020. (Inaudible) our innovation lab, the Company research and development center is committed to the research and application of innovation technologies, which enable digital transformation for ourselves and our clients. We have tested and piloted cutting-edge technologies, including the cloud migration, robotic process automation, with data and blockchain.

This fiscal year, we boosted our globally competitive business growth in the industry for our operation with investment. Our partnership with an established financial (inaudible) company in China majorly benefits us as we leverage each other's cutting-edge innovation and resources in financial technologies industry. In terms of strategic investments, we have each invested a 10% ownership stake in Shenzhen Huaqin Robotics Company and Guangdong Zhichuang Software Technology Company to diversify our business industry (inaudible).

Our IT talent played a pivotal role in our success. Through our TCP and TDP talent training program, we continue to focus on conducting thousands of training hours to develop our talent and retrain our human capital. We have also cooperated with the Technological and Higher Education Institute of Hong Kong to boost its degree program in information technology, aiming to maintain a sustainable pool of new recruits, and young talent in IT.

Despite the recent COVID-19 pandemic, CLPS growth strategy remains in effect. With reference to our fiscal 2020 financial outlook, we surpassed our product sales growth with an increase of 37.7% and have achieved a profitable net income. In addition, we enhanced support for our clients in the health care industry, and remain well equipped to meet the growing service needs during this challenging time. Thus, we continue to make long-term investments to support our continued growth. We remain optimistic about our future as we grow horizontally and vertically, expand our global footprint and market share, focus on digital transformation and create value for our shareholders.

Now, I will turn the call over to the acting CFO, Rui Yang, who will discuss our financial results from the second half and full year of fiscal 2020. Rui, please go ahead.

Rui Yang:

Thank you, Raymond. Hello, everyone, and thank you for being here for today's call.

I will now provide an update on our financial performance from the reporting year.

Please note that all numbers provided are in U.S. dollar terms and that all comparisons are made on a year-over-year basis.

First, I will provide an overview of second half of fiscal 2020 results.

In the second half of fiscal 2020, our revenues increased by \$12.7 million, or 37.2 percentage to \$46.8 million from \$34.1 million. This increase in revenue was mainly due to an increase in revenue from IT consulting services.

Now to the revenue by services, (audio interference) service line of IT consulting, IT solution and others. Our revenue from IT consulting services increased by \$13.5 million, or 42.3 percentage to \$45.5 million and accounts for 97.2 percentage of total revenue, up from \$32 million or 93.7 percentage of total revenue. The increase was due to increased demand for the Company's IT consulting services from banks and other financial institutions, primarily from existing clients. Revenue from customized IT solutions services decreased by \$1 million or 45.4 percentage to \$1.1 million from \$2.1 million. The decrease was primarily due to decreasing demand from existing clients. Revenue from other services increased to \$0.2 million from \$0.04 million. About the revenue by geography, revenue generated outside of Mainland China increased by 110 percentage to \$6.3 million in the second half of fiscal year 2020 from \$3 million in the prior-year period. The increase in revenue generated outside Mainland China reflects the Company's successful and continuous global expansion strategy.

Gross profit increased by \$3.2 million or 25.1 percentage to \$15.7 million from \$12.6 million. Gross margin in the second half of fiscal 2020 decreased to 33.6 percentage compared to 36.9 percentage in the prior-year period. The decrease in gross margin was primarily due to the increase in pandemic provision costs during the COVID-19 outbreak.

As for operating expense, selling and marketing expense increased by \$0.5 million or 37.3 percentage to \$1.7 million from \$1.2 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. Research and development expense increased by \$0.5 million or 9.7 percentage to \$5.4 million from \$4.9 million. The increase primarily resulted from the establishment of four new research projects and the Company's continued R&D efforts in big data, blockchain and artificial intelligence.

General and administrative expense increased by \$0.2 million or 2.7 percentage to \$8.4 million from \$8.2 million. After excluding the impact of noncash share-based compensation expense, non-GAAP general and administrative expense increased by \$0.4 million or 8 percentage to \$5.7 million from \$5.3 million. The increase in non-GAAP administrative

expense was primarily due to an increase in administrative personnel and M&A-related expense as a result of business expansion.

As a result of the above, operating income was \$0.04 million compared to a loss of \$1.78 million. Operating margin was 0.1 percentage compared to negative 5.2 percentage in the prior-year period. Subsidies and other income increased to \$1.1 million from \$0.1 million. Provision for income taxes increased by \$0.5 million to \$0.4 million, mainly due to the reduction in recoverable losses for some of the Company's subsidiaries.

