CLPS Incorporation

(NASDAQ: CLPS)

First Half of Fiscal Year 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Rose Zu, *ICR Investor Relations*

Raymond Lin, *Chief Exescutive Officer*

Tian van Acken, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Brian Kinstlinger, *Alliance Global Partners*

PRESENTATION

Operator:

Hello, everyone, and welcome to the First Half of Fiscal Year 2019 Earnings Conference Call for CLPS Incorporation. Today's conference is being recorded.

At this time, I would like to turn the call over to Ms. Rose Zu from ICR for opening remarks and introductions. Please go ahead.

Rose Zu:

Thank you. Hello, everyone, and thank you for joining us on today's call. CLPS Incorporation announced its first half of fiscal year 2019 financial results earlier this morning. An earnings release is now available on the Company's IR website at ir.clpsglobal.com.

Today, you will hear from CLPS' CEO, Mr. Raymond Lin, who will start off the call with a review of recent Company developments and operating results, followed by the Company's CFO, Ms. Tian van Acken, who will address financial results in more detail. Following Management's prepared remarks, we will conduct a Q&A session.

Please remember that our discussions today may include forward-looking statements that involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those forward-looking statements. In that respect, I would like to read the following disclaimer applicable to such statements.

Certain of the statements made in this press release 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 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 by this cautionary notice, including, without limitation, those risks and uncertainties related to the Company's financial and operational performance in the first half of 2019, 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 dates on which any such statements otherwise are made.

It is now my pleasure to introduce CLPS Incorporation's CEO, Mr. Raymond Lin. Please go ahead.

Raymond Lin:

Thank you. Hello, everyone, and welcome to CLPS' First Half of the Fiscal Year 2019 Earnings Call.

During the first six months of the 2019 fiscal year, which ended December 31, 2018, we continued to grow our revenue from existing clients and growing our client base. Our client retention rate was 100% during the period, which is a testament to the quality of the services that we provide to our clients. This is reinforced by the fact that our biggest client has been with us for more than 10 years.

During the past six months, we also gained new clients globally. In China, we welcomed a leading international online travel and peripheral services provider and a Fortune Global 500 Chinese automotive design and manufacturing company. We also completed the integration of InfoGain, our Singapore-based subsidiary that we acquired in August. InfoGain is already facilitating our expansion into the broader Southeast Asia region. For example, in December, we signed a Memorandum of Understanding with InfoGain and Ngee Ann Polytechnic in Singapore to develop IT talent. The partnership also gives us access to the PolyFintech 100 alliance, allowing us to reach top-tier Polytechnic schools and top technical talent in the broader Southeast Asia region.

Internally, we expanded our talent creation program and talent development program by opening additional training centers overseas to meet employee demand globally. We also launched CLPS Academy, which will become a Center of Excellence. It's designed to fulfill the quality and professional IT training needs of our staff, business partners and potential clients.

We also signed a contract with a leading university of finance and economics in Shanghai for a blockchain project. Under the contract, we will provide blockchain training and an incentive-based blockchain management system. As we announced a few weeks ago, the project passed the university's tests. We are on track for delivering the project per the university's requirements.

We will continue to focus on developing industry-leading technologies, such as blockchain, to fulfill our clients' diverse needs. In fact, our efforts are not only being recognized by our clients, but also by our industry. In November, we received the 2018 Fintech Brand Leadership Award from the China Finance Summit. This award is a testament to the strength of our brand and, most importantly, our technological capabilities. Our CLPS Research Institute remains dedicated to exploring the applications of new and emerging technology. These include big data solutions, blockchain, distributed financial cloud applications, and robotic process automation, which we have been piloting internally.

Advances in technology, growing consumer demand for digital customer experiences, and margin pressures are creating global demand for our services within the financial services and banking industry. We have a proven ability to fulfill this demand by providing scalable IT solutions, applications of cutting-edge technology and technology talent with a deep technical knowledge.

