

## **CLPS Incorporation**

**(NASDAQ: CLPS)**

### **First Half of Fiscal Year 2023 Earnings Conference Call**

**March 3, 2023**

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#### **CORPORATE PARTICIPANTS**

**Rhon Galicha**, *Investor Relations*

**Henry Li**, *Chief Operating Officer*

**Rui Yang**, *Chief Financial Officer*

**Wilson Wong**, *Executive Vice President*

#### **CONFERENCE CALL PARTICIPANTS**

**Lucy Wang**, *Private Investor*

**Thomas Fernandez**, *Private Investor*

## PRESENTATION

### **Operator:**

Hello, everyone. Welcome to the First Half of Fiscal Year 2023 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 welcome to CLPS Incorporation's First Half of Fiscal Year 2023 Earnings conference call.

CLPS Incorporation announced its First Half of Fiscal 2023 Financial Results this morning. The earnings release is now available on the Company's IR website at [ir.clpsglobal.com](http://ir.clpsglobal.com) and across the finance website.

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 of future performance and involve known and unknown risks, uncertainties and other factors, which may be in 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.

All such statements attributable to other is 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 2023, 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, [www.sec.com](http://www.sec.com). We have no obligation and do not undertake to update or revise or correct any of the forward-looking statements after the date hereof or after their respective dates on which any such statements otherwise are made. All information provided today is as 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, who will start off the call with a review of recent Company developments and operating results; followed by Ms. Rita 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. Wilson Wong, Executive Vice President of CLPS will also join the Q&A session. Mr. Raymond Lin, the Company's Chief Executive Officer and Director, is currently attending an important business engagement in Japan and could not to join us today.

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. I would like to start with an overview of our first half of Fiscal Year 2023 performance.

2022 was a challenging year with full of uncertainty. During this period, we maintained continuous revenue growth despite various headwinds, such as macro economy effects and the impact of exchange rate fluctuations.

We remained strong across our key markets, thanks to the trust and the satisfaction our clients placed in us. In particular, we achieved breakthrough growth in overseas markets. In addition to retaining our long-term clients, we won new clients during this period as well. We are confident that we are well-positioned to continue executing on our strategy to deliver solid financial performance for the rest of the fiscal year and beyond.

First of all, we kept our focus and deliver results on the four key operational areas in banking, wealth management, e-commerce and automotive. We sustained our competitive position in banking and wealth management area during this period. These areas will remain major revenue source for us going forward.

More importantly, we continued to put our vast wealth management experience to work and achieved positive results. It's an area that remains lucrative in the financial industry and several international banks have begun to navigate. Our revenue from the wealth management area increased by approximately 24% to \$19 million during this period.

We expect the effects of currency fluctuations, our revenue from the wealth management area increase by 35% year-over-year in RMB terms. Our rich business experience and the technical accumulation in financial mobile payments allowed us to provide efficient IT services support to our e-commerce clients. Despite the effects of currency fluctuations, our revenue from the e-commerce area increased by approximately 35% year-over-year in RMB terms.

Automotive has always been one of our key target markets. Climate action initiatives, particularly the reduction of greenhouse gases that contribute to the global climate change, will drive the demand for IT services related to intelligent integrated electric drive system in the growing global automotive market.

Our expertise in automotive area makes CLPS a reliable partner of our clients. The revenue from automotive area increased by approximately 30% to \$7 million during this period. Despite the effect of currency fluctuation, our revenue from the automotive area increase by 41% year-over-year in RMB term.

More importantly, we continued to implement our global expansion strategy. We put our focus in the U.S. and the Japan market this half year, which resulted in significant progress. In the U.S. market, our business achieved substantial growth with revenue increased by 72% and it continues its positive momentum under the leadership of our appointed CEO of CLPS California, Mr. Srustijeet Mishra.

Meanwhile, in the Japan market, our partnership with NTT Data MCI, a Japan-based strategy and management consulting firm, enabled us to rapidly expand our market reach in the region. In the first half of Fiscal Year 2023, our revenue in Japan increased by 156%. Adhering to the global expansion strategy, which is based on our dual-engine strategy, we believe that these two markets will be a key source of growth for CLPS going forward.

To support our international business, our overseas staff grew by 9% in the first half of Fiscal 2023. Second, CLPS made a series of achievements in product development. The cashless society is gaining momentum, which drove us to develop and launch a

scenario-based digital currency application solution to assist financial institutions accelerate the adoption and the far-reaching use of digital currency.

