

CLPS Incorporation

(NASDAQ: CLPS)

First Half of Fiscal Year 2022 Earnings Conference Call

March 4, 2022

CORPORATE PARTICIPANTS

Rhon Galicha, *Investor Relations*

Henry Li, *Chief Operating Officer*

Rui Yang, *Chief Financial Officer*

Wilson Wong, *Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Tony Zhu

Rebecca Chang

PRESENTATION

Operator:

Hello, everyone, and welcome to the First Half of Fiscal Year 2022 Earnings Conference Call for CLPS Incorporation.

Please note that (audio interference). I will turn the call over to Rhon Galicha from CLPS Investor Relations for opening remarks and introductions. Please note that today's call is being recorded. Please go ahead, Mr. Rhon.

Rhon Galicha:

Thank you, Operator. Hello, everyone, and welcome to CLPS Incorporation's first half of fiscal year 2022 earnings conference call.

CLPS Incorporation announced its first half of Fiscal 2022 financial results this morning. The earnings release is now available on the Company's IR website at 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 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 first half of Fiscal 2022 and its expectations of the Company's future performance, its preliminary outlook, and guidance offered in this presentation, the Company's future—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 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 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 earlier today.

Now, allow me to introduce the management team on the call today. Mr. Henry Li, Chief Operating Officer 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 for the call—we will open up the call for a Q&A session. 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 Henry. Henry, please go ahead.

Henry Li Li:

Thank you, Rhon. Thank you, Operator. Thank you all for joining the call today.

In the first half of Fiscal Year 2022, CLPS has achieved impressive results, both in financial and the business perspectives. We gained another period of solid market share, higher profitability, consistent strategic execution, and the technological progress, which translated into stronger financial performance.

Despite the ongoing pandemic, and the emergence of different variants like Omicron as well as the global economic uncertainties and the situations, we still achieved a consistent and a positive growth trend and a strong financial result during the first half of Fiscal Year 2022. We have been able to sustain the success due to our experience and the strong execution

capability of high-quality IT services and our continued improvement and in-depth cooperation among our major clients in banking, wealth management, e-commerce and automobile industries.

As for the financial figures, Ms. Rita Yang will discuss them in details later. But for now, please allow me talk about the highlights of our business and operations during this period.

Since being CLPS listed in the NASDAQ market, CLPS has been able to achieve a year-over-year revenue growth rate of more than 30%, thanks to our solid profitability, technical and innovation capabilities, as well as ability to provide clients with high quality and efficient IT services.

Our existing clients still account a large portion of our current business, proof of our competitiveness, and it demonstrates that the IT services we provide to them are irreplaceable. We attribute this to our well-built and the long-term business relationship with our clients. Furthermore, CLPS currently plays an important role in improving the performance of IT systems and providing diversified scenarios for business to effectively increase our client's profitability and reduce operating costs.

We are especially helpful in establishing talent resource supply ecosystem for our clients through our professional IT talent training programs; the talent creation program which is called TCP, and the talent development program which is called the TDP. All these factors ultimately led to the strategic partnership with clients. Gained client trust and resulted in a win-win situation in the end.

Now, I would like to discuss some key aspects related to our core business. First of all, our blockchain solution company LinkCrypto. Based in Hong Kong, LinkCrypto has been supporting overseas client's business operation and IT system maintenance. It is also committed to promoting non-fungible token or NFT platform. Now, LinkCrypto has initially generated revenue during the first half of Fiscal Year 2022. And we are proactively promoting it with potential clients in Hong Kong.

Secondly, our joint venture company MSCT. MSCT is implementing the loan for employee solution. It aims to improve customer acquisition, business integration and the back-office operation, and the management capabilities. This product will be marketed to more clients in Hong Kong and the Southeast Asia.

At the same time, we have begun the research on developing the next generation of loan system for banks and the financial institutions so that our clients can leverage the new system for better business integration; unified operation management, intelligent liquidation, and risk control as well as quickly new business launching through APIs.

Last but not least, our Qinson credit card company has significantly advanced during this period, maintaining a competitive growth performance while strengthening the core products

of its R&D team. In the end, we strive to deliver high-caliber products, with better client experience.

At present, we are in discussions with several overseas banks about the potential partnership related to our product. Well, it's also worth to mention that since the digital renminbi gained the traction in China, we have developed a turnkey solution in partnership with the leading bank in China, integrated with CLPS expertise in banking, finance, e-commerce, and mobile developments. This solution will enable banks and their customers to enjoy plenty of intelligent functionalities, like smart contracts, online payments, flexible settlement, supply chain management, and the marketing contents, while providing safe, reliable, and flexible digital renminbi services. We also roll out a digital renminbi e-commerce platform to help our clients promote the use of digital renminbi.

Let's talk about our Southeast Asia business. We continued to increase our investment and the business presence in this market. Additionally, we started entering the tourism and the education industries. Technological innovation will be the driving force for growth in these two industries, as it will increase profitability and the market share for clients. This cross-industry investment will also allow us to achieve cross-selling the product and a superposition effect.

All these achievements and the progress that I have shared highlight the competitive advantages of our business and the effectiveness of our strategies, which will continue to drive the long-term value of our Company. We are optimistic to achieve this goal through the synergy between our IT services and the products, improve the service delivery capability and then enhance operating efficiency. Thank you.

Now, I would like to turn the call over to our CFO, Rita Yang, to discuss the first half of Fiscal 2022 financial results. Rita, please go ahead.

