

CLPS Incorporation

(NASDAQ: CLPS)

Second Half and Full Year of Fiscal 2021

Earnings Conference Call

October 15, 2021

CORPORATE PARTICIPANTS

Rhon Galicha, *Investor Relations*

Raymond Lin, *Chief Executive Office and Director*

Rui Yang, *Acting Chief Financial Officer*

Henry Li, *Chief Operating Officer*

Wilson Wong, *Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Jaden Wang

Jakob Kurtz, *Greenridge Global*

PRESENTATION

Operator:

Hello, everyone. Welcome to the Second Half and Full Year Fiscal 2021 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 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 second half and full year Fiscal 2021 financial results this morning. The earnings release is now available on the Company's IR website at www.ir.clpsglobal.com.

Before we continue, please note that our discussion 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 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 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 second half and full year of Fiscal 2021, and 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 date 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 statement except as required under applicable law.

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

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, 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 the Management's prepared remarks, we will 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:

Okay, Rhon. Thank you, Rhon. Hello, everyone, and thanks for joining today's call. I hope each of you and your family are safe and well.

In today's call, I am excited to tell you our Fiscal Year 2021 performance, both in financial and business perspective, including our strategic pipeline which we are confident will further drive CLPS sustainable growth. In financial performance standpoint, Fiscal 2021, brought us another profitable year, as reflected in our financial results, both our top line and bottom line.

Our revenue increased by 41% to USD \$126 million and our net income increased by 127% to \$7 million year-over-year. Further details, my CFO, Rita, will share with you later.

Now, let me explain about our strategies that contributed to our financial goals this fiscal year. First of all, I would like to say my thank you to our more than 3,000 staff, the backbone

of the Company's continued success. We greatly appreciate your dedication, and I'm more than happy that our CLPS family is consistently growing every year. We also hired more experienced talent acquisitions manpower, so to meet the demand for IT professionals and ensure efficient IT services delivery to our existing and new clients.

On a business perspective, we achieved numerous progress with the fulfillment of our Company initiatives in Fiscal 2021. We continued to execute our dual-engine development strategy through the improvement of our technology and product capabilities while maintaining the organic growth of our business.

On February this year, we raised approximately \$16 million through registered direct offering, which we partly utilized in various investments, M&A, joint venture, financial and operation reach in the domestic and overseas market. That's on top of our existing working capital.

CLPS has been committed to contributing in the digital trend of global finance. Let me review the initiatives we have done. One is we acquired a stake in 53.33% of MSCT Investment Holdings Limited, that is a subsidiary of Minshang Creative Technology Holdings Limited. This is a Hong Kong-listed company. They have a lot of banking system products. Our first project is to upgrade the loan system to meet overseas bank needs and government MSA regulations. Maybe in future, we will integrate with our credit card system.

Also, we will upgrade more and more bank products in the future. Two is we set up CLPS Beefinance Holding Limited as a joint venture company with Columbus Century Development Company Private Limited. That is a blockchain technology solutions provider. This aims would develop and upgrade blockchain-based digital assets solutions for financial institutions such as custody, exchange, payments and NFT distribution platforms. This solution has been carefully designed for wealth management and various investment transactions, amongst others.

Three is in order to further expand our Southeast Asia business, first we took full advantage of our high efficiency delivery team in Southeast Asia and our expert research and development team in China so that we can comprehensively fulfill the IT service demand on our clients in Southeast Asia, and secondly, we set up CLPS Technology Philippines Cooperation, which allowed us to reach a wider business coverage in this region.

CLPS Philippines has started to be operational and generate revenues, so our presence and business activities in the key markets in Southeast Asia and Asia Pacific, such as in Singapore, Malaysia, India, Japan, Australia, and Philippines will be more active, allowing us to lay out our value proposition in these locations.

Four is that based on our experience, we invest to develop a new credit card system. It is a new generation of credit card system. It is a developed to provide complete service for credit

card issuance and lifecycle management. It has been developed to support all kinds of the issuers, from small to large and global financial institutions, banks and credit companies.

The system has full multi-currency, multi-product, multi-institution, and multi-language capabilities, and managed card portfolios across different countries and for different issuers. This scenarios-based engine allows the modernization of financial institutions' account structure, pricing structure, limited structure, and authorization-based management.

The system architecture is powered by distributed microservices and utilized concepts, which provide cost-effective infrastructure with high scalability. Cloud-native architecture enables deployment on on-premise server or on primary physical servers. This API is online portal that provides more than 1,200 ports. An API allows any third-party system to trigger services or data for flexible integration. Now, in its pilot phase, the commercial version is expected to be launched early next year—the early year (inaudible). With the high rental rates in Hong Kong and Singapore, we have purchased office properties in these locations, which in turn can become a promising real estate investment asset, and to supporting our IT services delivery more efficiently.