In partnership with our client, we are thrilled to announce that this IT solution was successfully implemented and has proven to be beneficial economically and socially. This solution will also allow international financial institutions to build an ecosystem around digital currency that includes services such as system development, system operations and maintenance, digital marketing and the merchant expansion.

We are looking forward to working with our global partners to explore scenario-based digital currency application scenarios and offer also a secure, convenient and a seamless financial services experience.

In the first half of 2023, CLPS continued to improve CAKU 2.0, the upgraded new generation of credit card system product of CLPS. Meanwhile, the new generation of loan system product has completed the adaptation process tailored to the specific requirement of overseas markets. These two systems will provide strong support in the demand for digital transformation on credit card core system of CLPS overseas clients. It will enable us to help our clients get satisfied customers, improved online lending experiences and integrated digital platforms that are customer-centric while achieving streamlined workflow.

We also started a new project on the new generation of loan system. We are currently developing a loan management system, where we combined our mature product with innovative technology. We successfully implemented facial recognition and optical character recognition, or OCR, into the system for loan applicant's identity verification.

While in the process of development, the integration of natural language processing, or NLP, and the robotic process automation, or RPA, are already on the pipeline. The goal of this development is to achieve a more comprehensive and streamlined loan process flow, including mortgage application, fast customer credit checking, convenient and secured loan, drawdown, among others, ensuring the privacy and the security of information transmission, while effectively shortening the processing time. As a result, customer can apply for a loan conveniently anytime, anywhere, reducing banking institutions' operating costs and gaining a wider range of new business opportunities.

Meanwhile, our dual-core approach, which is moving credit card and the loan systems out of the core banking system, improves business efficiency and lower operational costs in banking. Several of our clients in the banking area have already recognized it as valuable resources for them.

Lastly, let's talk about talent development. For almost two decades, CLPS has been a valuable partner in developing and providing world-class, highly-skilled IT talent for its clients. To maintain cost competitiveness, we continuously provide our clients with qualified

and high quality IT professionals, along with other added value services, such as technical training and career development. We take pride on this contribution.

During this period, we signed partnership agreements with two overseas educational institutions, which are Australian National University, a renowned public research university located in Canberra, Australia; and with Educare Global Academy Private Ltd., a private educational institution in Singapore, to further broaden the scope of our Talent Creation Program and the overseas business footprint.

We are also excited to announce that we will soon be collaborating with the City University of Hong Kong for the core banking technology training course. The course is certified by the Employees Retraining Board, or ERB, a statutory body in Hong Kong, to foster sustainable development of trainees into IT and the banking industries.

Digital transformation initiatives are at the forefront of our core market strategy in this era of challenges and opportunities. Alongside, as CLPS continues to transform itself, we are also ready to help more clients to accelerate their business interaction and operations.

Our strategy also aligns with our commitment to delivering innovative products suited to the needs of our clients to offer them a full range of integrated services for their credit card, credit loan and other fintech business segments, as well as building a CLPS exclusive financial ecosystem that will enable our clients within the financial industry to take digital transformation forward and achieve agile business management.

Now I would like to turn the call over to our CFO, Rita Yang, to discuss the first half of Fiscal Year 2023 financial results. Rita, please go ahead.

**Rui Yang:**

Thank you, Henry.

Firstly, I'm pleased to announce that we declared our very first special cash dividend last December 2022 and it has been paid out to our shareholders. We also intend to declare dividends in the future, depending on the Company's financial performance and the results of operations.

Now, I will provide an update on our financial performance for the first half of Fiscal Year 2023. Please note that our 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 2023, our revenues increased by \$0.9 million or 1.1% to \$76.8 million from \$75.9 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 by \$0.8 million or 1.2% to \$72.8 million from \$72 million. This increase was due to the increased demand from existing and new clients and our improved service delivery capability.

Revenues from customized IT solution services decreased by \$0.1 million or 2.3% to \$3.2 million from \$3.3 million. This decrease was primarily due to the effect of currency fluctuations in RMB against the U.S. dollar.

Revenue from other services increased by \$0.1 million or 11.4% to \$0.8 million from \$0.7 million. The increase was primarily due to the increased demand for other services including non-IT consulting services.

Gross profit was \$18.5 million compared to \$22.3 million.

As for operating expenses, selling and marketing expenses increased by \$0.4 million or 17.5% to \$2.7 million from \$2.3 million. As a percentage of total revenues, selling and marketing expenses increased to 3.5% from 3%. The increase was primarily due to the sales and marketing personnel-related expenses.

Research and development expenses increased by \$0.2 million or 4.4% to \$4.4 million from \$4.2 million. As a percentage of total revenues, research and development expenses increased to 5.7% from 5.5%. The increase was primarily due to the increased research and development personnel-related expenses which enabled the Company's continued research and development efforts in new projects, such as CAKU 2.0 and new generation of loan system.

