CLPS Incorporation

(NASDAQ: CLPS)

Second Half and Full Year of Fiscal 2022

Earnings Conference Call

October 20, 2022

CORPORATE PARTICIPANTS

Rhon Galicha, *Investor Relations*
Henry Li, *Chief Operating Officer*
Rui Yang, *Acting Chief Financial Officer*
Wilson Wong, *Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Thomas Fernandez, *Private Investor*

PRESENTATION

Operator:

Hello, everyone. Welcome to the Second Half and Full Year of Fiscal 2022 Earnings Conference Call for CLPS Incorporation.

Please note that today's conference is being recorded. At this time, I'd 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 Second Half and Full Year of Fiscal 2022 Earnings Conference Call. CLPS Incorporation announced its second half and full year of Fiscal 2022 financial results earlier this morning. The earnings release is now available on the Company's IR website at ir.clpsglobal.com and across the finance websites.

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 second half and full year of Fiscal 2022, 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. All information provided today is as 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 this morning.

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. 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 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:

Thank you, Rhon. Thank you, Operator.

I would like to welcome and thank you all for participating on the call on behalf of our CEO, Mr. Raymond Lin. Overall, our business continues to grow as we achieved yet another record setting revenue. Later on, our CFO, Ms. Rita Yang, will discuss our financial results in more detail.

In Fiscal Year 2022, we continued to achieve good results, primarily driven by the success of our dual engine strategy. We are pleased with the underlying strength of our core competitiveness in IT consulting services, which enable our clients to grow their business, for example, through facilitating their digital transformation initiatives. Going forward, we will boost our IT consulting services, including the expansion of our offshore development center to offer our clients across the globe with professional services, as well as provide flexibility to meet their specific needs.

In our previous financial report, we highlighted our plan to strengthen the customized IT solution services to boost our financial performance. As a result of product innovations and the business development advancements, the revenue for our customized IT solution services increased by 115.2% year-on-year to $6.7 million. Our commitment to investing in advanced IT products and solutions will continue throughout the new fiscal year.

These include, first, we are proud to announce that we have officially launched the commercial edition of our new generation credit card system product, CAKU, which means “cool card”. It’s a proprietary product that CLPS independently developed, based on our extensive experience in the financial industry, as well as deep understanding in the current banking business demands and the industry development trends. Our initial target markets are the small and the medium size financial institutions in Southeast Asia. We have also conducted several rounds of communication and demonstrations with potential clients.

Second, the new generation of loan management system, which is powered by integrating our mature products with innovative technology such as blockchain, robotic process automation, optical character recognition, and the facial recognition. Intended for small and the medium sized banking institutions, this product is planned to be launched in Hong Kong and the Southeast Asia region in 2023.

Lastly, gaining traction in the recent years, financial institutions have accelerated the creation of an ecosystem that can support digital currency. Such demand has led for CLPS to launch scenario-based digital currency application solutions. Leveraging our global services delivery capability and our expertise in banking, ecommerce, payment, risk control, digital market, and the mobile development, among other areas, it will enable financial institutions achieve an ecosystem around digital currency. We are pleased to say that we have successfully completed the digital renminbi project for a well-known bank in China.

Continuing advancement in fintech also brings a high demand for IT talent, which has always been our commitment to ensure our continuous supply. Through overseas and the domestic partnerships, we are well-positioned in providing more IT talent in response to market and the industry demands. We are partnered with Educare Global Academy, a well-known, private educational institution in Singapore to provide an education program focused on banking and fintech.

We have been under continuous to be aggressive in the global expansion strategy and the implementation. By continuously expanding our global footprint, we were able to better serve our international clients and attract new ones, resulting in an increase in overseas revenue. In particular, our revenue from the U.S. significantly increased by 2,443.1% year-on-year to $0.9 million.

To further drive our business in the U.S., we have appointed Mr. Srustijeet Mishra as the CEO of CLPS California, while also continuing his duty as the CEO of our business entities in the Southeast Asia region. With an eye toward the future, our presence, and the business activities in the key markets such as Singapore and the U.S. will be more active. We’ll keep investing and expanding our brand awareness in these two markets by hiring new management and a business development team. With this effort, I am confident that our partner and the world class leadership team will capture the significant global growth opportunity ahead for CLPS.

Despite the prevailing macro environment, such as the challenges we faced due to the impact of COVID-19 pandemic in different areas, we kept a clear focus on what could be optimized, driving operational efficiency to ensure that we provide the services our clients needed, at the same time, attaining profitability and executing our growth strategies. While staying in constant communication with our clients, we guaranteed uninterrupted services and it ensured work efficiency by establishing customized removal for our employees. But more importantly, as always our paramount, we put a high priority on the welfare of our employees, ensuring their safety and providing them with food aid in affected areas.