In terms of R&D, we continue to research in big data areas, especially in data engine integrated with AI technology and conducted by data collection, data analysis and decision-making, we will help our clients to improve their sales and marketing efficiencies and can be beneficial for a systematization of data reporting. We plan to launch our big data products by next year, which are intended for banks, insurance companies, and automotive sectors.

Two, we continually conduct research in RPA with more input and resources intended for financial industries such as handwriting optical character recognition and image recognition because these two part is very important for usage effect, and we are going on to study (inaudible).

In terms of our client base, during the Fiscal 2021, we gained IT services contracts in the U.S. with major players in the ecommerce industry. We provide IT services, including big data management, data analytics and payment risk measurements for their international business. During the second half of Fiscal 2021, our revenue from the ecommerce area increased by 100%.

In addition, our revenue in automotive industry jumped by 20% (200%) to \$5 million during the remaining period of Fiscal 2021, we gained several IT consulting and solutions services with the leading automotive companies, which involves intelligent manufacturing, navigation system, machine learning, vehicle central control system, and new energy vehicle projects. Furthermore, we also underwent corporate restructuring in order to increase our business efficiency.

In the past year, we feel the increase in the competition, so we reorganized the Company's organization structure and (divided) it into several regions to strengthen the regional sales functions that improved the efficiency of the Company's operations. At the same time, we hired senior advisors with extensive experience from top tier financial institutions to guide and streamline our current and business trajectory.

As we move forward, we remain dedicated and focused to leverage our core business for our growths, as well as our investments and R&D efforts in advanced technology, such as big data, cloud and blockchain to enable our clients' digital transformation journey. We are also in process of innovation and streamlining our next generation bank loan system.

We will study to re-framing banks core loan system, powered by a complete configurable workflow and high degree of automation and central control functions. As a result, we will make the bank more centralized, easier interest setting and easier risk control. We will institute plans to drive our overseas by exploring business potential in other parts of Southeast Asia and the U.S. to further push our overseas revenue in an upward trend.

Lastly, on behalf of CLPS family, I sincerely appreciate the continued trust and support of our partners and shareholders. Thank you.

Now, I would like to turn the call over to our CFO, Rita Yang to discuss the second half year and full year of the Fiscal 2021 financial results. Okay, Rita. Go ahead, please.

Rui Yang:

Okay. Thank you, Raymond.

I will now provide an update on our financial performance for the second half, followed by our full year results for Fiscal 2021. 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 second half of Fiscal 2021, our revenue increased by \$20.9 million or 44.6% to \$67.7 million from \$46.8 million. This increase in revenue was mainly due to an increase in revenue from IT consulting services. In particular, revenue from IT consulting services increased 43.2% to \$65.2 million from \$45.5 million. The increase was due to increased demand for the Company's IT consulting services from existing and new clients, and our improved capability of service delivery.

Revenue from customized IT solution services increased 81% to \$2.1 million from \$1.1 million. The increase was primarily due to the increased demand from existing clients. Revenue from other services increased by 179.5% to \$0.5 million from \$0.2 million. The increase was primarily due to the increased demand for other services, including headhunting services. Gross profit increased 37.8% to \$21.7 million from \$15.7 million.

As for operating expenses, selling and marketing expenses increased 18.3% to \$2.0 million from \$1.7 million. The increase was primarily due to the increase of salary expenses as new staff were hired to improve the Company's capability of service delivery to meet client demand. As a percentage of total revenues, selling and marketing expense decreased to 2.9% from 3.5%. The decrease was primarily due to the increased operational efficiency as a result of economies of scale.

Research and development expense(s) increased 32.5% to \$7.2 million from \$5.4 million. The increase primarily resulted from the establishment of new research projects, and the Company's continued R&D efforts in big data, cloud computing, blockchain, robot process automation, that's RPA, and artificial intelligence. As a percentage of total revenues, research and development expense(s) decreased to 10.6% from 11.6%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale.

General and administrative expense(s) increased 20.2% to \$10.2 million from \$8.4 million. The increase was primarily due to the increase of non-cash share-based compensation expense(s) and the general and administrative personnel-related expense(s). After excluding the non-cash share-based compensation expense(s), non-GAAP general and administrative expense(s) increased 15.3% to \$6.6 million from \$5.7 million. As a percentage of total revenue, general and administrative expense(s) decreased to 15% from 18%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale and refined management.