General and administrative expenses increased by \$1.5 million or 16.6% to \$10.7 million from \$9.2 million. As a percentage of total revenues, general and administrative expenses increased to 13.9% from 12.1%. The increase was primarily due to hiring of management-level employees to further drive our growth in the overseas market, the year-over-year increase in employee salary, and the increase in depreciation and amortization resulting from the acquisition of fixed assets in Hong Kong and Singapore.

Operating income was \$1.3 million compared to \$7.6 million. Total other income, net of other expense was \$0.2 million compared to \$0.2 million total other expense, net of other income in the prior year period. Provision for income taxes decreased by \$0.7 million to \$0.2 million from 0.9 million mainly due to the decrease in income before taxes.

Net income was \$1.4 million compared to \$6.5 million. Net income attributable to CLPS Incorporation's shareholders was \$1.3 million compared to \$6.3 million. Net cash provided by operating activities increased by 29.9% to \$17.2 million from \$13.2 million.

As of December 31, 2022, we had cash and cash equivalents of \$37.6 million compared to \$18.4 million as of June 30, 2022. As of December 31, 2022, we had a total number of employees of 3,714, up 1.3% year-over-year.

Undeterred by the short-term challenges as we mentioned in our earnings release, we remain confident about our long-term business growth. Looking forward, for Fiscal Year 2023, total sales growth was adjusted in the range of approximately 5% to 10% and net income growth in the range of approximately 7% to 12%, compared to Fiscal Year 2022 financial results.

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

**Operator:**

Thank you. Our first question is from the line of Lucy Wang with PH (phon) Investors. Please proceed with your questions.

**Lucy Wang:**

Congratulations on the results. Can you tell us about your expectation for the audit issues that are there unresolved and the potential for delisting? My second question is, could you please give more color on why your net income decreased during this period?

**Rui Yang:**

Thank you for your question. Let me take your questions. We are closely working with our U.S. counsel and independent auditors to ensure compliance with the U.S. regulatory bodies, like SEC and the PCAOB while we are keeping China laws in mind. The CSRC and PCAOB signed an agreement to access all audit work.

Giving you an overview of the progress, on August 26, 2022, the CSRC, Ministry of Finance of the People's Republic of China and the PCAOB signed an agreement for audit oversight cooperation, to bring the inspection and the investigation of accounting firms under a bilateral cooperation framework.

In December 15, 2022, the PCAOB said in its announcement that it has successfully gained unfiltered access to investigate audit firms in Mainland China and Hong Kong for the first time in history. With this development, we are optimistic that our listing will still intact, allowing us to provide shareholder value. While we are waiting for definitive results, we are focused on our growth strategy to achieve our business growth.

To answer your second question, as we mentioned in our earnings release, with the slow pace movement of global economic growth partly caused by COVID-19 had impacted our clients in core markets, such as banking and e-commerce. Our clients in these areas cut their budgets in the short-term, which squeezed our gross margin.



Also, as a result of rapid industry development and economic structure change, IT professionals became more in demand and pushed up compensation costs. Furthermore, COVID-19 situation led to an increase in cost. We expected to experience short-term challenges. But in the long run, China's policy regarding COVID-19 has dramatically changed. So, we are optimistic to recover and generate increase in net income going forward.

That's my answer. Thank you.

**Operator:**

Thank you. The next question is from the line of Thomas Fernandez, Private Investor. Please proceed with your question.

**Thomas Fernandez:**

Yes. Congratulations on the results and very happy to see the guidance going forward. I had a question on any updates on the JAJI IPO.

**Wilson Wong:**

Yes. Let me take your question. First of all, thank you for your question. So far, the listing material of JAJI, which is a major owned subsidiary of CLPS, are being updated and prepared based on the requirements of the regulatory authority, and we believe that its competitive advantage as an IT services provider, particularly in the automotive area, will bring value to shareholders. As we discussed earlier, our revenue from automotive area increased about 30% and we expect that demand for IT services will continue to rise as the trend for smart electric vehicles continues.

We will keep the public informed for any development or on JAJI's IPO. Thank you.

**Thomas Fernandez:**

Thank you.

**Operator:**

Thank you. At this time, I will turn the floor back to Management for any closing remarks. Thank you. There are no additional questions at this time. I will turn the floor back to Management for closing remarks.

**Henry Li Li:**

Okay. Thank you again for joining us on today's call, and we appreciate the 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:**

This will conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.