For the remainder of the fiscal year and beyond, we intend to remain focused on capturing these opportunities by growing horizontally and vertically. We intend to expand geographically and further extend our reach to other high potential regions. We expect to continue delivering thousands of training hours to our employees and partners through our program and partnerships. We also intend to deepen our products and services offering by supplementing our existing solutions with commercial applications of emerging technologies.

As 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, and create value for our shareholders.

This concludes my prepared remarks. I will now turn the call to Ms. Tian, our CFO, to review our first half of fiscal year 2019 financial results. Ms. Tian, please go ahead.

Tian van Acken:

Thank you, Raymond, and hello everyone. I will review our first half of fiscal 2019 results. Please note that, unless stated otherwise, all numbers are presented in the U.S. dollar terms.

Revenue was $30.8 million, an increase of $8.6 million, or 38.7%, from $22.2 million in the first half of fiscal 2018. The growth of revenue in the first half of fiscal 2019 was mainly due to the increase in revenue from IT consulting services. Revenue from IT consulting services increased by $8.2 million, or 38%, to $29.8 million, and accounted for 96.8% of total revenue, compared with $21.6 million, or 97.4% of total revenue, in the first half of the fiscal 2018. The increase was primarily due to the increasing demand of IT consulting services from banks and other financial institutions. For the six months ended December 31, 2018, and 2017, 50.3% and 46.8% of our IT consulting services revenue were from international banks, respectively. In the first half of fiscal 2019, we strengthened our expertise in the financial industry and leveraged our existing industry knowledge to grow our customer base of local Chinese financial institutions.

Revenue from customized IT solution services increased by $0.4 million, or 80%, to $0.9 million in the first half of fiscal 2019, from $0.5 million in the same period of the previous year. The increase was also primarily due to growth from existing and new clients. Revenue from other services was $0.1 million in the first half of fiscal 2019, from $0.05 million in the same period of the previous year.

Cost of revenue was $19.6 million in the first half of fiscal 2019, an increase of $6.3 million, or 47.4%, from $13.3 million in the same period of the previous year, which is generally in line with the growth of our revenues. As a percentage of revenue, our cost of revenue was 63.6% and 60.1% for the six months ended December 31, 2018 and 2017, respectively.

Gross profit increased by $2.3 million, or 25.8%, to $11.2 million, from $8.9 million in the first half of fiscal 2018. Gross margin decreased to 36.4% from 39.9%. The decrease was mainly due to the lower gross margin of the new projects.

Selling and marketing expenses in the first half of fiscal 2019 decreased by $0.1 million, or 9.1%, to $1 million. The decrease was primarily attributable to the decrease of salary expenses caused by employees' resignation.

Research and development expenses in the first half of fiscal 2019 decreased by $0.6 million, or 16.7%, to $3 million. The decrease was attributable to the decrease of salary expenses. Salary expenses of some R&D employees who supported improvement of management system of the Company were recorded as general and administrative expenses.

G&A expenses in the first half of fiscal 2019 were $9.2 million, an increase of $6.1 million, or 196.8%. The increase was primarily due to an addition of $4 million non-cash, share-based compensation expenses related to the grants under the 2017 Equity Incentive Plan. After deduction of non-cash, share-based compensation expenses, non-GAAP general and administrative expenses increased by $2.1 million, or 67.7%, to $5.2 million in the first half of fiscal 2019, from $3.1 million in the same period of the previous year. The increase in non-GAAP admin expenses was primarily due to the routine expenses incurred after going public and due to year-over-year increase in salary and compensation expenses.

Operating loss in the first half of fiscal 2019 was $2 million, a decrease of $3.1 million, from an income of $1.1 million in the same period of the previous year. Operating margin was negative 6.5% for the six months ended December 31, 2018, compared to 4.9% for the prior year period. After the deduction of non-cash, share-based compensation expenses, non-GAAP operating income increased by $0.9 million, or 81.8%, to $2 million in the first half of fiscal 2019, from $1.1 million in the same period of the prior year. Non-GAAP operating margin increased to 6.5% in the first half of the fiscal 2019, from 4.9% in the prior year period.