In the face of such tremendous opportunity that lies ahead of us, we will focus on driving both near and the long-term sustainable growth and profitability. While maintaining our competitive position in providing IT services in banking, we also plan to focus more heavily on wealth management area, which we believe has the potential to be a major revenue source for us going forward. We can achieve these goals through the execution of our streamlined growth strategies and delivering innovative capabilities to drive shareholder value.

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

Rui Yang:

Thank you, Henry.

I will now provide an update on our financial performance for the second half and full year of Fiscal 2022. Please note that our numbers provided are in US dollar terms and that our comparisons are made on a year-over-year basis.

In the second half of Fiscal 2022, our revenue increased 12.3% to $76.1 million from $67.7 million. This increase in revenues was mainly due to an increase in revenues from IT consulting and customized IT solution services. In particular, revenue from IT consulting services increased 10.6% to $72.1 million from $65.2 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 67.9% to $3.5 million from $2.1 million. The increase was primarily due to the increased demand from existing and new clients. Revenue from other services increased 11.9% to $508,900 from $454,900. The increase was primarily due to the increased demand for other services, including non-IT consulting services.

Gross profit decreased 13.9% to $18.7 million from $21.7 million. The decrease was primarily due to the lockdown in cities when our operations were impacted, such as Shanghai, following the resurgence of COVID-19 cases and the increased prevention costs associated with it.

As for operating expenses, selling and marketing expenses decreased 7.2% to $1.8 million from $2 million. As a percentage of total revenue, selling and marketing expenses decreased to 2.4% compared to 2.9% in the prior-year period. The decrease was primarily due to a reduced in business activities in the cities affected by lockdowns in Mainland China.

Research and development expenses decreased 47.1% to $3.8 million from $7.2 million. As a percentage of total revenue, research and development expenses decreased to 5% compared to 10.6% in the prior-year period. The decrease was primarily due to the optimization of our R&D staff structure, which involved allocating a number of our R&D staff to deliver IT services to meet the increased demand from clients.

General and administrative expenses increased 36.6% to $13.9 million from $10.2 million. As a percentage of total revenue, general and administrative expenses increased to 18.2% compared to 15.0% in the prior-year period. The increase was primarily due to the hiring of management level employees to further drive our growth in the overseas market, the increase of noncash share-based compensation expenses, the year-over-year increase in employee salaries, and the increase in depreciation and amortization resulting from the acquisition of fixed assets in Hong Kong and Singapore. As a result of the above, operating loss was $0.2 million from operating income of $3.4 million.

Operating margin was negative 0.2% compared to 5.1% in the prior-year period. The decrease was primarily due to the lockdown in cities where our operations were impacted, such as Shanghai following the resurgence of COVID-19 cases and the increased prevention cost associated with it, the hiring of management level employees to further drive our growth in the overseas market, and the increase of noncash share-based compensation expenses.

Total other income, net of other expense, was $0.5 million in the second half of Fiscal 2022, compared to $0.2 million total other expense, net of other income, in the prior-year period. Provisions for income taxes increased by $1 million to $2.2 million from $1.2 million, mainly due to a higher effective tax rate at 25%, the standard statutory corporate income tax rate in Mainland China. By renewing our High and New Technology Enterprise data this year we will be entitled to a corporate income tax preferential rate of 15%.

Net loss was $1.9 million compared to a net income of $2.1 million in the prior-year period. Non-GAAP net income decreased 50.5% to $2.8 million from $5.7 million. Net loss attributed to CLPS Incorporation shareholders was $1.8 million, or $0.08 basic and diluted losses per share compared to net income attributable to CLPS Incorporation shareholders of $2 million, or $0.11 basic and $0.10 diluted earnings per share in the prior-year period.

Non-GAAP net income attributable to CLPS Incorporation shareholders was $2.9 million, or $0.14 basic and diluted earnings per share. This is compared to non-GAAP net income attributable to CLPS Incorporation shareholders of $5.6 million, or $0.3 basic and $0.29 diluted earnings per share.

Now, I will provide an overview of full year Fiscal 2022 results. For the year ended June 30, 2022, revenues increased 20.6% to $152 million from $126.1 million. This increase in revenue was mainly due to an increase in revenues from IT consulting and customized IT solution services. In particular, revenue from IT consulting services increased 17.8% to $144.1 million from $122.3 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 115.2% to $6.7 million from $3.1 million. The increase was primarily due to the increased demand from existing clients. Revenue from other services increased 81.2% to $1.2 million from $0.7 million. The increase was primarily due to the increased demand for other services, including non-IT consulting services.

Revenue generated outside of Mainland China increased by 4.1% to $14.1 million from $13.6 million. The increase in revenue generated outside of Mainland China was primarily due to a revenue growth from the United States market, which reflects the Company's success and the continuous implementation of our global expansion strategy.

