

GigaCloud Technology(Q1 2025 Earnings)

May 12, 2025

Corporate Speakers:

- Larry Wu; GigaCloud Technology; Founder, Chairman, Director & Chief Executive Officer
- Iman Schrock; GigaCloud Technology; President
- Erica Wei; GigaCloud Technology; Chief Financial Officer

Participants:

- Ryan Meyers; Lake Street Capital Markets; Analyst
- Matt Koranda; ROTH Capital; Analyst
- Tom Forte; Maxim Group; Analyst

PRESENTATION

Operator^ Welcome to GigaCloud Technologies First Quarter 2025 Earnings Conference Call. Joining us today from GigaCloud are the company's Founder, Chairman and CEO, Larry Wu; its President, Dr. Iman Schrock; and its Chief Financial Officer, Erica Wei.

Larry will start with a brief introduction, Iman will provide an overview of the company's operations, and Erica will discuss the financial results. After that, there will be a question and answer session.

As a reminder, this conference call contains statements about future events and expectations that are forward-looking in nature and actual results may differ materially. Additionally, today's call will include non-GAAP measures within the meaning of SEC Regulation G.

When required, a reconciliation of all non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP can be found in the press release issued today by GigaCloud, as well as on the company's website. I would now like to turn the call over to Larry for his opening remarks. Please go ahead, sir.

Larry Wu^ Thank you, Operator. And welcome, everyone to our first earnings call of 2025. We started the year on solid footing with the year-over-year top-line growth of 8%, supported by disciplined operations and execution across the business despite a challenging industry environment.

Our B2B marketplace continued to expand with a 56% year-over-year GMV growth on a trailing 12 month basis, as participants derived significant value from many efficiencies we bring to the supply chain for large parts of merchandise. While short-term headwinds persist, long-term fundamentals remain intact.

Our marketplace and supplier fulfilled retailing model streamlines cross border trade and positions us to capture the growing demand for efficient technology-enabled commerce, and we remain focused on growing giga cloud in a disciplined and sustainable manner.

A few things we have been focused on lately. We continue to execute our integration plan for Noble House. We have started the process of introducing new SKUs with simultaneously optimizing procurement costs through our large network of vendors.

While we are still in the early stage of this effort, initial feedback we're seeing has been very encouraging. We are excited for the future as we gradually continue to introduce new, more profitable SKUs while simultaneously retiring less profitable merchandise as we go.

We remain focused on growing our marketplace outside of The U.S. Europe performance continues to be strong with at close to 80% year-over-year growth. We're also receiving increased interest from our 3P sellers for international markets such as The EU, UK and Japan.

The launch of our Wonder App has been positively received with a promising traction and we have welcomed a great new partner to our BaaS program as well. We are excited by the long-term potential of these initiatives and remain focused on disciplined execution.

With that said, we recognize the recent tariff developments have introduced new complexities into global trade and the high level of uncertainty has caused disruptions to the supply chain.

I want to take a moment to discuss this. Obviously we cannot see into the future, and we do not know when and how things will play out exactly.

With where tariffs currently are and the level of uncertainty, there's no doubt, this poses a challenge for many including us. But we are confident in our ability to manage the challenge to come.

I am a firm believer that, the best time to prepare for a challenge is before it occurs, and we have been preparing for a long time by always being razor focused on efficiency and agility.

We designed the GigaCloud marketplace to be an open-ended, channel-agnostic, and dynamic ecosystem that supports adaptation as quickly as the market changes.

For GigaCloud and our clients, this means ability to pivot quickly in terms of both product sourcing and sales channels. The just in time approach towards inventory procurement brought by our SFR model also proves to be particularly valuable during times of uncertainty and rapid change.

We expect the near-term disruptions for these macro and industry headwinds, but we are confident that the platform we have built positions us to capture outside opportunities over the long run.

As I have said before, periods of uncertainty reveal true strength. GigaCloud is resilient, adaptable and experienced. The efficiency baked into our marketplace is precisely what help us and our partners navigate whatever comes next. Now I will give the microphone to Iman to provide operational updates.

Iman Schrock^ Thank you, Larry. I am pleased to share that our marketplace continues to grow even as we work through current headwinds.

For the trailing 12 months ended March 31st, 2025, GigaCloud marketplace GMV grew more than 56% to \$1.4 billion as buyers and sellers of large parcel merchandise took advantage of the flexibility and efficiencies offered by our SFR business model.

Our active three piece seller base grew more than 33% to 1,154, while GMV from this base increased 50% year-over-year to \$734 million on the trailing twelve month basis. Three piece sellers currently account for about 52% of our total marketplace GMV. Our buyer base is nearly 10,000 for the first time growing more than 81% year-over-year.