Net income decreased by $3 million to a loss of $1.7 million in the first half of fiscal 2019, from an income of $1.3 million in the prior year period. The decrease in net income was due to the increase in non-cash, share-based compensation expenses. After the deduction of non-cash, share-based compensation expenses, non-GAAP net income increased by $1 million, or 76.9%, to $2.3 million in the first half of fiscal 2019, from $1.3 million in the same period of the previous year.

Net loss attributable to CLPS Incorporation's shareholders in the first half of fiscal 2019 was $1.4 million, or negative $0.10 per basic and diluted share, compared with net income attributable to CLPS Incorporation's shareholders of $1.3 million, or $0.12 per basic and diluted share, in the first half of fiscal 2018. After excluding the impact of non-cash, share-based compensation expenses, non-GAAP net income attributable to CLPS Incorporation's shareholders in the first half of fiscal 2019 was $2.6 million, or $0.19 per basic share and $0.18 per diluted share.

For the six months ended December 31, 2018 and 2017, our weighted average number of ordinary shares used in computing basic earnings per ordinary share was 13,799,224 and 11,290,000, respectively. For the six months ended December 31, 2018, our weighted average number of ordinary shares used in computing diluted earnings per ordinary share was 13,799,224, and our average number of shares outstanding used in computing GAAP and non-GAAP diluted earnings was 13,957,798.

Our earnings release detailing this presentation includes the various non-GAAP financial measures referenced above and provides explanations and reconciliations to the comparable GAAP measures.

Let's turn to our balance sheet. As of December 31, 2018, our cash and cash equivalents was $5.8 million, compared with $9.7 million as of June 30, 2018.

Guidance and business outlook for 2019. For fiscal 2019, we expect, absent material acquisitions or non-recurring transactions, a total sales growth in the range of approximately 30% to 35%, and a non-GAAP net income growth in the range of approximately 30% to 35%, as compared with the 2018 financial results. The foregoing guidance includes estimated 2019 financial results of the InfoGain acquisition, an entity in which we acquired an 80% equity stake in August 2018. In addition, this guidance necessarily assumes no significant adverse price changes during fiscal 2019.

This forecast reflects our current and preliminary views, which are subject to change and are subject to risks and uncertainties, including, but not limited to, potential accounting adjustments attributable to InfoGain acquisition, as well as various risks and uncertainties facing our business and operations, as identified in our public filings.

This concludes our prepared remarks for today. Operator, we are now ready to take some questions.

Operator:

If any of you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again, that is star, one to ask a question, and we will pause for a moment to allow everyone an opportunity to signal.

We will take our first question from Brian Kinstlinger from Alliance Global Partners. Please go ahead.

Brian Kinstlinger:

Yes, hi, and thanks for taking my question. Just the one question I have is on M&A. What are your plans to expand into the United States and what does the M&A pipeline look like? Thanks.

Tian van Acken:

Our M&A activities, not only are we expanding to the U.S., but currently we are also looking for opportunities in Hong Kong, Singapore and Australia. For U.S., certainly we do have clients in the U.S., so we are actively looking for pipelines in North America, including U.S. and Canada, as well.

Brian Kinstlinger:

Great, thank you.

Tian van Acken:

Thank you.

Operator:

Once again, that is a star, one if you would like to ask a question.

With no further questions at this time, I'd like to turn the call back over to Management for any closing remarks.

Raymond Lin:

Okay, this is Raymond. This concludes our First Half of the Fiscal Year 2019 Earnings Call. Thank you for your participation. We look forward to updating you on the progress of our business in the weeks and months ahead. Thank you and have a good day for those who are based in the U.S. and have a good night for those who are based in Hong Kong and Mainland China. Thank you.

Operator:

This concludes today's conference, thank you for your participation, and you may now disconnect.