Gross profit increased 2% to $41 million from $40.2 million. As for operating expense, selling and marketing expenses increased 9.3% to $4.1 million from $3.8 million. The increase was primarily due to a year-over-year increase of sales and marketing staff salary expenses. As a percentage of total revenue, selling and marketing expense decreased to 2.7% in the Fiscal Year 2022 compared to 3% in the prior-year period. The decrease reflects an increase in operational efficiency as a result of economies of scale.

Research and development expenses decreased 40.2% to $8 million from $13.3 million. As a percentage of total revenue, research and development expenses decreased to 5.2% in the Fiscal Year 2022 compared to 10.6% in the prior-year period. The decrease was primarily due to the optimization of R&D staff structure, which involved allocating a number of our R&D staff to deliver our IT services to meet the increased demand from clients.

General and administrative expenses increased 37.3% to $23 million from $16.8 million. As a percentage of total revenues, general and administrative expenses increased to 15.2% in the Fiscal Year 2022 compared to 13.3% in the prior-year period. The increase was primarily due to the hiring of management level employees to further drive our growth in the overseas market, the increase of noncash share-based compensation expenses, the year-over-year increase in employee salaries, and the increase in depreciation and amortization resulting from the acquisition of fixed assets in Hong Kong and Singapore.

Operating income decreased by 11.6% to $7.4 million from $8.4 million. Operating margin was 4.9% compared to 6.6%. The decrease was primarily due to the lockdown in cities where our operations were impacted, such as Shanghai, following the resurgence of COVID-19 cases and the increase of prevention costs associated with it, the hiring of management level employees to further drive our growth in the overseas market, and the increase of noncash share-based compensation expenses.

Total other income, net of other expenses, was $0.3 million compared to $0.1 million total other expenses, net of other income, in the prior-year period. Provision for income taxes increased by $1.7 million to $3 million from $1.3 million, mainly due to a higher effective tax rate at 25%, the standard statutory corporate income tax rate in Mainland China. By renewing our High and New Technology Enterprise status this year, we will be entitled to a corporate income tax preferential rate of 15%.

Net income decreased by 34.6% to $4.6 million from $7 million. Non-GAAP net income decreased by 3.1% to $11.8 million from $12.1 million. Net income attributable to CLPS Incorporation shareholders was $4.5 million or $0.21 basic and diluted earnings per share compared to net income attributable to CLPS Incorporation shareholders of $6.8 million or $0.39 basic and diluted earnings per share in Fiscal Year 2021.

Non-GAAP net income attributable to CLPS Incorporation shareholders was $11.6 million or $0.56 basic and $0.55 diluted earnings per share compared to non-GAAP net income attributable to CLPS Incorporation shareholders of $11.9 million, or $0.69 basic and $0.68 diluted earnings per share in the Fiscal Year 2021.

As of June 30, 2022, we had cash and cash equivalents of $18.4 million compared to $24.7 million as of June 30, 2021. Net cash provided by operating activities was $3.2 million for the 12 months ended June 30, 2022, compared to net cash used in operating activities of $2.6 million in the prior-year period. As of June 30, 2022, we had a total number of employees of 3,824, up 14.1% year-over-year, as well as we have total number of clients of 265, up 5.6% year-over-year.

As PCAOB signed the Statement of Protocol with China Securities Regulatory Commission and the Ministry of Finance of the People’s Republic of China regarding audit access, we are cautiously optimistic that this will be a positive step forward to maintain our listing in the NASDAQ market. Meanwhile, we remain transparent and compliant with all related regulatory agencies, ensuring our commitment to shareholders and other stakeholders.

Looking forward for Fiscal Year 2023, considering our financial numbers could be affected by the floating exchange rate, and absent material acquisitions or nonrecurring transactions, we expect total sales growth in the range of approximately 20% to 25% and non-GAAP net income growth in the range of approximately 22% to 27%, compared to Fiscal Year 2022 financial results.

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

Operator:

Thank you. Please limit yourself to one question and if you have a follow up, please queue again.

We will now take our first question from Thomas Fernandez (phon), private investor. Please go ahead.

Thomas Fernandez:

Yes, I had a question on any updates on the electrical vehicle customer you had announced in the past. Any further progress on that?

Rui Yang:

Yes. Okay, let me take your question. We have always put our automotive area as one of our four big revenue sources in Fiscal Year 2022.

Thomas Fernandez:

Yes.

Rui Yang:

Revenue from automotive area increased by 20.7% to $10.4 million or 6.8% of the total revenues. Looking forward, we are committed to doing more business development with existing clients, as well as attracting new clients on this area and capture the growing business opportunities in electronic vehicle market. Thank you for your question.

Thomas Fernandez:

Thank you.

Operator:

This does conclude today's Q&A session. I would now like to hand the call back to Management for closing remarks.

Rhon Galicha:

Hi, Henry. Please go on with the closing remarks.

Henry Li:

Sorry, again, Rhon?

Rhon Galicha:

Please proceed with the closing remarks now.

Henry Li:

Okay. 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.

Operator:

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