We again saw a small reduction in average buyer spend, as we continue to onboard large number of buyers, who as you are aware, generally start on our platform trading with lower volumes and learning and testing.

As Larry mentioned, we're driving ongoing momentum in Europe as a result of our focus on diversifying our business. GMV in this region grew over 80% for the first quarter.

Looking ahead, we're doubling down on Europe. The fulfillment center we opened earlier this year in Bremen, Germany has strengthened our regional fulfillment footprint that supports our growth initiatives across continental markets.

At the same time the evolving tariff landscape is encouraging many buyers and sellers to diversify their sourcing and sales channels, and we're well-positioned to meet the demand.

We're continuing to make progress on the Noble House integration. As a reminder, last quarter we began Phase 3, which is all about refreshing the catalog to retire the underperforming SKUs, and replace them with successful new ones.

In the first quarter, we phased out over 400 legacy SKUs and launched more than 300 new ones, helping us to keep the assortment fresh, while improving inventory efficiency.

Looking ahead, we have approximately 600 new SKUs currently in development with rollouts planned over the next two quarters. This constant cycle of product development is critical to the long-term business health.

The new SKUs we introduced this quarter are encouraged by the initial feedback from our partners. That said, given how early we are in the process, sales volume from these SKUs are still relatively low and will take time to scale. In general, three to six months are needed for each SKU to ramp up to healthy sales levels.

As the catalog continues to evolve and adoption builds, we aim to begin Phase three of the integration towards the end of this year, which will focus on driving margin expansion across the channels.

Since rebranding and launching our Wonder App, we've been focused on refining the experience through a closed beta phase.

While it's still early, we're encouraged by the initial traction. As we continue collecting user insights and advancing development, we look forward to broadening access and sharing further updates in the coming quarters ahead.

Importantly, not only is this app ideal for retail stores that are seeking a more efficient method to manage their sales teams, but it also provides suppliers a direct line into retail sales activity, enabling better engagement and outcomes, at the point of sale. The app is another example of our innovation as we continue to bring added transparency and efficiency into the supply chain.

On the BaaS front, we're excited to welcome Scott Living, the well recognized and beloved home brand from Jonathan and Drew Scott, better known as the Scott Brothers and widely recognized from their hit television series Property Brothers. Their trusted brand presence and strong consumer following, brings significant value to our platform and aligns well with our growth strategy.

As a reminder, under the BaaS program, marketplace sellers are able to sell and distribute select Christopher Knight's home and Scott Living branded products via a per SKU approval process. GigaCloud oversees product development, quality control, brand management, fulfillment and promotional support, ensuring that all branded products meet and exceed industry standards.

Thank you again for joining us today. I'll turn things over to Erica for the discussion of our financials in the first quarter.

Erica Wei^ Thank you, Iman. And good afternoon, everyone. Before I jump into our results, please note that, all figures I'll be discussing today have been rounded, and comparisons are made against the prior year period unless otherwise stated.

Let's dive into this quarter's results. Total revenues grew 8% to \$272 million, mainly due to increased market recognition and the growth of our GigaCloud marketplace. Let's take a deeper look, starting with service sales.

Service revenue grew by approximately 23% year-over-year to \$94 million in Q1 2025, driven by continued growing demand from our existing and new customers.

Service gross margins was 15.9%, a 3.5% decrease sequentially, primarily due to lowered ocean freight rates and lower last-mile delivery pricing. As we discussed in the last earnings call our fixed rate ocean contracts, gives us an advantage during times of high ocean freight.

As prices continue to come down and normalize during the first quarter of 2025, we stopped seeing this kind of arbitrage margin. Compared to prior year, we have also began pricing more competitively on the last mile delivery front, starting Q1 2025, as we position for long-term growth.

Moving on to product sales. Global product revenue grew by approximately 2% year-over-year to \$178 million for the quarter.

We saw robust growth in key international markets, led by Europe, which grew by over 70% year-over-year. Product revenue growth in our international markets was partially offset by the expected year-over-year decrease in our domestic U.S. markets.

We saw a 17% year-over-year domestic decrease, which was a result of the controlled contraction associated with refreshing the Noble House product catalog, persistent industry headwinds in The U.S., and softness seen in some of our downstream partner channels.

We expect to see this trend carry forward into the next quarter, as we continue to deepen our presence in the European markets and execute on Phase 3 of the Noble House integration plan in the domestic U.S. market.

Product margin improved by 4% sequentially to 27.4%. The improvement is attributable to improved costing of goods sold during the first quarter. As we discussed during our last call high capitalized cost goods procured during the peak of high ocean freights in 2024 had compressed our Q4 product margins.