Net income was \$0.8 million from a loss of \$1.7 million. The net income was due to the decrease in noncash share-based compensation expense. After excluding the impact of noncash share-based compensation expense, non-GAAP net income increased by \$2.4 million or 196.7 percentage to \$3.7 million from \$1.3 million. After excluding the impact of noncontrolling interest, net income attributable to CLPS Incorporation shareholders in the second half of fiscal 2020 was \$0.6 million or \$0.04 basic and diluted earnings per share, after excluding the impact of noncash share-based compensation expense. Non-GAAP net income attributable to CLPS Incorporation shareholders in the second half of fiscal 2020 was \$3.5 million or \$0.23 basic and diluted earnings per share. This is compared to non-GAAP net income attributable to CLPS Incorporation shareholders of \$1.2 million on \$0.08 basic and diluted earnings per share.

Now, I will provide an overview of full year fiscal 2020 results.

For the year ended June 30, 2020, revenues increased by \$24.5 million or 37.7 percentage to \$89.4 million from \$64.9 million. About the revenue service line. Revenue from IT consulting services increased by \$25.3 million or 41.1 percentage to \$87.1 million and accounted for 97.5 percentage of total revenue. Revenues from customized IT Solutions services decreased by \$1.2 million or 39.3 percentage to \$1.8 million from \$3 million. Revenue from other services increased by \$0.3 million or 219.0 percentage to \$0.4 million from \$0.1 million. About the revenue by geography. Revenue generated outside Mainland China increased from \$4.5 million to \$10.6 million.

Gross profit increased by \$7.3 million or 31 percentage to \$31.1 million from \$23.8 million. Gross margin decreased to 34.8 percentage compared to 36.6 percentage. The decrease in gross margin was primarily due to the increase of pandemic provision costs during the COVID-19 duration.

As for operating expense, selling and marketing expenses increased by \$0.9 million or 40.4 percentage to \$3.1 million from \$2.2 million. Research and development expense increased by \$2.4 million or 30.8 percentage to \$10.4 million from \$8 million.

General and administrative expense decreased by \$1.1 million or 6 percentage to \$16.3 million from \$17.4 million. The decrease was primarily due to the decrease of \$3.2 million in noncash share-based compensation expense. After the deduction of noncash share-based

compensation expense, non-GAAP general and administrative expense increased by \$2.1 million or 20.5 percentage to \$12.6 million from \$10.4 million. The increase in non-GAAP administrative expense was primarily due to an increase in administrative personnel and M&A-related expense as a result of business expansion.

As a result of above, operating income was \$1.3 million compared to a loss of \$3.8 million in the prior-year period. Operating margin was 1.4 percentage compared to negative 5.8 percentage. Subsidies and other income increased to \$2.4 million from \$0.7 million. Provision for income taxes was \$0.8 million compared to \$0.2 million, mainly due to the reduction of recoverable losses for some of the Company's subsidiaries.

Net income was \$3.1 million compared to a net loss of \$3.4 million in the prior-year period. The increase in net income was due to the decrease in noncash share-based compensation expense. After excluding noncash share-based compensation expense, non-GAAP net income increased by \$3.5 million or 97.7 percentage to \$7.1 million from \$3.6 million. After excluding noncontrolling interest, net income attributable to CLPS Incorporation shareholders for the year ended June 30, 2020, was \$2.9 million or \$0.20 basic and diluted earnings per share. After excluding the impact of noncash share-based composition expense, non-GAAP net income attributable to CLPS shareholders for the year ended June 30, 2020 was \$6.9 million or \$0.47 basis and diluted earnings per share. This is compared to non-GAAP net income attributable to CLPS incorporation shareholders of \$3.7 million or \$0.27 basic and diluted earnings per share in the prior-year period.

As of June 30, 2020, we had cash and cash equivalents of \$12.7 million compared to \$6.6 million as of June 30, 2019.

Looking forward, for fiscal year 2021, we expect the total sales growth in the range of approximately 30 percentage to 35 percentage, and non-GAAP net income growth in the range of approximately 32 percentage to 37 percentage compared to fiscal year 2020 financial results.

This concludes our prepared remarks. Operator, we are now ready for questions.

Operator:

Thank you. If you wish to ask a question at this time, please signal by pressing star, one on your telephone keypad. Please ensure the mute function on your telephone is switched off to allow your signal to reach our equipment. Again, please press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions. And once again, that is star, one if you wish to ask a question.