Rui Yang:

Okay. Thank you, Henry. I will now provide an update on our financial performance for the first half of Fiscal Year 2022. 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 2022, our revenues increased by \$17.6 million or 30.2% to \$75.9 million from \$58.3 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 26.2% to \$72 million from \$57.1 million. The increase was due to the increased demand from existing and new clients and our improved service delivery capability.

Revenue from customized IT solutions services increased 208.1% to \$3.3 million from \$1.1 million. The increase was primarily due to our strengthened relationships and expanded business scope with our existing clients. Revenue from other services increased 236.7% to

\$0.7 million from \$0.2 million. The increase was primarily due to the increased demand for other services, including consulting services. Gross profit increased 20.7% to \$22.3 million from \$18.5 million.

As for operating expenses, selling and marketing expenses increased 27.3% to \$2.3 million from \$1.8 million 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 revenue, selling and marketing expenses decreased to 3% from 3.1%. The decrease was primarily due to the increase in operational efficiency as a result of economies of scale.

Research and development expenses decreased 32.2% to \$4.2 million from \$6.2 million. As a percentage of total revenue, research and development expenses decreased to 5.5% from 10.6%. The decrease was primarily due to the optimization of our R&D staff structure by allocating a number of staff to deliver customized IT solution to meet the increased demand for the service. As a result, the R&D salary expenses were shifted to costs.

General and administrative expenses increased 38.3% to \$9.2 million from \$6.6 million. As a percentage of total revenue, general and administrative expenses increased to 12.1% from 11.4%. The increase was primarily due to an increase of share-based compensation, new staff were hired, and a year-over-year increase of salary expenses.

Operating income increased by 54.2% to \$7.6 million from \$4.9 million. Operating margin was 10% compared to 8.4% in the prior-year period. Total other expenses net of other income was \$0.2 million compared to \$0.1 million of total other income net of other expenses in the prior-year period. Provision for income taxes increased by \$0.8 million to \$0.9 million from \$0.1 million, mainly due to certain subsidiaries made profit and used up recoverable losses.

Net income, up 31.2% to \$6.5 million from \$4.9 million over the same period of last year. After excluding the impact of non-cash share-based compensation expenses, non-GAAP net income increased 39.1% to \$8.9 million from \$6.4 million. After excluding the impact of non-controlling interest, net income attributable to CLPS Incorporation shareholders was \$6.3 million or \$0.31 basic and diluted earnings per share compared to \$4.9 million or \$0.30 basic and diluted earnings per share in the prior-year period.

After excluding the impact of non-cash share-based compensation expenses, non-GAAP net income attributable to CLPS Incorporation shareholders was \$8.7 million or \$0.43 basic and diluted earnings per share. This is compared to a non-GAAP net income attributable to CLPS Incorporation shareholders of \$6.4 million or \$0.39 basic and diluted earnings per share in the prior-year period.

As of December 31, 2021, we had cash and cash equivalents of \$21.7 million compared to \$24.7 million as of June 30, 2021. As of December 31, 2021, we had total numbers of

employees of 3,667, up 9.6% year-over-year. In the first half of Fiscal 2022, revenue per employee up by 18.8% to \$20,700 per person.

Net income per employee up by 19.7% to \$1,800 per person. Looking forward for Fiscal Year 2022, we expected total sales growth in the range of approximately 30% to 35%, and non-GAAP net income growth 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:

Of course, thank you.

We will go ahead and take our first question from Tony Zhu (phon). Please go ahead.

Tony Zhu:

Hello. Congratulations on your strong financial performance, and I have two questions that I would like to further explore. The first one is, it seems that our business is growing in overseas markets. What's your strategy to keep the momentum? Second, what's the reason why your G&A expense have increased year-over-year? Thank you.

Wilson Wong:

Hi. This is Wilson. Let me take the first question. In regard to the growing in overseas market, as mentioned earlier, we have achieved 15.4% growth in our overseas revenues for the first half of Fiscal Year 2022, and we are further expanding our international presence and industry reach to new markets. We continue to invest in Southeast Asia region like in Singapore. In addition, our goal for this year of 2022 is to attract more clients and create more business opportunity in the U.S.

So, for the next question, I would like to have our CFO, Rita, to answer that. Rita, turn it over to you.

Rui Yang:

Okay. Thank you, Wilson. About the second question regarding the increase in G&A expense, since we hired new staff and strategies to further drive our business, the salary expense increased, and also the share-based compensation also increased during this period as well as the year-on-year salary expense we paid to our staff. I hope we answered your questions. Thank you.

Tony Zhu:

Thank you.

Operator:

We will go ahead and move on to our next question from Rebecca Chang (phon). Please go ahead.

Rebecca Chang:

Thank you. My question is about your customized IT solutions services. You highlighted such that your revenue in this segment increased to more than 200%. What percentage do we expect to end, and what will drive this segment's growth going forward? Thank you.

Henry Li Li:

Thank you. This is Henry. Let me take the questions. I think our dual-engine strategy is our core strategy in order to drive our future growth. Horizontally, we plan to achieve the top line growth by bringing in new clients and through overseas expansion. Vertically, we are expanding services and the business scope for existing clients. Our IT consulting services and the customized IT solutions business are complementary, which will bring each other more opportunities going forward. Hopefully, this answered your question. Thank you.

Operator:

With that, that does conclude our question-and-answer session. I would now like to hand the call back over to Henry Li for any additional or closing remarks.

Henry Li Li:

Thank you again for joining us on today's call, and we appreciate your ongoing support. We look forward to updating you on our progress in the weeks and the months ahead. Have a good day. Thank you.

Operator:

With that, that does conclude today's call. Thank you for your participation. You may now disconnect.