As we had less of these goods left to move through during Q1 of 2025, product margins have correspondingly seen recovery. In addition, as we move away from the holiday season surcharges, ground delivery fees have also decreased, resulting in improved margins.

Overall, our gross margins was 23.4% for Q1 2025, a sequential improvement of 1.4% from the fourth quarter of 2024. Total operating expenses was 13% of total revenue, largely in line with last quarter and last year quarter. Breaking that down, we saw slightly

higher selling and marketing expenses at 6.8% of total revenue, compared to 6.1% and 5.8% in prior quarter and prior year quarter, respectively, as we saw higher off platform to see sales as a percentage of total revenue this quarter.

G&A expenses fell to 5.3% of total revenue from 6%, as we continue to focus on gaining efficiency as we grow. Net income for the first quarter was \$27 million, at 10% compared to 10.8% in the prior year period.

We ended the quarter with liquidity of approximately \$288 million, which is inclusive of cash, cash equivalents, restricted cash and short-term investments, which is down slightly from \$303 million at the end of last year, mainly due to the repurchase of our stock.

Back in September 2024, our Board authorized a program of \$46 million, which was subsequently increased to \$62 million this past March. We've been active under this program. And to date, we have repurchased approximately 3.7 million shares for approximately \$61.8 million.

We plan on retiring all shares repurchased. Turning to our outlook for the second quarter. We expect total revenue to be between \$275 million and \$305 million. Thank you again for your continued support and for joining us today. Operator, we're now ready to take questions from the line.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Your first question comes from Ryan Meyers with Lake Street. Please go ahead.

Ryan Meyers^ Hi. Guys. Thank you for taking my questions. First one for me, I just kind of want to unpack the quarter results a little bit more. Results obviously came in a little bit ahead of what your expectations were, back when you gave guidance on the fourth quarter call. So just wondering what you saw that ended up driving the results ahead of expectations?

Erica Wei^ Thanks, [Ryan](#). I think it was a combination of things. Mostly, I think we saw very strong growth on our service side and also Europe. Those are kind of our two big kind of shining points for the first quarter.

Ryan Meyers^ Okay. Got it. And then, if we think about the sequential gross margin improvement that you saw from the fourth quarter into the first quarter, maybe how should we think about that here in the second quarter, what you guys are seeing already, as you roll off some of those under profitable SKUs? Could we expect to see a gross margin expansion or will the biggest hit on that, kind of SKU rationalization come here in the second quarter?

Erica Wei^ Great question. Unfortunately, I don't think we're able to say for sure what will happen for Q2. As you know the environment, it's been very interesting with all the

changes, right? And this has kind of caused a wide range of different reactions from different players in the entire supply chain.

So I don't think at this point, we have enough clarity. And specifically, on the point you made regarding Noble House, so I do want to throw in a reminder here. Yes. We are seeing very good feedback during this initial rollout of the new SKUs.

But usually, it takes us a bit of time for new SKUs to develop kind of a higher level or healthier level of sales. The typical time required is three to six months. What I'm trying to say is, for us to see meaningful margin impact that would typically be the amount of time needed.

Ryan Meyers^ Okay. Got it. So we probably wouldn't expect to see that quite yet. Awesome. Sounds good. Thank you for taking my questions.

Erica Wei^ Correct. Of course.

Operator^ Your next question comes from Tom Forte with Maxim Group. Please go ahead.

Tom Forte^ Great. First off, Larry, Iman, Erica, congrats on the quarter. I have four, I'll go one at a time. You touched on this in your prepared remarks, but I was hoping you can give a little bit of a longer answer. How should we think about the ability of your marketplace to empower buyers and sellers to sell in markets outside The U.S. such as Europe?

Erica Wei^ Hi, Tom. Thanks for the question. So I think the marketplace can be helpful in a few ways. First off, we offer flexibility and reach, right? So let's say, a seller who didn't traditionally operate in Europe is looking to grow into that market.

They would need a lot of support in terms of, for example, logistics. And those are obviously if you were to do it on your own, quite a bit of a capital investment, right? The GigaCloud model offers reach and a lot of flexibility, meaning, it's a pay-as-you-go, use-as-you-go kind of model.

So this changes with or the seller could use this with a lot of flexibility based on how the market is responding to their products, how they're doing, et cetera.

Tom Forte^ Okay. And then Erica, my next question. Can you explain how tariffs may translate in the higher prices? I think there's a common misconception that 100% tariff, for example, results of 100% price increase, when in fact there's a lot of costs that are not impacted by tariffs?

Erica Wei^ Correct. So I don't think, a 100% tariff would translate dollar for dollar or into a direct 100% increase for the end consumer, because tariffs are only applied on the

value of the goods, not all of the costs of the seller, which includes a wide variety of things such as, warehousing, ground shipping, picking and packing.