Operating income increased by 417.9% to \$3.4 million from \$0.7 million. Operating margin was 5.1% compared to 1.4% in the prior-year period. Total other expenses, net of other income, was \$0.2 million compared to \$0.5 million total other income, net of other expense(s), in the prior-year period.

Provision for income taxes increased by \$0.8 million to \$1.2 million from \$0.4 million. Net income up 166% to \$2.1 million from \$0.8 million over the same period of last year. After excluding the impact of non-cash share-based compensation expense(s), non-GAAP net income increased 53.7% to \$5.7 million from \$3.7 million. After excluding the impact of non-controlling interest, net income attributable to CLPS Incorporation shareholders in the second half of Fiscal 2021 was \$2.0 million or 0.11 basic and 0.1 diluted earnings per share.

After excluding the impact of non-cash share-based compensation expense(s), non-GAAP net income attributable to CLPS Incorporation shareholders in the second half of Fiscal 2021 was \$5.6 million or 0.3 basic and 0.29 diluted earnings per share. This is compared to a non-GAAP net income attributable to CLPS Incorporation shareholders of \$3.5 million or 0.23 basic and diluted earnings per share.

Now, I will provide an overview of full year Fiscal 2021 results.

For the year ended June 30, 2021, revenues increased 41% to \$126.1 million from \$89.4 million. This increase in revenue was mainly due to an increase in revenue from IT consulting services. In particular, revenue from IT consulting services increased 40.3% to \$122.3 million from \$87.1 million. The increase was due to the increased demand from existing and new clients, and our improved capability of service delivery.

Revenue from customized IT solution services increased 69.7% to \$3.1 million from \$1.8 million. The increase was primarily due to the increased demand from existing clients. Revenue from other services increased 51.5% to \$0.7 million from \$0.4 million. The increase was primarily due to the increased demand from other services, including headhunting services.

Revenue generated outside mainland China increased 28.1% to \$13.6 million from \$10.6 million. The increase in revenue generated outside of mainland China reflects the Company's successful and the continuous global expansion strategy.

Gross profit increased 29.1% to \$40.2 million from \$31.1 million. As for operating expenses, selling and marketing expenses increased 22.7% to \$3.8 million from \$3.1 million. The increase was primarily due to the increase of salary expense(s) as new staff was hired to improve the Company's capability of service delivery to meet client demand. As a percentage of total revenues, selling and marketing expense decreased to 3% from 3.4%. The decrease reflects an increase in operational efficiency as a result of economies of scale.

Research and development expense(s) increased 27.8% to \$13.3 million from \$10.4 million. The increase primarily resulted from the establishment of new research projects and the Company's continued R&D efforts in big data, cloud computing, blockchain, RPA, and artificial intelligence. As a percentage of total revenues, research and development expense decreased to 10.6% from 11.7%. The decrease reflects an increase in operational efficiency as a result of economies of scale.

General and administrative expense(s) increased 2.7% to \$16.8 million from \$16.3 million. The increase was primarily due to the increase of non-cash share-based compensation expense(s). After excluding the non-cash share-based compensation expense(s), non-GAAP general and administrative expense(s) decreased 6.2% to \$11.8 million from \$12.6 million. As a percentage of total revenues, general and administrative expense(s) decreased to 13.3% from 18.3%. The decrease reflects an increase in operational efficiency as a result of economies of scale and refined management.

Operating income increased by 161.2% to \$8.4 million from \$3.2 million. Operating margin was 6.6% compared to 3.6%. The total other expenses, net of other income, was \$0.1 million compared to \$0.5 million total other income, net of other expense(s), in the prior-year period. Provision for income taxes increased by \$0.5 million to \$1.3 million from \$0.8 million. Net income up 127.9% to \$7 million from \$3.1 million in the prior-year period.

After excluding non-cash share-based compensation expenses, non-GAAP net income increased by \$5 million or 71.5% to \$12.1 million from \$7.1 million. After excluding non-controlling interest, net income attributable to CLPS Incorporation shareholders for the year ended June 30, 2021 was \$6.8 million or 0.39 basic and diluted earnings per share, compared to net income attributable to CLPS Incorporation shareholders of \$2.9 million or 0.2 basic and diluted earnings per share.

After excluding the impact of non-cash share-based compensation expense(s), non-GAAP net income attributable to CLPS Incorporation shareholders for the year ended June 30, 2021 was \$11.9 million or 0.69 basic earnings per share and 0.68 diluted earnings per share. This is compared to non-GAAP net income attributable to CLPS Incorporation shareholders of \$6.9 million or 0.47 basic and diluted earnings per share in the prior year period.