We can now take our first question from Peter Wu (phon), Private Investor. Please go ahead.

Peter Wu:

Okay. First off, congratulations on your impressive financial performance. I would like to know what about your (inaudible) going forward and what is CLPS' competitive advantage compared to other competitors?

Raymond Lin:

Thank you for your question. Okay. CLPS strategy is very clear. Going forward, our strategy in the horizontal for the global expansion, we will go through the set up of the new company overseas, globally, or to do the M&A acquisition to acquire some institution globally. We were using this to attract new clients for the global expansion. Vertically, we continue to enhance the IT consulting services and IT solutions for our existing clients and for potential clients, globally. Okay. We also drive the IT innovation, our R&D in the Company. We invest in the cutting-edge technology just like the robotic, processing, automation, big data, blockchain and cloud and make it one of our growth drivers in the future. Yes. Surely, we review the operation achievements, to repeat our goal. Also, we will attract qualified people and good people in the market to make us stronger in the future.

For the next question is how is the CLPS competency and advantage? Okay. For this, CLPS has good customers, has (inaudible) clients in the global. The clients is first class in the world. This is good for us. The second advantage is that we have the world-class human capital base because we have many, many, many professionals. They can speak good English and good Chinese. It's bi-language people. Also, we have a large pool of IT talent in banking, wealth management and e-commerce and automotive in this area, yes. First is, we have a good Management team. Most of the managers, you have about—I think it's over five years, maybe 10 years in this area. They would know how to maintain operation in progress. They will know how to do the specialty work for the Company. The final advantage is we have a TCP program and TDP program. The TCP program is a talent creation program. We can train the new people into this industry. After that, we continue to train them to the higher level. This program is and makes us successful (phon).

Thank you. Any other questions?

Peter Wu:

One more question. Would you tell me how COVID-19 impacts to our business?

Raymond Lin:

Okay. Thank you. For the COVID-19, we're not—and it has not affected our business because the IT job, IT work, most of the staff can be work from home. The second thing is the China recovery is very fast in the world. At this time, most of our staff have been working normally for our clients. We can see more and more business coming on, coming soon. Thank you.

Peter Wu:

Okay, thank you.

Raymond Lin:

You're welcome.

Operator:

We can now take our next question from Mary Lu (phon), Private Investor. Please go ahead.

Mary Lu:

Hello?

Raymond Lin:

Yes.

Mary Lu:

My question to the Management team is how do you expect your revenue trends in the next fiscal year?

Rui Yang:

Hi. Let me take (audio interference). Yes. About our looking forward for fiscal year 2021, we expect total sales growth in the range of approximately 30 percentage to 35 percentage. Through our growth strategy, we are confident that we will achieve our growth rate in the next year to come.

Also about this forecast, just reflects the current and preliminary deals, which are subject to change and are subject to risks and uncertainties, including, but not limited to potential accounting adjustments attributable to RiDiK acquisition as well as various risks and uncertainties facing the Company's business and operations as identified in our public filing.

Thank you. That's the answer for your questions.

Mary Lu:

Thank you. Also your revenue ended very well. What is the reason why your gross margin decreased in the second half and the full year of fiscal 2020? Thank you.

Rui Yang:

Thank you for your questions. Yes, about the decrease in gross margin was primarily due to the increase in pandemic provision cost during the COVID-19 outbreak. The health and safety of our employees and their families as well as our customers and business partners have been and will continue to be our top priority. We have taken proactive cautionary measures to ensure that our staff are protected against the COVID-19. We are doing our best to optimize our operations.

Yes. That's the reason for our gross margin.

Mary Lu:

Okay. Thank you. I have another question about the working capital of the Company. Did you mention there's sufficient funds and the CLPS anticipated need to raise more cash in the near future? Thank you.

Rui Yang:

Okay. About this question, as of June 30, 2020, the Company had an aggregate cash and cash equivalents and short-term investments of \$13.2 million compared to \$8.4 million as of June 30, 2019. The cash on hand is enough for our daily operations now. However, based on our global expansion strategy, we may need to raise capital for funding in the future. Yes.

Mary Lu:

Thank you very much.

Operator:

This concludes the Q&A session. I would now like to hand the call back to Management for closing remarks.

Rhon Galicha:

Raymond, please go ahead for the closing remarks.

Raymond Lin:

Okay. No more questions? Okay. 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.



Operator:

This concludes today's call. Thank you for your participation. You may now disconnect.