Tom Forte^ Okay. And then for my next one, can you talk about your interest in entering new categories? I think there was a point in time when you were considering expanding in auto parts as an example.

Erica Wei^ So we do already have auto parts on our marketplace. So our marketplace, I know most folks when they think of us, they think furniture, but, really, the marketplace is designed for products that are big and bulky and non-standardized. Those are kind of the two keywords the entire system and SFR model is built around.

So as of today, furniture is definitely our biggest category, but we do have a lot of sellers that are working with a wide range of different products.

So auto parts, like you said just now is one of them. There's also fitness equipment, larger toys, certain gardening tools, think your bigger ones like lawnmowers and such, and different pet supplies, cat trees, larger dog houses, et cetera, and various other materials such as bathtubs. There's a wide range of them.

Tom Forte^ Okay. And then my last question, thanks for taking my question. Can you give your current thoughts on strategic M&A and the types of assets you're considering?

Erica Wei^ Yes. So I think we've talked about this before, but this is definitely a category, an area we're very interested in. And right now is a very interesting time that might prove to have some very attractive opportunities for us. And they mostly surround, around a few topics. So the first one is obviously Europe.

We're growing very quickly here. And with everything that's been going on, we're getting even more interest from our customer base, in expanding into Europe if they're not already there. And we would like our infrastructure to be growing at a pace that's sufficient to support that effectively.

So anything that fits that bill, we're interested. The other one is kind of aligns with our long-term strategy in terms of better servicing the bricks-and-mortar space that could come in a different ways.

For example, technology that helps us better understand and serve that customer base. Wundersign is a good example here, or other sort of, channels or connections would also be appealing.

Operator^ Your next question comes from Matt Koranda with ROTH. Please go ahead.

Matt Koranda^ Hi. Guys. Just wanted to make sure I understood, did you guys reclassify some product revenues from last year into service revenue? I just wanted to make sure I

understand what's happening with the segment comparisons on a year-over-year basis that you gave.

Erica Wei^ Hi, Matt. Yes. That's right. Yes. We did. So if you go into our footnote, we have a kind of a detailed discussion there, but we can go over that again as well.

So we used to -- when we sell a product as part of our IP operations, the customer has the option of selecting if they want to use their own delivery services, AKA will call or having GigaCloud deliver it to the designated location as required by customer. Historically, we have made the election to report the two parts as one under product revenue, under U.S. GAAP.

So as of late, or as of Q1 2025, we are now reporting the two separately and we have accordingly retrospectively adjusted 2024 financials to make the comparables still relevant.

So we think this is a better method, because it provides more transparency and breaks down the different components with more detail. And also, this is related to a recent platform upgrade that gives the customer or the buyer a little more flexibility. They don't have to decide which type of -- whose delivery service to use on the spot. It's a decision they can make and change after the fact whenever they like.

Matt Koranda^ Okay. Got it. I'll take a look in more detail. And then, just want to make sure I understand sort of the trend that we're implying in the guidance.

So the first quarter, there was some growth on a year-over-year basis, but we're guiding at least at the midpoint for the second quarter to a sequential deceleration in revenue and looks like maybe negative on a year-over-year basis, if I just use the midpoint of the range.

What is the -- I guess, what's the missing piece here in terms of what causes that deceleration in year-over-year growth in the second quarter?

Erica Wei^ Q2 this year compared to Q2 last year, the main difference is going to be Noble House, right? So we had a really good quarter last year, because summer has traditionally always been Noble House's strongest quarter. It has a kind of very strong edge in outdoors products.

So this year, because we're in Phase 3 of the integration plan and we're switching out a lot of the old SKUs, even though the new SKUs are showing good results so far, we do need more time to ramp up volume.

That's kind of the biggest delta we have there. There's also certain channels that we're seeing a little more softness in The U.S. that are historically strong Noble House partners. So there's a bit of an impact from that as well.

Matt Koranda^ Okay. All right. Got it. Maybe just wanted to make sure I understand what is reflected in the second quarter guidance, because it's just a lot of the sort of macro news is so fresh these days. But does the second quarter outlook, I assume, takes into account the pause between The U.S. and China in terms of, reciprocal tariffs?

Erica Wei^ Great question. Thank you for asking that. So I do want to clarify, I think the impact from the pause is going to be limited in Q2 financials.

So if you consider the amount of time it takes to ship something over and the natural kind of turn cycle or days in warehouse for the furniture inventory, we actually expect to see most of that impact in Q3, not Q2.

Matt Koranda^ Okay. All right. I'll take the rest of the line offline. Thank you.

Operator^ Thank you. That does conclude our question and answer session and our conference for today. Thank you for participating. And you may now disconnect.