As of June 30, 2021, we had cash and cash equivalents of \$24.7 million compared to \$12.7 million as of June 30, 2020. As of June 30, 2021, we had total numbers of employees of 3,352, up 22% year-over-year. Revenue per employee up by 15.5% to \$37,600 per person. Net income per employee is up by 86.7% to \$2,100 per person.

Looking forward, the Fiscal Year 2022, we expect total sales growth in the range of approximately 30% to 35% as non-GAAP net income grows in the range of approximately 32% to 37% compared to Fiscal Year 2021 financial results.

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

Operator:

Thank you.

We'll take our first question from Jaden Wang (phon).

Jaden Wang:

Okay. Congratulations for the remarkable financial results. I have three questions.

The first question is with the recent tech company monopoly crackdown in China, there will be a lot more opportunities for new and smaller players in China. Given your competitive advantage in providing IT services to overseas clients for their services in China, has CLPS seen significant demand pick up since the last tech company crackdown?

Henry Li:

Hello. This is Henry Li, the Company's COO. First of all, thanks for your question. Now, let me answer this question.

Our strong financial numbers for the second half and the full year of Fiscal 2021 shows the consistent growth of our clients' demand for IT services, specifically in mainland China. Although we have always pointed out that our global expansion strategy has been very effective, of which revenue generated from outside China increased by 28.1% year-over-year, it is undeniable that our revenue from mainland China significantly contributes to our aggregate revenue, and so, we believe that it's not a matter of taking advantage of the large tech crackdown, but it is the competitive advantage that we always hold on.

In addition, the effectiveness of our dual-engine growth strategy to diversify our IT products improve our delivery capabilities in domestic and international markets, and enhanced client loyalty renders the increase in our income, thus bringing more benefits to our investors and could improve our overall valuation. As you have mentioned, given our position as professional IT service provider, we will explore this business opportunity as well.

Thank you, and I hope I answered your question.

Jaden Wang:

Okay, okay, got it.

My last question is the Company got global contracts in February 2021. Even though the company name was not released, can you provide an update on the client's global contract? After working with this client for a year, I am wondering if they would consider using CLPS more for their IT services, particularly their China cross-border transaction services and their critical transaction platform?

The company set up LinkCrypto with Columbus earlier this year. Would you please provide an update? Will CLPS continue ascribing to opportunities on crypto currency management for the financial institutions outside of China?

Wilson Wong:

Hi. Thank you for the questions. This is Wilson.

I would like to reiterate that due to the confidentiality agreement, we cannot disclose the name of the client; however, so we will limit that way to ensure our long term and stable relationship with this client. We hope for your understanding in our standpoint; however, we are very pleased that our global expansion, specifically in the U.S. market, has already paid off because of the client we gained there.

Going back to your questions, our business with this client is progressively going well. In addition to the current IT consulting solutions we provide, we are also exploring the possibility of providing IT solutions services for this client.

Rui Yang:

Yes, hello. This is Rita.

Let me also add that this client contributes to the record ecommerce revenue in terms of regional area. In the second half of Fiscal Year 2021, revenue from ecommerce area increased by more than 100%. We believe that our strong delivery capabilities and advanced IT products will further deepen our cooperation with clients.

Thank you for your question.

Operator:

We'll take our next question from Jakob Kurtz with Greenridge Global.

Jakob Kurtz:

Hi. You guys have released a series of positive announcements this year, but the stock has continued to fall. Why do you think that is, and how do you guys think you're going to turn it around?

Rui Yang:

Hello, this is Rita. Sorry, can you repeat your question?

Jakob Kurtz:

You guys have released a series of positive announcements this year, but the stock has continued to fall. Why do you think that is, and how will you turn it around?

Wilson Wong:

Rita, you want me to answer the question for him? Hello?

Rui Yang:

Yes, hello—yes.

Wilson Wong:

Yes, let me take the questions. In terms of the stock price, so volatile, and generally that is because of the market behavior, and material has been disclosed. So, in terms of our strategies, as mentioned by Mr. Raymond, we will continue to implement our dual-engine

strategy, we will deliver our results and value to our shareholders. I hope I answered your questions.

Jakob Kurtz:

Yes. That is all. Thank you.

Operator:

It appears we have no further questions at this time. I would like to turn the conference back to Management for any additional or closing remarks.

Rhon Galicha:

Raymond, please go to your closing remarks. Raymond, would you like to do your closing remarks?

Raymond Lin:

Yes. Okay. No questions, right? Okay.

Thank you again for joining us onto this call, and 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:

That does conclude today's conference. We thank you for your participation. You may now disconnect.